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Report to Congress

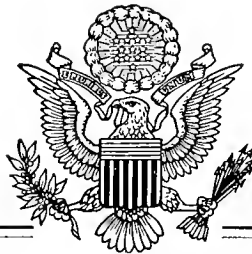
on the

MUTUAL SECURITY PROGRAM



For the six months ended

June 30, 1953



Report to Congress
on the
Mutual Security Program

June 30, 1953

PRESIDENT'S LETTER OF TRANSMITTAL

To the Congress of the United States:

I am transmitting herewith the Report on the Mutual Security Program covering operations during the 6 months ended June 30, 1953, in furtherance of the purposes of the Mutual Security Act of 1951, as amended.

In the Mutual Security Program we find tangible expression of our belief that the safety and self-interest of this Nation are inextricably tied in with the security and well-being of other free nations.



THE WHITE HOUSE,

August 17, 1953.

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CHAPTER I

A Program for Long-Term Security

THE first half of 1953 was a period of concrete achievement for the Mutual Security Program. It was a period of intensive policy reexamination and forward planning, of operational overhaul and streamlining, and of encouraging progress in free world defense and development.

A New Look at Mutual Security

The present administration assumed the reins of government on January 20, 1953. On that date, it assumed also a solemn obligation to the American people to reexamine most carefully the entire complex of existing arrangements for their security. The Mutual Security Program for building the defenses and resources of the free world stood particularly high on the list of those arrangements. For this reason, a fresh and searching look was focused on our mutual security operations with other nations.

The new Director for Mutual Security, Harold E. Stassen, promptly initiated an intensive review of mutual security aims, methods, and working activities. Concurrently, the basic concepts and undertakings of the program were carefully analyzed by the National Security Council in relation to our country's whole security structure and financial capabilities.

The Director also enlisted the help of a special group of 55 outstanding leaders of American industry and finance in surveying all phases of the program in 14 countries which have accounted for the largest expenditures in recent years. These businessmen, who served without compensation, visited Europe, the Near East, and Far East to make an on-the-spot study of actual operations at the local levels.

The evaluation survey resulted in a number of valuable recommendations designed to streamline our foreign operational procedures, cut down duplication and overlapping, and eliminate blurred delegations of authority.

The Secretaries of State, Defense, and Treasury and the Director for Mutual Security held numerous personal discussions, both in this country and abroad, with high officials of our partner nations to achieve a first-hand exchange of views on today's vital military and economic issues. These leaders of the Administration also took part in the Paris meeting of the North Atlantic Council which laid down current military plans for western defense.

In short, the whole fabric of our worldwide security objectives and operations was closely examined.

Where We Stand

As a result of their review of security operations and overall foreign policy objectives, top administration officials reached certain fundamental conclusions. It is upon these conclusions that the present Mutual Security Program is built.

The Threat of Growing Soviet Power

The United States continues to be seriously threatened by Soviet military and political expansionism. There is no real evidence that this threat has diminished or will diminish within the foreseeable future. The Soviet Union retains the capacity for aggression, and it has demonstrated

aggressive intentions on numerous occasions in the recent past. Its future intentions remain an uncertain quantity.

The Soviet Union and its satellites, including the mainland of China, occupy about 13 million square miles—almost one-fourth of the earth's surface. This vast spread of Soviet-dominated territory has enough manpower and natural resources to enable the Soviet bloc to develop an economic base matching our own.

There is every evidence that the industrial output of the Soviet bloc is growing rapidly. Results of a recent study by the United Nations Economic Commission for Europe show that, at the present pace of expansion, the Soviet Union by 1960 will be producing at least as much of the major raw materials as the seven most industrialized countries of Western Europe. By 1955, Soviet plans call for the production of more oil than Western Europe is currently consuming. Even today, the U. S. S. R. is estimated to be turning out annually more than twice the steel it produced per year to fight the last war.

The Soviet Union continues to maintain the largest armed force in peacetime history. General Ridgway has recently publicly reported that the Soviet Army has approximately 175 active divisions. The Soviet Air Force has some 20,000 front-line aircraft, with a large aircraft reserve. The Navy includes more than 350 submarines, many of the latest type. Army strength of the European satellites has grown, in the postwar years, from 45 to over 75 divisions. Advanced types of jet fighters, long-range bombers, and heavy tanks continue to roll off Soviet production lines in large numbers. Meanwhile, the possibilities of Russia's ever-growing capabilities for atomic attack should be kept in the forefront of our defense planning.

Since the death of Stalin, the Soviet Union has made certain gestures which have aroused the hopes of the peoples of the world for a reduction of tension and a restoration of general peace. But these gestures have been accompanied by insignificant concrete actions. However fervently the free peoples may hope for peace, it would be suicidal to base our policies and programs on these hopes, without solid evidence of Soviet good faith. Until conditions for genuine peace have been firmly established, the security of the free world must depend upon its strength.

The Soviet threat is not military alone, but political and economic as well. The Communist imperialists seek constantly to capitalize on the internal weaknesses of free nations and have demonstrated their ability, through political and economic subversion, to seize new territories without engaging the Soviet armies.

Added Threats to World Peace

Coalitions for resistance to aggression and the strengthening of defenses constitute the first requirements for survival and progress. But such measures are inescapably tied in with the economic advancement and development of free nations. Enduring military strength cannot be built on a shaky economic foundation. Nor can freedom itself live for long in an atmosphere of social stagnation and marginal living standards.

Poor productivity, narrow markets, underdeveloped resources, lack of technical abilities, inadequate diet, insufficient output, high incidence of disease, low literacy rates, weak public administration, instable government—wherever these exist, they offer attractive opportunities to Communist expansion and put a powerful check on the forward movement of free people everywhere.

A program for the security of the free world must embrace measures to help remove these stumbling blocks and clear the path to a better future for all.

Healthy, strong and progressive, our partner nations can constitute a tremendous asset to the spiritual and material strength of the free world. Neglected, weakened and subverted, they can be the means of tearing the free world asunder.

Our Security Depends on Mutual Security

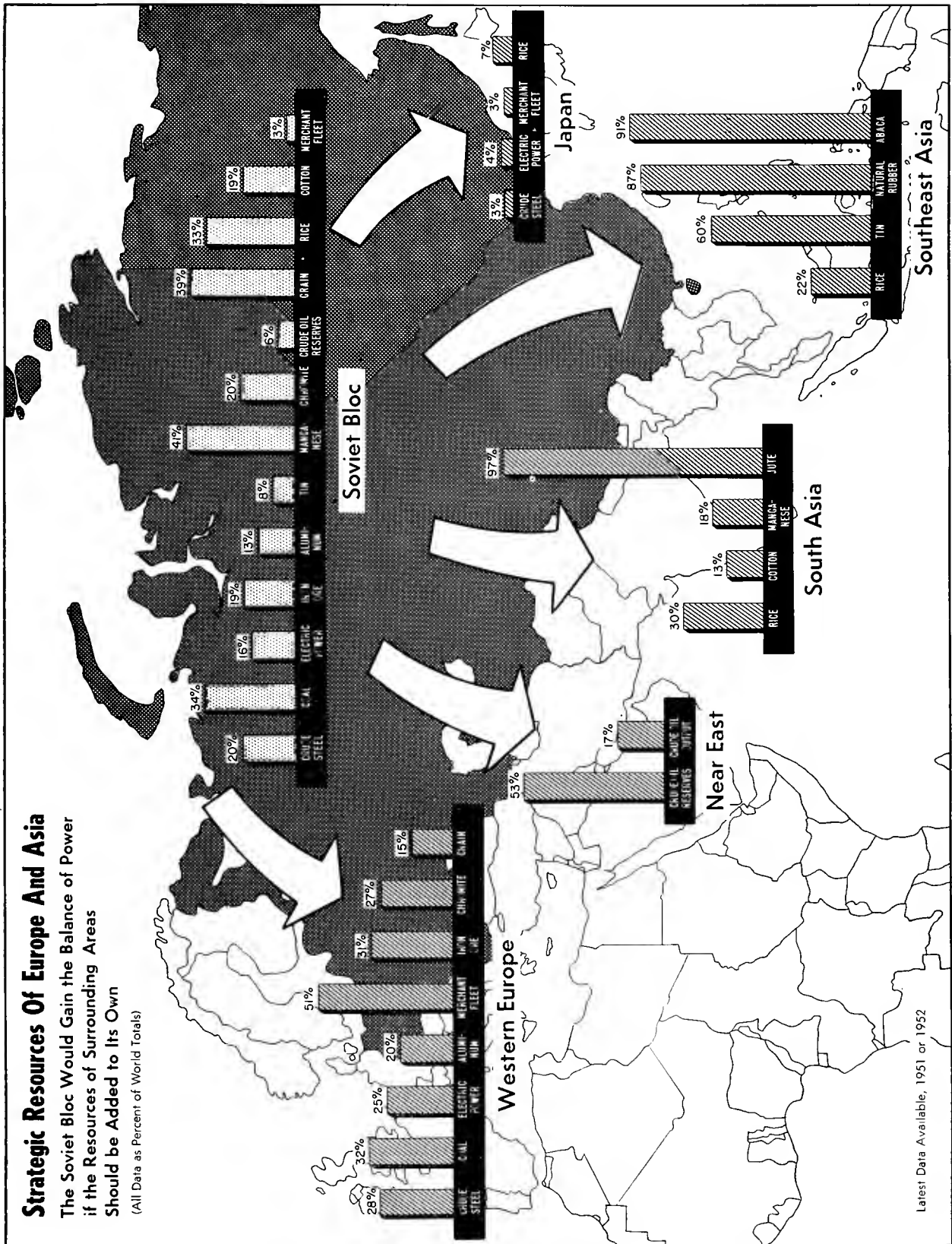
American security is inseparable from the security of other free nations. We are linked with other free peoples not only by common ideals, but also by mutual needs. Our nation cannot stand alone. It is strong and powerful, but it is not omnipotent.

The cold fact is that our rapidly expanding economy has outgrown our resource base. Our industrial output is almost altogether dependent on outside sources for tin, mica, asbestos, natural rubber, chrome, nickel, manganese, cobalt, and other vital materials. Without these imports, our economy would rapidly shrivel up. In addition,

Strategic Resources Of Europe And Asia

The Soviet Bloc Would Gain the Balance of Power if the Resources of Surrounding Areas Should be Added to Its Own

(All Data as Percent of World Totals)



Latest Data Available, 1951 or 1952

we are the world's largest importer of copper, lead, and zinc. Even crude petroleum and iron ore—once traditional symbols of American self-sufficiency—are now on our list of net imports.

Further Communist expansion into new areas of the free world would not only strike at American economic health but would also add enormously to the military and economic potential of the aggressor. Whenever any country falls victim to Russian domination, its farms, factories, and raw materials are automatically subtracted from the side of the free world and are harnessed to the Soviet war machine. Thus, the aggressor becomes stronger and the United States becomes weaker. If such a process were permitted to continue, it is inevitable that the Soviet Union would eventually become more powerful than the United States. We would then face an uphill fight for survival.

Our Allies Provide Needed Strength

Aside from America's interest in preventing the population and resources of other nations from being added to the Soviet war potential, we also recognize that many of these nations can make a substantial positive contribution to our own defense. They have the manpower, industrial production, technical skills, and natural resources which might prove to be the decisive factor in deterring or resisting aggression.

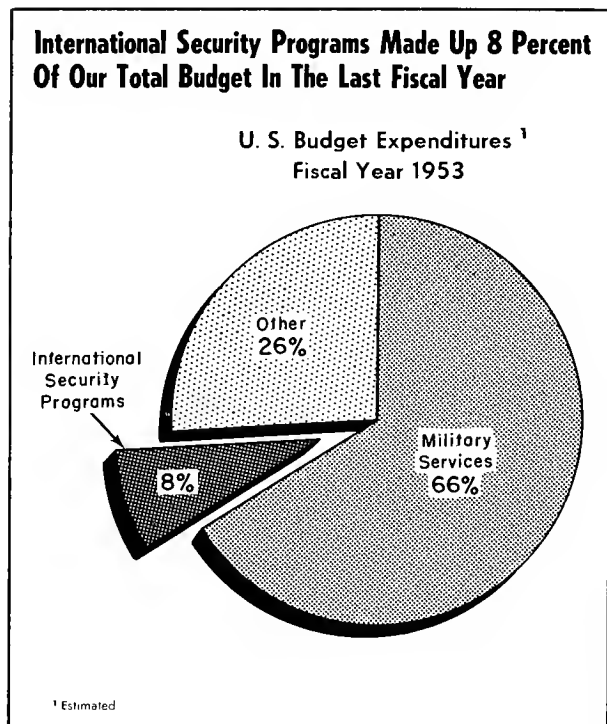
It is no longer realistic to consider America's security position solely in terms of our national defense facilities. Any determination of the size of the military forces required to protect this country in event of war must depend in great part upon the size and quality of the military forces under the control of allied nations. The amount of money which America must spend each year for defense purposes is directly related to the extent of the defense efforts made by our partners abroad. The adequacy of our protection can only be measured by assessing the total strength of the free world. Therefore, where America can contribute to building the strength of other free nations without serious sacrifice of its own strength, the net result is to enhance the overall security of the American people.

United States military and economic assistance can maximize the contribution of other nations to the overall defense of the free world. Many free nations possess some of the things needed to

develop and maintain effective defense forces, but lack other things. For example, a nation may have brave soldiers but lack equipment. It may be able to produce small arms and ammunition but unable to produce tanks, planes or electronic equipment. Or again, a nation may possess factories capable of producing certain modern weapons but be unable to activate these factories because of economic difficulties.

A program of American assistance, carefully adapted to the needs of the individual country, can often supply the "missing link" in the defense structure and permit that country to achieve modern, balanced forces. Thus, because the United States pays only a part of the cost, the total defense power made possible by American assistance is far greater than could be produced by the same expenditure of money and resources for other purposes.

For the foregoing reasons, it is evident that what we make available to other nations in military equipment, economic resources and technical help is not a "give-away program," but is a sound and high-yielding investment in national safety. International security expenditures represent less



than 10 percent of our national budgetary expenditures. In terms of the total effort of the free world the cost is small, but in terms of increased strength the dividends are enormous.

Where We Are Heading

Mutual Security Aims Redefined

The direction of our leadership is determined by the nature of the problem before us. The problem of achieving mutual security is many-sided. The Mutual Security Program must, accordingly, press forward on all fronts with these key objectives:

First.—To attain and maintain within the framework of democratic institutions the defensive strength, political stability, and economic growth which is necessary for the free world.

Second.—To build for the United States and our partner nations an effective counterforce against totalitarian aggression, pacing the necessary military buildup so that it does not outstrip our collective economic capabilities. For us, as well as our allies, a judicious balance must be maintained between the military effort and economic stability.

Third.—To strengthen the efforts of the peoples of the free world in realizing their full capabilities for developing their resources within expanding economies and stable political situations. This applies particularly to the economically underdeveloped areas where a sound economic foundation is essential for the growth of democratic institutions. Only in this way can we jointly root out those conditions which invite subversion, weaken the will for freedom, and imperil the survival of democracy.

Fourth.—To strengthen the efforts towards regional political, military, and economic integration, thereby broadening the base of our collective strength.

Finally.—To retain at all times the initiative for peace. The Mutual Security Program is proof in being that the United States leads with genuine deeds—not merely words—in the determined quest for world peace.

In moving toward these objectives, the needs and problems of the United States and other nations of the free world must always be considered from a global standpoint. Action in one area of the world must be weighed in relation to reactions in other areas. It is equally essential

that the United States operations to carry out these programs be administered in such a manner that maximum value is attained for the funds and effort expended.

Planning for the Long Pull

Mutual security planning must be of a long-range nature. Just as we have no evidence that the threat to our security has diminished, neither can we predict a date on which this threat may reach maximum proportions.

Any program so far-reaching in purpose and so vital to national safety and well-being calls for integrated and carefully thought out planning. Obviously, we cannot proceed efficiently with a patchwork of disjointed ideas or a series of emergency improvisations. Nor is it good policy to operate with day-to-day, blow-hot-blow-cold methods in meeting conditions that promise to be with us for a number of years.

What plans we make should be designed so that the efforts of the United States and our allies can be carried forward with maximum efficiency and minimum strain over a sustained period. This means building steadily at a pace our respective economies can bear without breaking.

We simply cannot aim for a fixed target by a fixed date, as if we were preparing for a D-day of our own making. We have no aggressive intent. The potential threat to our security is both immediate and long term. We must move forward with flexibility of action and continuity of purpose. Only in this way can deep-rooted and lasting results be achieved.

A Period of Achievement

The first 6 months of the year witnessed a number of noteworthy accomplishments in our Mutual Security Program which measurably advanced the objectives of free world security.

Tightening the Framework.—It was evident to the Administration that the organizational and administrative structure through which the Mutual Security Program had been operated needed thorough revision. Organizational arrangements for the conduct of foreign affairs had been built upon numerous separate statutes. This resulted in a scattering of programs within the Executive Branch. The new Administration found consid-

erable duplication and conflict of responsibilities and powers in existing activities aimed at providing military, economic, and technical assistance to foreign countries. Therefore, it was essential to take steps to tighten lines of responsibility, prevent duplication, and promote operating efficiency.

On June 1, by Executive order, the President transferred to the jurisdiction of the Director for Mutual Security the operating responsibilities for certain United States technical assistance programs, formerly vested in the Secretary of State. The Director also assumed operating functions with respect to United States participation in international programs of technical assistance, relief and rehabilitation, and refugees.

Simultaneously, the President announced a plan for reorganizing the departments of the United States Government concerned with the conduct of its affairs overseas. The plan reaffirmed the historic responsibility of the Department of State as the agency responsible for the development and control of foreign policy and relations with foreign governments. It also reasserted the responsibility of the Chief of Diplomatic Mission for providing effective coordination of, and policy direction with respect to, all United States Government activities in a foreign country. This reorganization plan became effective on August 1, 1953.

The new organization regroups foreign assistance and related economic operations within a single agency, the Foreign Operations Administration. The Office of the Director for Mutual Security and the Mutual Security Agency are abolished, and the functions transferred to the FOA. The Office of the United States Representative in Europe is also abolished. A new United States mission (United States Mission to NATO and European Regional Organizations) is established. The chief of the mission reports to and receives instructions from the Secretary of State. Representatives of the Secretary of Defense, Secretary of Treasury, and the Director of the FOA are included in this mission.

This reorganization measure has been designed to achieve more unified direction and integrated operation of foreign assistance programs, as well as substantial economies and greater efficiency of operation.

Our Global Military Shipments Accelerated.—The value of shipments of military weapons and equipment to our allies continued to

rise at an accelerating rate. Shipments in the first half of 1953 were almost two-thirds higher than during the preceding 6 months. Security restrictions do not permit publication of details by specific area, but on a global basis the major items delivered since the beginning of the program through May 31, 1953, included:

- 81,328 electronics and signal equipment items.
- 26,564 tanks and combat vehicles.
- 140,865 motor transport vehicles.
- 25,234 artillery pieces.
- 19,855,000 rounds of artillery ammunition.
- 510 Navy vessels.
- 4,126 aircraft.

Almost 1.5 million small arms and machine guns were shipped, along with about 738 million rounds of small arms and machine gun ammunition.

Military shipments to Indochina were made on a high priority basis and included vital artillery pieces, military vehicles, and certain types of necessary aircraft.

In Latin America, Brazil, Uruguay, and the Dominican Republic ratified the necessary agreements to make them eligible for United States military assistance.

Increased Defense Efforts in Europe.—Our European allies have continued to increase their defense expenditures for troop pay, materiel, construction, and other military purposes. Since the signing of the North Atlantic Treaty in 1949, our allies have increased the level of their annual expenditures by 120 percent. Estimated European NATO defense expenditures for the 1952-53 fiscal year, according to the NATO Secretary-General, are nearly \$12 billion, as against a little more than \$5 billion in 1949-50. Moreover, Western Europe's production of major military materiel for the year ended June 30, 1953, totaled more than \$3 billion, a fourfold increase over pre-Korean levels.

Offshore Procurement.—The end-items produced and shipped from the United States are being augmented by the offshore procurement program. During the first half of 1953, this program gained momentum in Europe, enabling the European nations to produce an increasing quantity of military equipment and supplies in their own factories. Through June 30, 1953, about \$2.2 billion had been awarded to the European



United States weapons and equipment for our Allies ready for shipment under the Mutual Security Program.

countries in offshore procurement contracts by the United States military services. In addition, nearly \$38 million worth of offshore procurement contracts for materiel were awarded in Japan and Formosa.

More Strength for NATO.—Expanding defense efforts in Europe, while adding appreciably to NATO's defense capacity, have placed an increasing strain on European national resources. This was one of the major problems confronting the NATO cabinet ministers at the eleventh ministerial meeting of the North Atlantic Council held in Paris in April. The United States delegation at this meeting was led by the Secretary of State, and included the Secretary of Defense, the Secretary of the Treasury, and the Director for Mutual Security.

In reaching agreement on a firm military

program for 1953 and a provisional program for 1954, the NATO ministers adopted measures to get greater strength by less costly and more practicable means. It was agreed that military needs must be kept in balance with economic realities, thus reducing the danger of excessive strain on the budgets of the NATO countries, including our own.

The program adopted provides for a continuing, gradual buildup in the number of NATO forces, and at the same time calls for greater emphasis on the quality of existing forces. Appreciable improvements in quality will be attained through better organization and training, and better equipment. Reserves of supplies and materials will be increased. It is estimated that quantitative increases plus qualitative improvements, in combination, will increase the overall combat effective-



Land, sea and air forces of six NATO nations—Turkey, Greece, Italy, the United States, France and Great Britain—combine to launch a simulated early morning assault on Lebedos Bay, Turkey.

ness of NATO forces by as much as 30 percent during the current year.

At the April meeting, the NATO ministers also reached agreement on short-term and long-term plans for financing NATO airfields, bases, communications, and other facilities used in common by forces of different NATO countries, and reaffirmed the Council's support of the Treaty which will establish a European Defense Community.

Europe's Dollar Position Improved.—Most Western European countries have recently succeeded in improving their dollar payments positions. This favorable development, however, was to a large extent counterbalanced by the fact that the reduction in the dollar gap was achieved primarily through enforced restrictions on imports rather than through an expansion of exports.

Action by the Coal and Steel Community.—The European Coal and Steel Community moved into gear. On February 10, 1953, tariffs and quantitative restrictions on coal movements were removed. On May 1, the first steps were taken to open officially the common market for steel.

Suspension of Economic Aid to the Netherlands, Iceland, and Denmark.—In January, the Netherlands Government announced that, after careful consideration of the economic position of the country, it had decided not to request further defense-support aid. This accomplishment is especially noteworthy in view of the increase in the Dutch defense effort in NATO since Korea. The United States will continue its program of direct military aid in the form of arms and equipment for Dutch military, naval, and air forces.

Technical assistance programs will also be continued.

In May, the Icelandic Government also suggested the suspension of further economic aid. At the same time, it expressed its deep appreciation for the effective and most welcome help which was given to Iceland in its time of need. The Minister of Commerce described in great detail, over the radio and in the press, the great debt owed the United States by Iceland for this very material economic aid.

In June, the Danish Government, too, proposed the suspension of defense-support aid in view of its improved financial position. Denmark's achievement in rebuilding its economic strength after the Nazi occupation of World War II is concrete evidence of both the Danish people's own great efforts and the effectiveness of our assistance programs.

Three more names were thus added to the list of those countries¹ which have been enabled to regain their strength to the point where United States economic aid could be suspended.

Wheat to Pakistan.—Famine faced Pakistan as a result of two successive years of heavy drought. Grave economic difficulties prevented the country from financing the necessary wheat imports by loan as it did in 1952.

To aid the Pakistani people in their time of need, the United States made available up to 1 million tons of wheat from surplus stocks. About 700,000 tons are being provided immediately on a grant basis. The necessary legislation was enacted on June 25, exactly 15 days after the President's emergency request. The first shipload of wheat left on June 26, and additional shipments are being made as rapidly as possible.

Mutual Development and Technical Assistance.—United States leadership in seeking world peace and progress goes beyond the pressing necessity to manufacture weapons, expand armies, and construct military barriers to aggression. Under the program for mutual development and technical assistance, we are helping other free nations to increase the output of food, raw materials and finished goods, to gain better health and education, to improve methods of transportation and public administration, and generally to

raise their living standards.

There are at present over 2,000 American technicians in various parts of the world. These experts are working side by side with the people of our partner countries in all vital fields of development and training from labor productivity in Iran or livestock production in Honduras to disease control in India and thermal power generation in Formosa. Closely connected with these technical assistance measures are the essential commodities and machinery we are providing to help the participating countries achieve stronger economies which ultimately can be put on a self-supporting basis.

Emphasis for the Next Year.—For the fiscal year 1954, new funds totaling \$4.5 billion were appropriated for the Mutual Security Program. In addition to this amount, the Administration was authorized to carry over \$2.1 billion which was unobligated from appropriations of previous fiscal years.

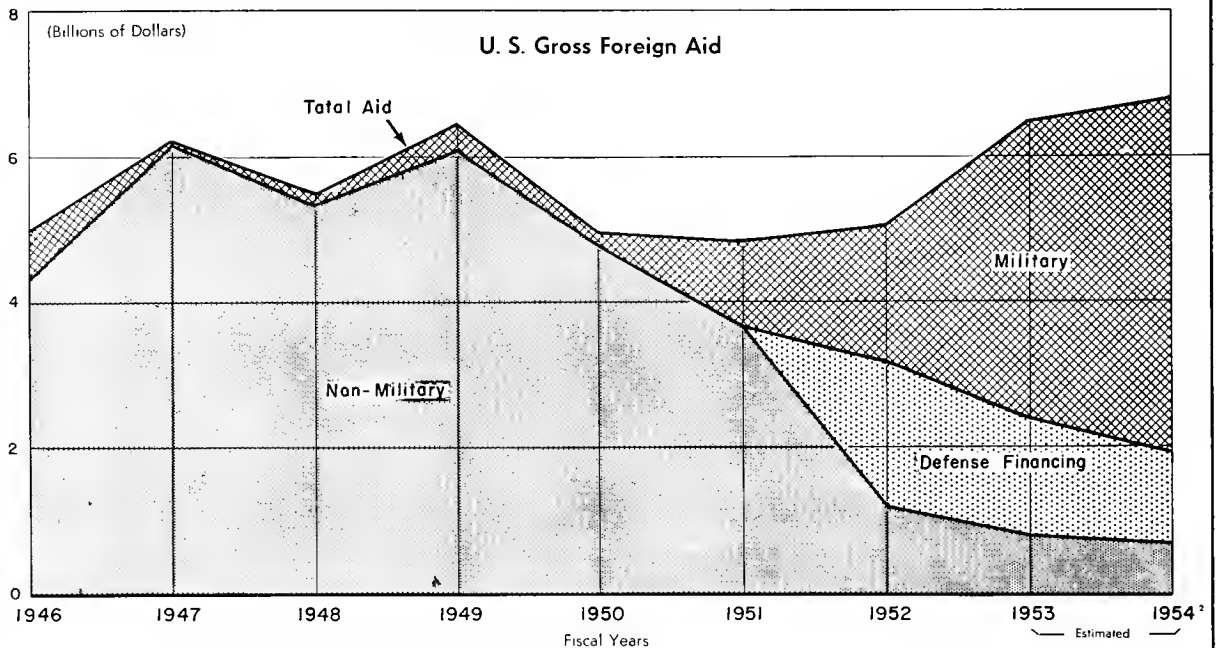
The bulk of the new funds—\$3.2 billion—was earmarked for military assistance. A little under \$900 million was appropriated for defense-financing purposes, such as \$85 million each to Britain and France to back up their NATO military production, and a special fund of \$400 million for the Indochina campaign. A special-weapons item of \$50 million was made available to encourage the designing and initial production of new special weapons to be used in the mutual defense program. About \$350 million was appropriated for development and technical assistance programs, primarily for free Asia and the Near East.

Appropriations for multilateral organizations totaled almost \$80 million. The largest share of this amount, \$51 million, will be contributed to the United Nations Korean Reconstruction Agency. The remainder will be used for such purposes as children's welfare, movement of migrants, and international technical assistance programs.

The Mutual Security Program takes into account the fact that the scope of the present threat is world-wide, although the emphasis of the threat may shift from one region to another as free world defenses are probed for weak spots. Mutual security operations therefore, are geared to build a security structure which will guarantee the greatest possible strength for the free world as a whole.

¹ Belgium-Luxembourg, Ireland, Portugal, and Sweden.

Most Of Our Foreign Aid Is Now For Direct Military Purposes



In drawing up the new fiscal year's program, emphasis was shifted more toward Asia and the Pacific. Including the special assistance for Indochina, about 37 percent of the new funds for the 1954 program will be for Asia, compared with 14 percent in the previous fiscal year. The European program will drop from 73 percent of the total funds in 1953, to 50 percent in 1954.

Aid Cannot Do It Alone

While it is clear that the strength needed by other free nations cannot be developed and maintained without substantial American assistance, it is equally clear that the Mutual Security Program alone cannot do the whole job. Other measures are necessary, and it is important that the Mutual Security Program and our foreign relations as a whole be conducted in such a way as to facilitate the taking of these measures.

First, the countries of the free world need to attain a greater degree of cooperation among themselves. In particular, it is evident that

economic stability and the effective use of defense resources in Western Europe depend to a considerable extent upon European unification. The United States has consistently supported measures aimed at the integration of Western Europe and has been encouraged by the progress demonstrated by such bodies as the Organization for European Economic Cooperation, the European Payments Union, and the European Coal and Steel Community. At present, the United States Government is giving strong support to the treaty creating a European Defense Community, now before the European parliaments for ratification.

Second, it is clear that the economic health required for political and social stability and for a sustained defense effort depends largely upon expanding trade among the free nations. Just as a human being must exhale as well as inhale in order to live, so must a nation export as well as import to survive. To keep their economies functioning properly, the countries of Western Europe must turn to outside sources for needed machinery, wheat, cotton, tobacco, timber, chem-

icals, and consumer durables. Money for such imports can be earned only by selling to overseas buyers.

In 1938 Western Europe carried on two-way trade with Soviet Russia and what are now the European satellites in the amount of roughly \$1.8 billion. In 1952, they had reduced that trade, in comparable prices, to \$700 million—a drop of more than 60 percent. Japan's trade with the China mainland in 1938 was 20 percent of its total trade; today, it is merely a trickle—less than one-half of 1 percent.

Since we expect the European countries and Japan to continue to curtail their exports to Iron Curtain countries, we must help them find other markets and sources of supply. We must reexamine also the numerous restrictions which deny many European and Japanese manufacturers the opportunity to enter our markets.

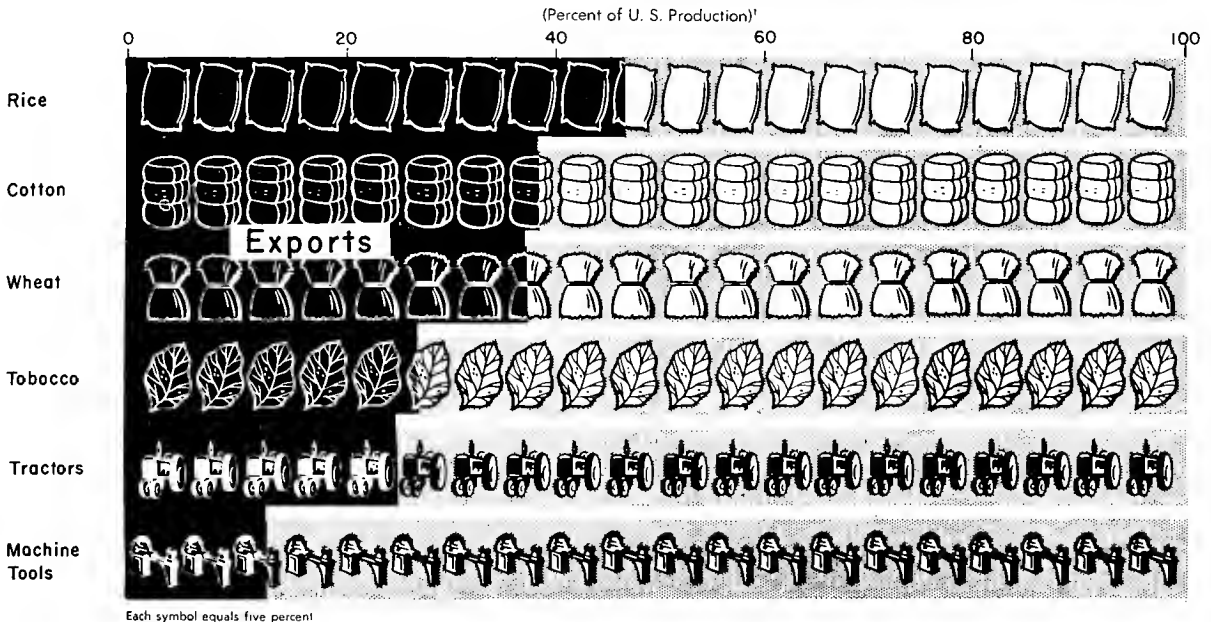
Moreover, unreasonable administrative barriers against goods of other nations work against the overall economic interests of the United States. American farmers and businessmen currently sell abroad about \$15 billion annually of agricultural

and industrial products. Unless other nations can earn their way by selling us their cheeses, woodpulp, nonferrous metals, silks, linens, china-ware, and perfumes, these same farmers and businessmen must be prepared to see their world markets shrink up accordingly. The curtailment of foreign markets in many cases would mean not only lower sales but very likely a reduction of receipts below the break-even point.

Third, there is general agreement that private investment capital is a vital ingredient in any plan for building the economies of other free nations, especially in the underdeveloped countries. With private capital, these countries in Asia, Africa, and our own hemisphere can turn their own resources to better advantage in advancing their economic development.

The countries themselves can take steps to supplement indigenous private venture capital. They can seek private capital from the more industrialized countries of Europe, from Japan, and from the United States by reducing the hazards to investment from abroad. Inequitable tax statutes, expropriation risks, unreasonable employ-

American Farmers And Businessmen Depend Heavily On Foreign Markets



¹ Based on 3-year average, 1950-1952, except tractors, 1948-1951.

ment controls and exchange restrictions are factors which drive away the prospective investor.

The efforts of the countries to promote a more favorable investment climate are being assisted by the Mutual Security Program in several ways. Advice is given in the preparation of investment laws and codes. Investment opportunities are disseminated to the United States business community. The guaranty program offers investors protection against loss from expropriation and inconvertibility. Contracts with private firms demonstrate to the people of the underdeveloped areas that proper utilization of their resources by responsible companies that have the necessary technical knowledge and financial means will bring lasting benefit in terms of higher living standards and greater national strength. Extending technical assistance, improving health conditions, and modernizing government fiscal procedures—all these activities being carried forward under the Mutual Security Program are helping to bring about a better climate for foreign investment.

Freedom, Peace, and World Prosperity

Mankind would be blessed indeed if all the purpose and planning, the effort and resources that now go to hammer out the weapons of war could be put into a great common effort to improve the hard lot of the less privileged. Unhappily, there is no magic formula to brew instant peace.

As long as the forces of aggression threaten to chain free men to the sordid ambitions of world domination, so long must the free nations persist in their collective efforts to build defensive strength.

The United States and its allies seek a way of security, security with strength that will eventually force an end to the cold war and at the same time keep us prepared for any turn of circumstances, security that will bring greater progress and prosperity to the whole world. With the Mutual Security Program, we are pursuing the best means to achieve our objective.

CHAPTER II

EUROPE

IN support of United States foreign policy objectives, the main effort of the Mutual Security Program in Western Europe is to develop modern, well-equipped military forces that will stand beside our own armed forces to deter, but if necessary to check, any aggressive thrusts by the Soviet Bloc.

For the United States, the defense of Europe is more than a question of friendship or sympathy for other free people. It is also a question of keeping the free world's present advantage in resources and capabilities. In blunt terms, Western Europe holds the key to today's balance of economic power. Its pool of skilled manpower is the greatest on earth. The capacity of its industrial plant is indispensable to our own industrial superiority.

Steel and coal, for example, are the muscle and sinews of war. In steel production, the United States and its European allies now have a lead of more than 3 to 1 over the Soviet Bloc, including Communist China. With all Europe in Russian hands, the Soviet Bloc would gain the edge. In coal output, our combined advantage is now nearly 2 to 1, but if Russia could move into the rest of Europe the ratio would reverse to better than 1 to 2 in favor of the Soviet Bloc.

The conclusion is clear. As long as our European allies stay free and strong, they can make an invaluable contribution to the defense of the free world. The chances for peace are thereby strengthened. With Europe's industrial might harnessed to an imperialistic power, this country would be placed in the greatest peril.

In the interest of reinforcing Western Europe's ability to defend and support itself, the Mutual Security Program also has important political and economic objectives.

Politically, it stands ready to support European measures for intergovernmental or supra-governmental cooperation. These measures, grounded in a common purpose and carried out by common institutions, can do much to uproot the influences which undermine democratic processes and impede progress.

Economically, it seeks to accelerate the growth of Western Europe's production base and the achievement of a single European market. An expanding European economy will bring higher living standards, greater stability, and more defensive strength for the long run.

Outside the NATO countries, our efforts in Western Europe are directed toward helping Austria, Germany, Spain, and Yugoslavia to achieve a greater measure of economic strength and the ability to resist aggressive pressures.

Military Defense

NATO

The North Atlantic Treaty Organization (NATO) is an indispensable element in the free world's defense structure. NATO stands today as one of the strongest bulwarks against Communist aggression. The source of its strength lies in the close association and the collective power of 14 of the free world's most industrialized and advanced nations.

Two devastating world wars grew out of piecemeal attacks in Europe by an imperialistic power. Twice in our lifetime, we have been shown how utterly futile it is for free men to go separate ways in the face of a common danger.

NATO is a determined effort to profit from the bitter experience of the past. Under NATO, the United States and Canada have welded an alli-

ance with Western Europe based on the pledge that aggression anywhere in the treaty area will be regarded as an attack upon all the members.

This attempt to put teeth into free-world warnings against seizure by force represents a bold departure in our foreign policy. Never before this treaty, had we in a time of peace agreed to defend an Eastern Hemisphere country in case of attack, and never before in peacetime had we joined with other nations in active measures to develop stronger mutual defenses. This commitment to help put down aggression wherever it might occur in the Atlantic community was made within the framework of the United Nations Charter.

NATO has gradually evolved into a smoothly functioning coalition whose military forces are integrated under a single command. The Organization provides for intergovernmental cooperation in planning national defense contributions and in developing harmonious political policies.

Now, military and civilian officials of the NATO countries jointly study military requirements and economic capabilities. Together, the representatives of these nations produce a realistic program for the buildup of forces.

During April of this year at a meeting in Paris, the ministers of 14 countries concluded the 1952 Annual Review of the NATO Program. This meeting climaxed 9 months of intensive study by the NATO International Staff, the NATO military agencies, and the major military commands. Agreement was reached on a firm military program for 1953 and a provisional program for 1954. It was also agreed to schedule a meeting for October 1953 to determine firm goals for 1954 and provisional goals for 1955 and 1956.

The force goal agreements for 1953 and 1954 point up one development in particular. Emphasis has shifted from numerical increases in forces to qualitative improvements in actual combat effectiveness. Public attention in the past



Six 155-mm. self-propelled guns—part of a shipment to France under the United States program for mutual defense assistance.

has been focused primarily upon numbers of ground divisions, but such numbers are deceptive. Divisions vary greatly in fighting capabilities, ability to mobilize reserves, strength of supporting units, stocks of ammunition, and numerous other factors. A single fully manned, well-trained combat division is worth several with poor battle efficiency.

It is estimated that compared with 1952, attainment of the 1953 force goals, combined with the greater quality emphasis, will result in a 30 percent increase in NATO combat effectiveness. In ground forces, there will be a moderate growth in major units plus heavy emphasis on support forces. There will also be a substantial increase in the number of combat aircraft, together with necessary airfields, supporting installations, and communications systems. Naval plans call for more support both in major combatant vessels and in the critical minesweeper and escort types. For security reasons, it is not possible to disclose the precise figures agreed upon by the North Atlantic Council.

Infrastructure.—"Infrastructure" is the term used to identify the network of military facilities in any country which is available to support the operations of integrated NATO forces. Under the NATO program, agreement has been reached to date covering financing agreements totaling approximately \$1.3 billion from the contribution of all nations concerned for airfields, fuel supply facilities, telecommunications, naval installations, radar, and similar items. These arrangements will fill the estimated needs of forces in being by December 1954. The total United States contribution, including obligations to date, is expected to amount to approximately \$534 million or about 41 percent; however, since it has been agreed that the United States shall not be required to pay taxes in Europe, our actual contribution will be approximately \$470 million or about 36 percent.

The \$1.3 billion total program through 1954 is divided into four annual segments or "slices." The fourth slice agreed upon by the North Atlantic Council amounted to about \$407 million. Mutual defense funds to meet the United States share of this last segment were included in the fiscal year 1954 Mutual Security Program legislative request.

In addition to the four slices, the North Atlantic Council agreed to plan on up to \$700 million of additional infrastructure in the 1954-56 period.

Utilization of this amount is to be conditioned upon demonstrated requirements based on forces to be created in the next 3 years.

Progress in actual construction has greatly improved in the past year. Almost two-thirds of the total number of airfields programmed are now sufficiently advanced to be put into use in an emergency.

The European Defense Effort

There is clear-cut evidence of a steady year-by-year buildup in the defense effort of the European countries. In terms of fiscal years, from 1950 to 1953 the European NATO countries increased their defense expenditures by more than 120 percent.

These mounting defense expenditures are reflected in an overall increase in the number of armed forces of the NATO countries. In 1949, the present European members of NATO had a total of approximately 2,450,000 men under arms in all parts of the world. Lord Ismay, Secretary General of NATO, recently reported that the global figure has risen to nearly 3,300,000. This figure exceeds the combined forces of all these countries in 1938, a year when most of the major European powers were rearming.

Despite many unforeseen difficulties, it is noteworthy that the NATO countries came remarkably close to reaching the 1952 goals projected at Lisbon. These goals—which excluded Greek and Turkish forces—called for 50 divisions, 4,000 front-line aircraft, and over 1,600 ships by the end of 1952.

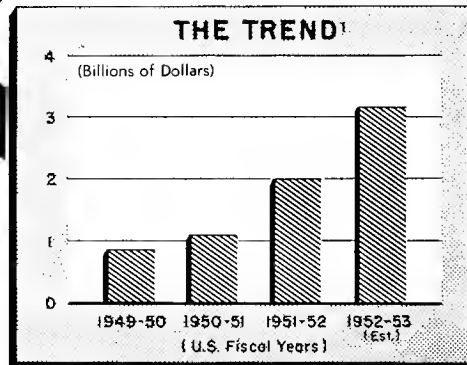
By December of 1952, the division goals were virtually attained, although only about half of the reserve divisions were up to standard in strength, equipment, and training. This shortfall, however, will be made up this year. The goal for aircraft was also largely met, but ground-support and flight training were below planned requirements. The naval goals were filled. The goals for the end of 1953 are several divisions and several hundred combat aircraft and naval vessels above the Lisbon goals. Most of the planes will be modern jet types. Similarly, in a key naval item like minesweepers, the total available for European forces will be almost 75 percent greater than the number in existence in mid-1952.

An increasing proportion of the European defense budgets is being devoted to major materiel

Military Production Rises In Western Europe

THE KEY ITEMS

Tanks
 Anti-tank mines
 Jet aircraft
 Jet engines
 Rifles
 Sub-machine guns
 Small arms ammunition
 Mortars
 Rockets
 Radar equipment
 Minesweepers
 Destroyer escorts
 Jeeps
 Military vehicles
 Communications equipment
 Depth charges



¹ Based on expenditures for self-financed production of major matériel in NATO countries.

and construction—the military hardware and facilities needed for equipping and expanding combat forces. During the buildup period, the United States supplied most of the initial equipment of European units and enabled the Europeans to devote a greater share of their resources to the raising and training of forces. European defense production and construction has gained momentum, however, and in fiscal year 1954, of every \$10 to be spent for defense by European NATO countries, almost \$4 will go for major matériel and construction, compared with only \$2 prior to Korea.

For the 12 months ended June 1953, European NATO expenditures for the production of major matériel—aircraft, artillery, combat vehicles, ammunition, ships, and other heavy items of equipment—rose to more than \$3 billion. This level represents a fourfold increase over the pre-Korean level of expenditures for defense production.

Offshore Procurement

It has become increasingly apparent that in addition to raising and equipping troops, adequate

preparation for defense of the Atlantic community involves the development of a strong mobilization base in Europe. In case of war, equipment in the hands of troops and in reserve stocks would last only a few weeks or months, and the ability to sustain combat would depend to a considerable extent upon the rate of output of critical items from European production resources. Therefore, since August 1951, the United States has been carrying out, as an integral part of its end-item program, an offshore procurement program designed to expand the defense production base in Europe.

In the aggregate, offshore procurement contributes to meeting buildup and reserve requirements at a lower cost than procurement solely from United States production. The savings realized on certain items obtained overseas outweigh whatever higher costs there may be for other foreign-produced items, so that on balance a substantial net advantage results from procurement abroad.

In achieving the primary objective of helping to build a European mobilization base, offshore procurement makes a special contribution to de-

veloping defense production on a selective basis, particularly for ammunition and high consumption rate spare parts. Furthermore, the program emphasizes the procurement of those items needed in the post-buildup period and reduces accordingly Europe's dependence on the United States for future requirements.

From the economic standpoint, offshore procurement helps to conserve United States domestic materials and industrial resources. It also eases the foreign payments position of European nations by furnishing needed amounts of dollar exchange and by cutting down the dollar drain otherwise incurred in the purchase of spare parts from the United States. Finally, it aids in the improve-

ment of technology and productivity abroad.

The military services of the Department of Defense awarded over \$1.5 billion in contracts to European countries in fiscal year 1953. This was in addition to about \$630 million of contracts placed in the preceding 12 months. Contracts covered ammunition, naval vessels, jet fighter aircraft, tanks, artillery pieces, radio and radar equipment and a wide range of other materiel, including spare parts for weapons, vehicles, and aircraft.

Concurrently plans have been formulated which provide further encouragement and incentive for United States industry to engage in the international procurement program. Participation by American business includes license agreements for



A British-made Centurion tank, manufactured under the offshore procurement program, being delivered to the Netherlands. Under a \$90 million offshore procurement contract placed by the United States with Great Britain, Centurions like this are being produced for Holland and Denmark to strengthen NATO defenses.

the production in Europe of United States-type equipment such as aircraft, jet engines, and spare parts. Where United States companies already have affiliates in Europe, as in the automotive field, it is natural that these affiliates should be the best sources of spare parts for items manufactured by the United States parent company.

U. S. Participation in North Atlantic Defense

Military aid shipments for our European allies during the first 6 months of 1953 averaged \$294 million monthly, compared to an average of \$177 million in the previous 6-month period. To a large extent, the higher rate of shipments in recent months is due to the substantial acceleration in deliveries of long lead-time items which were contracted for under earlier programs. Jet aircraft have been coming off production lines in increasing numbers, as have tanks and critical electronics equipment. The Navy, moreover, has begun deliveries of auxiliary minesweepers from United States construction.

Through June 30, 1953, the value of materiel shipped as grant aid to European countries

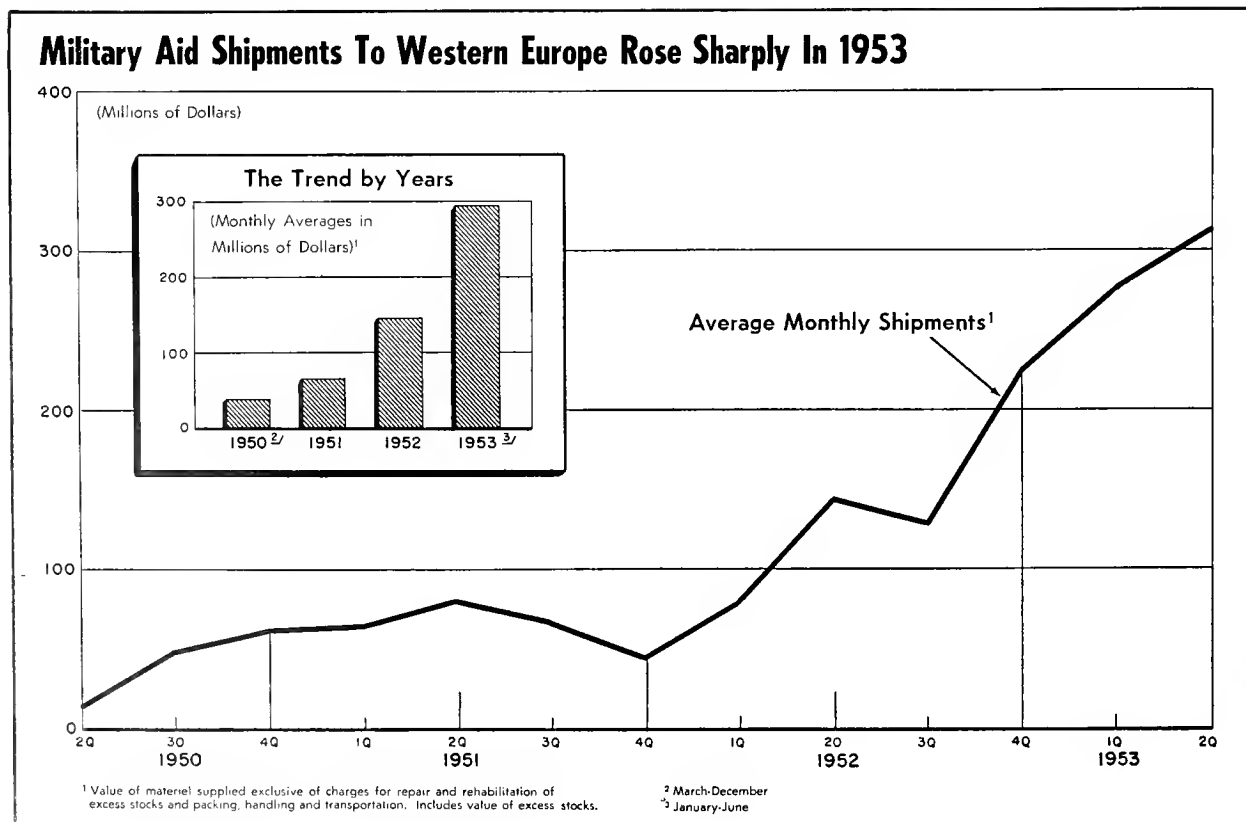
(excluding Greece and Turkey) totaled \$4.6 billion.¹ This amount included about \$450 million of items shipped from excess stocks. The balance was charged to appropriations.

During his trip to Europe in January, Director for Mutual Security, Harold E. Stassen, conferred with the NATO commands regarding estimated delivery rates of materiel to NATO forces during the remainder of 1953. Based upon these conversations, a list of items reflecting most urgent needs was compiled. Subsequent expediting actions were initiated to raise deliveries of critical items above earlier schedules.

The Defense-Support Program

Supplementing military weapons assistance, the Mutual Security Program for NATO countries has provided mainly raw materials, machinery, and equipment which in part were used directly for the manufacture of military goods in Europe. These defense-support items were also used in heavy

¹ Includes approximately \$300 million of materiel held in United States storage, packed and marked for mutual assistance, awaiting delivery orders.



industries—such as steel, transportation, and power—to backstop defense production.

During the 6 months ended June 30, 1953, the total value of paid shipments for defense support and economic aid for Western Europe (NATO countries, Austria, Germany, and Yugoslavia) was \$726 million. The value of paid shipments for the entire fiscal year amounted to \$1,434 million.

Western Europe's basic industries and public utilities.

The facilities which have expanded directly through purchases of dollar-financed imports of equipment and materials, and in some cases through United States technical services, now constitute a vital segment of Western Europe's defense mobilization base. These facilities include key producers such as the SOLLAC and USINOR steel mills in France.

The SOLLAC project, now about three-fourths completed, will be one of the largest continuous strip steel mills on the European continent. Located in the heart of France's iron ore region, SOLLAC operations will be designed to produce hot- and cold-rolled strips of the type needed for the manufacture of jeeps, military trucks, and armored vehicles. Another project affiliated with SOLLAC provides for the expansion of the plate and slabbing mill at Dilligen in the Saar. Completion of these facilities will provide France for the first time with a domestic source of medium and heavy open-hearth armored plates of the type required for the construction of tanks and naval vessels.

Other key steel projects undertaken with the aid of United States-furnished equipment, materials, and technical services are located in Austria, Belgium, Italy, the Netherlands, and the United Kingdom.

Counterpart Funds

Each European country receiving defense-support assistance under the Mutual Security Program deposits in a special account local currency equivalent to the dollar value of aid provided on a grant basis. These deposits are known as counterpart funds. After a portion² is transferred for United States use, the remaining funds are available to the depositing countries to finance programs approved by the United States.

Since the beginning of the defense-support period on July 1, 1951, counterpart funds have been released primarily to advance the defense buildup of the NATO countries. From that date through June 30, 1953, all counterpart releases to

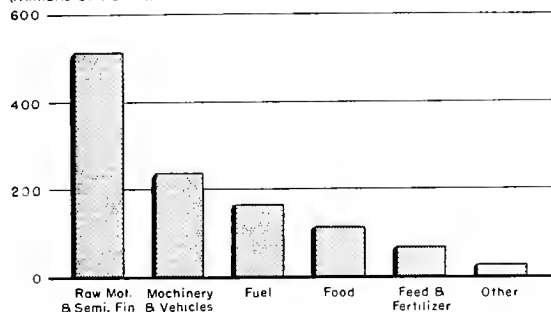
² Generally, 5 percent of counterpart funds deposited to match dollar aid obligated prior to June 20, 1952, and 10 percent after that date, pursuant to the provisions of the Mutual Security Act of 1952.

The Defense Support Program For Europe Was Made Up Mainly Of Industrial Equipment And Materials

(Paid Shipments, Fiscal year Ended June 30, 1953)

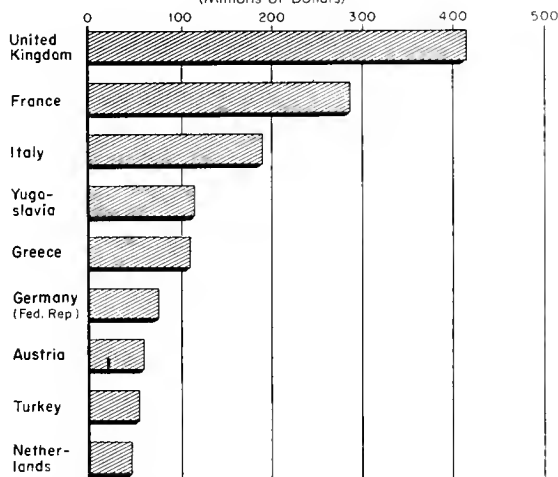
The Commodity Program

(Millions of Dollars)



The Major Recipients

(Millions of Dollars)¹



¹ Includes payments for freight, services and EPU

Through the European industrial projects program, economic and defense-support aid furnished by the United States has in part gone into rehabilitation, expansion, and modernization of

European countries totaled \$2,596 million. European counterpart releases were equivalent to \$327 million in the 6 months ended June 30, 1953, and \$929 million for the full fiscal year. Of the last amount, \$531 million was channeled into military projects such as the production and procurement of major military materiel, and the construction of military airfields, naval bases, army bases, and other defense installations. Other defense-support activities financed with counterpart funds include the expansion of manufacturing, agriculture, electric power output and mining; and the construction of housing for workers in essential industries.

Security Program and certain local currency operating expenses connected with technical assistance projects and informational activities.

Economic and Political Developments

Economic Progress

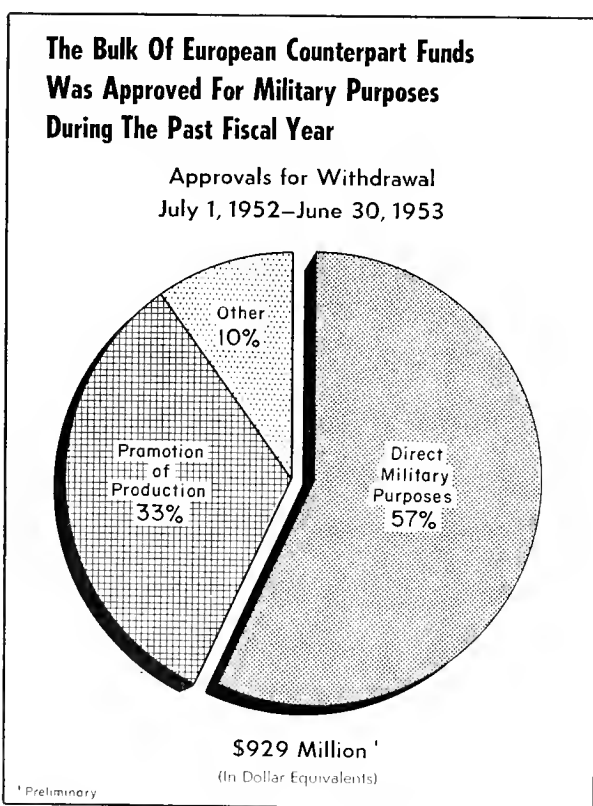
The outstanding feature of Western Europe's economy since the beginning of 1951 has been the leveling off of overall industrial production. Total output has moved within a range circumscribed by the seasonal variations which are characteristic of European production. For the first 5 months of this year, average production was 142 percent of the 1948 base—only 3 percent above the level of the corresponding period in 1951, and 1 percent over the same period a year ago.

The composite picture of output, however, obscures some shifts in the pattern of European production. Heavy industries—those which contribute most importantly to defense production—have continued to expand at a moderate rate. Offsetting these gains were declines in soft goods lines. Textile production, which typifies the trend in consumer goods output, was hardest hit, although some recovery has been in evidence since the middle of 1952.

Farm production for the crop year 1952-53 is expected to duplicate the postwar peak—15 percent above prewar output—reached in the previous year. Despite these sizable gains, farm production per capita barely exceeds prewar levels. Normal population gains and the large influx of refugees from Eastern Europe almost offset the benefits of higher agricultural output.

An important aspect of Western Europe's economic situation in recent months has been the improvement in its external balance of payments, especially with the dollar area. This improvement, however, is due mainly to national restrictions on the use of foreign exchange reserves and to the leveling off of production, both of which acted to reduce imports. It is due, further, to the favorable shift in terms of trade—that is, the average prices for Europe's imports have in recent months been falling faster than the prices received for exports.

With the improved balance of payments position, gold and dollar reserves have been rising in



During the half year ended June 30, 1953, the equivalent of \$56 million of counterpart deposits was reserved for the United States. These funds are used mainly to cover the cost of acquiring strategic materials for our national stockpile and for developing production of raw materials in overseas areas. Other uses include overseas local currency costs of administering the Mutual

most countries, although they are still very low in comparison with the volume of trade. Gold and short-term dollar assets of European OEEC countries (excluding Switzerland) at the end of May 1953 were \$8.1 billion, a distinct improvement over the March 1952 low point of \$6.3 billion. The increase in reserves was particularly noteworthy in the United Kingdom, Germany, and the Netherlands.

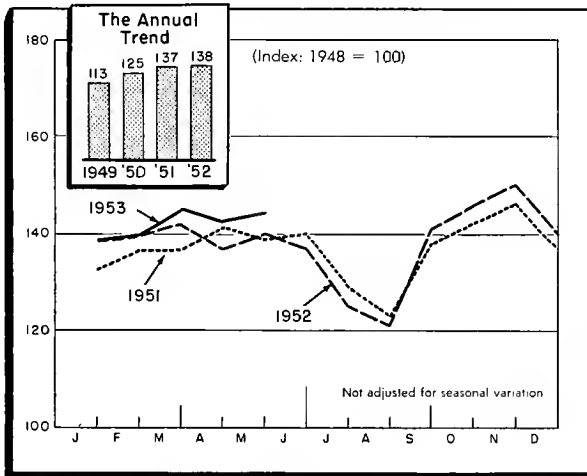
Wage and price trends have been generally stable. Wholesale prices fell moderately during 1952, and in most countries continued to decline in the first half of 1953. Cost of living prices

showed little change, and on the whole, held close to their post-Korean peaks.

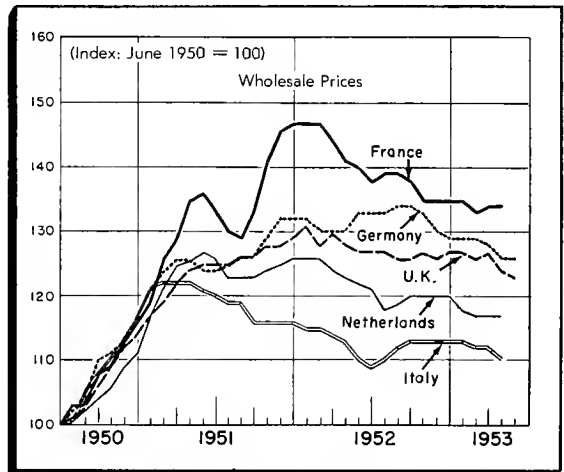
In retrospect, Western Europe has made impressive gains during the past several years in expanding its productive capacity, in restoring order to its war-damaged economy, and in rebuilding its export trade. Considerable progress has also been made in reducing the dollar deficit. Nevertheless, the dollar gap is still large and remains the most intractable economic problem of the area. This persistence of the dollar deficit was highlighted in the recent fourth annual report of the OEEC. It was described as an obstacle to

Economic Developments In Western Europe

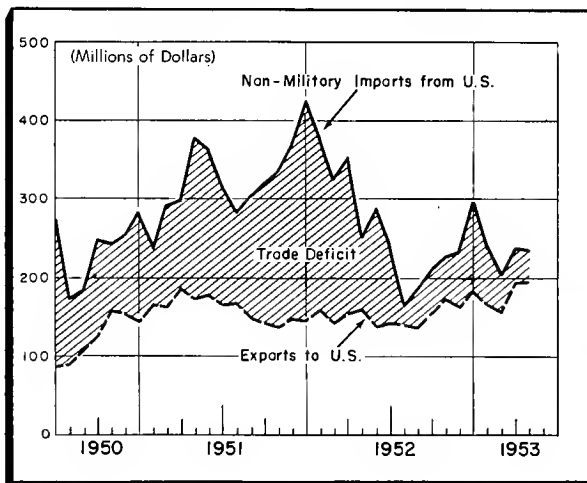
Industrial Production Has Levelled Off



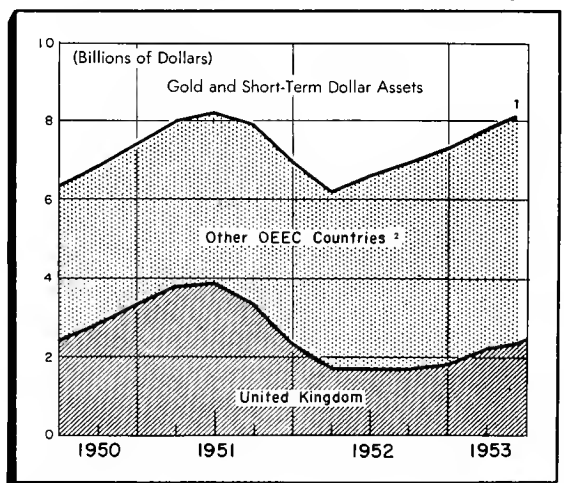
Prices are Stable or Declining



Trade Gap With U. S. Has Narrowed



Hard Currency Reserves are Up Moderately



¹ May data

² Excluding Switzerland

economic progress, forcing the adoption of restrictive measures, which in turn, limit the possibility of expanding production and productive capacity.

The OEEC report emphasized the necessity for a plan of action which would lead to a solution of the dollar problem. Such a plan, it was indicated, "must provide for the maintenance and development of a Europe able to attain its basic objectives without American economic aid."

Economic Conferences

Representatives of the United States and of the Organization for European Economic Cooperation concluded on April 16, a week of intensive exploratory discussions on the common economic and financial problems of the North Atlantic area. The delegates stressed the urgent need for action along particular lines.

In substance, it was agreed that the task facing Europe is to continue the cooperative efforts which have already produced important results. Although the total volume of European exports to the rest of the world is about two-thirds above the prewar level, dollar earnings from exports must be still further increased. To that end, and in order to meet other vital needs, especially in the field of defense, European production and productivity must be increased. European exports should be made more competitive. In addition, further efforts should be made to reduce trade restrictions, both among the European countries themselves and with the rest of the world.

It was pointed out that the United States could play a role in promoting conditions for the expansion of world trade and payments by measures in the fields of commercial policy, foreign investment, and raw materials. The European countries have a great interest in increasing exports to our country, so as to reduce the present payments imbalance. United States investment abroad could assist in making possible a freer international trade and payments system. It would be useful, moreover, if ways could be found to moderate the widespread disturbances caused by violent fluctuations in the prices of raw materials.

Communist Strength

At the present time, Communist strength in the Western European countries receiving United States aid is considerably weaker than during the

immediate postwar years. Today, the Communist Party has no representation in the British Parliament, has lost ground steadily in national and local elections, and plays an insignificant role in the trade union movement. In Western Germany, Communist voting strength has decreased to 4 percent of the electorate, and the Party's influence in trade union affairs is relatively unimportant. Party membership, parliamentary representation, and influence in trade unions have also declined substantially in the Benelux countries, Norway and, Denmark.

In France and Italy, however, recent political developments leave little room for complacency. There exist in these countries, the strongest Communist Parties in the free world, and the Communists have substantially retained their voting strength.

It must be remembered, however, that most of the Communist votes in France and Italy are protest votes against unsatisfactory living conditions and unpopular political measures. Actual Communist Party membership is only a small percentage of Communist voting strength. Nevertheless, so long as the Communists can command widespread popular support, the stability and effectiveness of democratic governments will suffer, and the danger of an eventual seizure of power by the Communists cannot be ignored. This danger would, of course, be aggravated by any serious deterioration of economic conditions. These facts indicate the importance of continued United States attention to Europe's economic position, and emphasize the importance of the principle enunciated by Secretary of State Dulles with respect to maintaining a realistic balance between military efforts and economic capabilities.

Toward European Unity

European progress in economic unification and political federation is an essential element in providing increased strength, and it is the policy of the United States Government to support measures directed toward European integration.

The movement toward unity in Europe aims at the elimination of national economic barriers so that there can be a freer flow of trade and a more efficient use of European manpower and materials. It aims at coordinating and reconciling national policies and programs that might

otherwise conflict. It aims also at the pooling of military forces in order to create stronger defenses.

In both NATO and OEEC there has been an intensive process of mutual examination of national economic problems and capabilities. There has been increasing evidence of a willingness to make policy readjustments in light of the common need in matters which have traditionally been considered to be questions of domestic concern alone. Within NATO, the process of reviewing one another's programs and achieving harmonization of national policies is being extended through the Annual Review and the exchange of views on current political problems of common interest. Another example of cooperation achieved through NATO is the NATO International Staff's work on coordinated defense production programming.

European Defense Community

It has been noted already that NATO possesses a large part of the world's industrial power. But one very important industrial nation of Europe is missing from the Western defense system—the Federal Republic of Germany. There is no question that Germany's manpower, skills, resources, and industrial facilities are of the utmost importance to any satisfactory plan for European defense.

Events of the past half century have made many of the peoples of Western Europe extremely reluctant to accept the reestablishment of a German national army, even though they may recognize the value of a German defense contribution. The solution to this intricate problem was largely thought out by the leaders of the continental European governments. A plan was drawn up which, in essence, would restore German sovereignty, but allow Germany to rearm only as an integral part of a supranational European Defense Community.

In addition to Western Germany, the EDC would embrace France, Italy, Belgium, Luxembourg, and the Netherlands. It would operate within the general framework of NATO, and its common army would be under the supreme NATO command. A Treaty embodying this plan was drawn up and signed by the six participating nations on May 27, 1952.

The United States has vigorously supported the EDC plan as the best means of achieving an adequate defense system in Western Europe.

However, there have been many obstacles to the approval of EDC, and final parliamentary action has suffered repeated delays. Aware of the seriousness of this situation, Secretary of State Dulles and Mutual Security Director Stassen visited each of the EDC countries shortly after taking office and surveyed at first hand the likelihood of the Community's coming into being. Shortly thereafter, Mr. David Bruce was appointed United States Representative to the six-nation community. In addition to representing the United States in the Coal and Steel Community, he will also act as the President's observer on matters relating to the proposed EDC and the European Political Community. During March and April, leaders of various EDC countries visited Washington, and the importance of EDC was discussed in their talks with the President and Secretary of State.

As a result of these steps, EDC received new impetus. Germany's two legislative bodies have already ratified the treaty, and the French, Belgian, Dutch, and Luxembourg Governments have presented the treaty to their parliaments. Consideration by Italy was delayed by the spring elections. Governmental reorganization has also delayed action in France.

Action on EDC by the European parliaments is influenced by various political factors, some of them extremely delicate. In so sweeping and far-reaching an enterprise, it is only natural that European legislators wish to consider thoroughly the implications of giving up control over national defense to a supranational authority. However, executive officials of the European governments have been unwavering in their support of EDC, and it is hoped and expected that the European parliaments will take favorable action to complete this important project without undue delay.

The European Coal and Steel Community

On February 10, 1953, as previously scheduled, tariffs and quantitative restrictions on the movement of coal among the six countries of the European Coal and Steel community were removed. This was followed on May 1 by the opening of the common steel market.

Each product in the common market has presented different problems for the community. In the coal and steel industries, the high authority of the community acted in accordance with the

convention to the treaty, to avoid an abrupt shift to free trade which might bring serious hardships, notably to the high-cost Belgian coal industry and the Italian steel industry. To deal with the Belgian coal problem, the high authority implemented the provisions made in the treaty for a coal equalization fund to operate during the 5-year transitional period. This fund is to be raised by levies on the coal and steel products of the low-cost producers in the community, and paid to the high-cost segment of the Belgian producers. These subsidies are to taper off according to the speed with which the Belgian industry can adjust to the new situation.

The solution for Italian steel takes a different form. This industry is to have the benefit of a rather gradual transition to free competition. The tariffs protecting the industry are to be eliminated by stages over the 5-year period, instead of all at once. With the exception of the special provisions for Italy, steel prices were left free with the opening of the common market.

In the case of iron ore, the high authority felt that the slight disturbances that might result from the institution of the common market were worth risking. Accordingly, the free market for iron ore went into effect without any transitional measures.

Although the community has not been in existence long enough for a full appraisal of its effectiveness, it is clear that it has successfully overcome many of the obstacles that stood in the way of its developing from a blueprint into a functioning reality. In the common market, there has been a very distinct movement away from the restrictive policies that have previously dominated European coal and steel, and toward a greater play of market forces in production and distribution.

European Political Community

Plans are being considered for linking the coal and steel community and the defense community within a European Political Community. The political community would absorb the institutions provided under the coal-steel and European defense treaties in a more general political framework so that there would be a single set of European institutions having supranational authority. In the draft treaty, which has now been prepared by an ad hoc assembly of the coal and steel community, provision is made for a directly elected European assembly. The treaty would also charge the

political community with the task of progressively establishing the free movement of goods, capital, and persons within the community countries.

Trade Liberalization

As a direct result of the European Payments Union, restrictive bilateral payments agreements were eliminated as the usual way of doing business in intra-European trade. A multilateral and non-discriminatory system of payments was inherent in the adoption of EPU.

Substantial progress has also been made in the lifting of quantitative import restrictions. All EPU creditors³ and Italy have lifted quotas on 85 percent or more of their nongovernment imports from other European countries. Ireland, Denmark, and Norway have liberalized 75 percent or more of their imports. France and the United Kingdom had achieved a very substantial degree of liberalization during the first 18 months of EPU, but were later forced to reimpose quota restrictions. At the present time, such quotas limit all of France's intra-European trade, and 42 percent of Great Britain's.

EPU has contributed greatly to the expansion of intra-European trade and payments. In 1952, the volume of trade of the EPU area (which includes the entire Sterling Bloc and accounts for about 60 percent of world trade) was almost half again as great as in 1949. EPU has provided an effective payments mechanism for all merchandise trade as well as for all invisible transactions, and OEEC members have recently agreed to continue the Union for another year.

The concept of European unity is thus finding expression in a variety of organizational forms. Encouragement by the United States Government, in some cases supplemented by financial assistance, has assisted in the development of these principal integrating organizations.

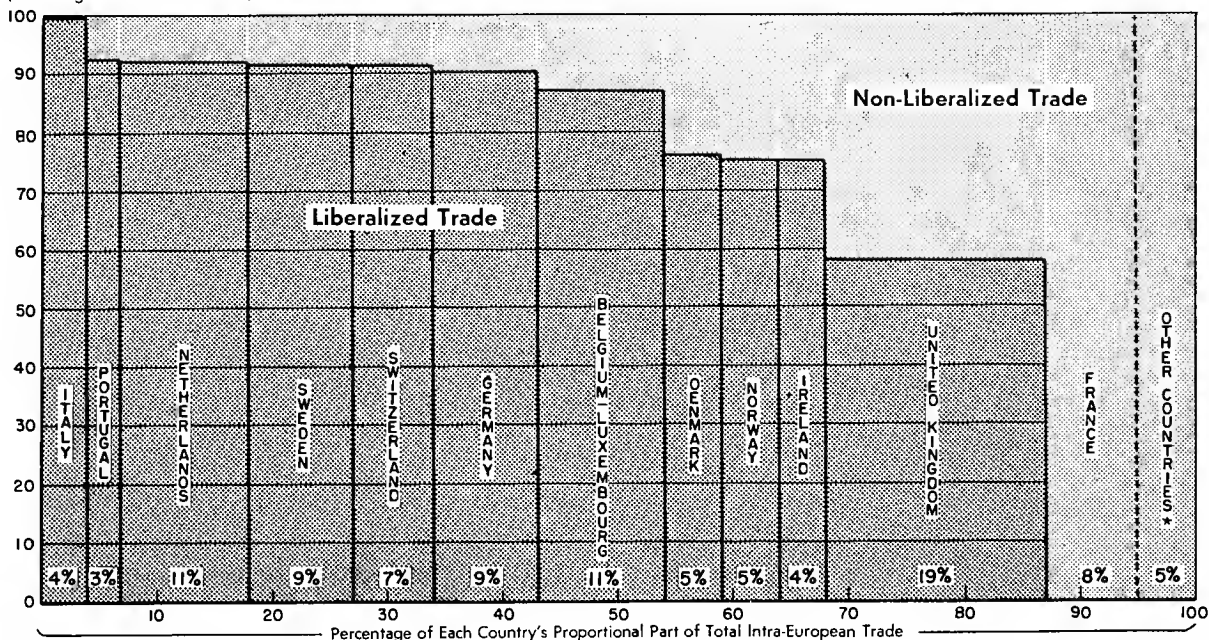
Although progress toward unification since World War II is striking from a historical viewpoint, further evolution is necessary—in some cases, urgently so. In seeking to promote the integration of Europe, however, the United States can be most successful if it encourages and assists the adoption of measures that are European in

³ Benelux countries, Germany, Portugal, Sweden, and Switzerland.

Trade Liberalization In Western Europe

As of June 30, 1953

(Percentage of Trade Liberalized)



* Austria, Iceland, Greece, Turkey

origin. If the movement toward unity is to have deep and lasting effect, it will be because the Europeans themselves believe this is the best way to go forward.

Other Programs in Europe

Spain

In January 1953, the final portion of the \$62.5 million appropriated by the Congress in the fall of 1950 for loans to Spain was committed. Almost 60 percent of the loans approved was for capital development of manufacturing, power, transportation, and mining facilities. The balance has been used to finance the import of commodities such as wheat, cotton, coal, fertilizer, and tinplate.

In view of Spain's strategic importance to the general defense of Western Europe, the United States is negotiating bilateral arrangements with the Spanish Government which will contribute to the strength of the common defense against possible aggression. These negotiations were opened in April 1952.

The agreements currently under active negotia-

tions include: (1) the extension of economic and technical assistance; (2) an agreement with respect to military aid; and (3) the use by the United States of Spanish air bases and naval facilities. Funds authorized by the Congress will be made available to Spain upon satisfactory conclusion of these agreements.

Overseas Territories

The dependent overseas territories of the European NATO countries play an important role in efforts to maintain free world security. The strength and internal growth of these territories can permit their peoples to achieve increasing security and self-sufficiency, to protect their interests with less reliance on outside assistance, and gradually to attain a more stable position in the free world community.

The territories provide strategic bases and supply the United States and Europe with critical materials, the production of which, although expanding, has failed to keep pace with growing industrial requirements. Their political stability, which is so essential to our national objectives and

interests, depends in a large measure upon our assisting in creating an environment in which the native peoples will feel that their aspirations can best be served by associating and cooperating with the nations of the free world.

Augmenting the self-help measures instituted by the European countries and their dependencies, the United States since 1949 has furnished financial and technical support for development projects. This assistance has enabled the overseas territories to expand their efforts in exploration, in port and transportation development, and in the improvement of other facilities which are needed to attract further United States and other foreign private investment in materials production.

During fiscal year 1953, the equivalent of \$14.2 million from the United States portion of counterpart funds has been committed for basic materials development projects, and \$692,000 has been committed for technical assistance in the overseas territories, mainly in Africa. In no instance are funds made available if either the Export-Import Bank or the International Bank for Reconstruction and Development is prepared to finance a project under consideration.

In addition, two African territories of the United Kingdom will benefit from aid extended under the provisions of the mutual security legislation which relate to the promotion of free enterprise. Negotiations provide that the equivalent of \$562,500 of United Kingdom counterpart funds will be used in Africa to expand the activities of existing credit institutions in making credit available to local small-business men.

Productivity

While Western European output is increasing in absolute terms, it is not holding its own in the rate of increase relative to the other large producing areas of the world.

To cope with the problems of lagging productivity, the members of the OEEC Council have set up a European Productivity Agency. Its charter, approved on June 17, 1953, provides that the Agency "shall be guided by the principles that competition should be encouraged while any business practices which result in decreased production and higher prices should be discouraged; that the benefits obtained through an increase in productivity should be shared to the mutual benefit of consumers, owners, and workers; and that co-

operation of management and labor organizations, where there is goodwill on both sides, will promote these purposes."

A total of \$10 million in United States funds and European counterpart plus funds provided by the OEEC Council budget will be put into a 3-year productivity program, administered by the European Productivity Agency.

Under the provisions of the mutual security legislation, the Congress directed that the counterpart arising from \$100 million of defense-support aid be used by the participating countries in support of the productivity program objectives. In compliance with this mandate, agreements have been reached with 11 countries involving the allotment of \$97.1 million. This amount includes \$2.5 million for the European Productivity Agency. The use of counterpart funds generated as a result of these agreements, and the initiative provided by the new agency, will give this program the impetus for a vigorous and aggressive movement to improve productivity at the plant and farm level.

The European countries have also made great progress in developing their own technical assistance exchange program, patterned after the exchange between the United States and European countries. This development is most advanced in the agricultural field, and emphasis in recent months has been on group training courses.

Migration

Overpopulation in certain parts of Western Europe presents a grave economic and political problem. This problem, aggravated by the influx of refugees from areas of Soviet domination, is a matter of deep concern to the free nations of the world.

Studies made by this Government and by international agencies have indicated that overpopulation in Western Europe to the extent of 3.5 million to 5 million people poses the task of moving some 700,000 migrants annually for the next several years. The present annual movement is estimated at 350,000. Any increase requires the assistance of an intergovernmental organization both to help meet the growing demand for manpower outside of Europe and to facilitate ocean transportation for the actual transfer. Acting on these considerations, the United States Government took the initiative in establishing the Inter-

governmental Committee for European Migration (ICEM) at Brussels in December 1951. Since then, encouraging progress has been made in moving migrants and refugees from Europe to other parts of the world.

The program adopted for calendar year 1953 calls for the movement of 120,000 persons. During the first 6 months of 1953, the committee moved in excess of 31,000 persons. This brings to 108,000 the number of migrants moved in the 18 months since the committee began operations.

Demands upon the committee for services are increasing. Likewise, membership is growing. The recent addition of Argentina and Costa Rica has brought the total membership to 22 governments. The experience gained in the first 18 months of operations indicates that the committee can play an important role in international efforts to deal with excess population and refugee problems.

Escapee Program

Under the Mutual Security Program, supplemental care and resettlement assistance are provided for certain Iron Curtain escapees who have sought asylum in Western Europe.

At present, 16,500 escapees are registered for assistance under escapee program projects undertaken in the countries of first asylum. In addition, 5,100 have been assisted to resettle permanently overseas—primarily in the United States, Australia, Canada, and Brazil. Of these, 2,300 were resettled during the first 6 months of 1953.

Facilities of initial reception have been provided in the countries of first asylum, and camps and living conditions are being improved.

The primary objective of the program is to help escapees resettle in countries where they can achieve self-dependence and live under normal conditions in a free society. To this end, vocational and language training programs are undertaken to qualify escapees for existing immigration opportunities, and counselling and visa documentation programs are provided. Prompt and adequate transportation to the countries of immigration is secured through a contractual agreement providing for reimbursement, out of escapee program funds, to the Intergovernmental Committee

for European Migration for transportation costs incurred in resettlement. Stringent security precautions provide for thorough interrogation and examination of all escapees by the appropriate agencies of the Allied Government.

Special programs of a limited nature have also been undertaken for the resettlement or local integration of certain recent anti-Communist escapees from China.

The rate at which escapees arrive in the west is determined primarily by internal conditions in the Soviet orbit and by satellite security controls along the border. The accomplishments of the escapee program have provided positive evidence of the announced concern of the west for the populations behind the Iron Curtain and thereby have contributed to the advancement of United States objectives and planning in psychological and related fields.

Transfers

On May 5, 1953, \$125 million was transferred by the President from the military appropriation to the defense-support appropriation on the recommendation of the Director for Mutual Security, in consultation with the Secretaries of State, Treasury, and Defense.

This was in accordance with a provision in the Mutual Security Act of 1951 as amended which provides that up to 10 percent of the total value of the European appropriations can be transferred by Presidential determination between the sections which authorize military and defense-support assistance. Of the \$125 million, \$60 million was allotted to France, \$50 million to the Berlin stockpile, and \$15 million to Yugoslavia.

The additional French requirement was occasioned by a severe dollar payments situation as well as a budgetary crisis which directly threatened the French military effort in Indochina. The \$50 million for Berlin was necessary to permit the orderly and continued development in this important outpost, of an adequate stockpile of food, fuel, and industrial raw materials. In Yugoslavia, a severe drought had imperiled the ability of that country to continue to support an adequate defense program. Basic foodstuffs and raw materials had been reduced to critically low levels. The additional assistance was designed to prevent these shortages from becoming even worse.

CHAPTER III

The Near East and Africa

THE Mutual Security Program has provided economic and technical assistance to the Near Eastern countries of Iran, Israel, Egypt, Iraq, Jordan, Lebanon, and Saudi Arabia, and to the independent African countries of Ethiopia, Libya, and Liberia. Military grant assistance has been provided to Greece, Turkey, and Iran.

These countries form a strategic land bridge linking three continents. They hold some 110 million people in an area of about 3.5 million square miles. The Near East contains over half of the world's proven petroleum reserves and accounts for about 40 percent of all the oil moving in international trade.

This vital region is presently in ferment. Its governments are beset by serious economic difficulties and buffeted by ever-recurring domestic crises. Insecure in their position and struggling to consolidate their power, these governments suspect the intentions both of one another and of the outside Western world.

There is the bitter feeling between the Arab nations and Israel. The Arab people feel that Israel will expand to threaten their interest and territories. The Israelis feel that the Arabs may try to clamp a military vise on their country and ultimately squeeze it out of existence. Animosities are further intensified by the Arab refugee problem.

There is the Anglo-Iranian controversy over oil. Iran's economy totters with the cutoff of its previously huge oil revenues. Great Britain has used hundreds of millions of dollars worth of its hard currencies to purchase its oil requirements elsewhere.

There is the tense situation with regard to control of the Suez. The British and Egyptian governments cannot yet agree over final authority and management of this vital base, its airstrips, and supply depots.

In all these disputes, so filled with high emotion and incendiary nationalism, the United States is avoiding any unwanted interference. We have been ready at all times, however, to aid in finding peaceful solutions, and our good offices have always been available to interested parties.

In May, the Secretary of State and the Director for Mutual Security, at the direction of the President, visited 10 countries in the Near East to see at first hand specific country problems and issues. It was the first time in history that a United States Secretary of State had gone personally into this critical area, and that fact alone made a deep and favorable impression on its people.

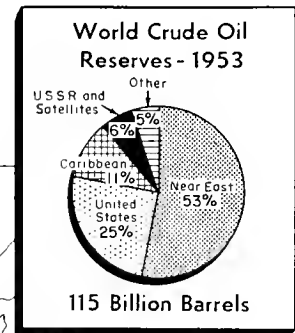
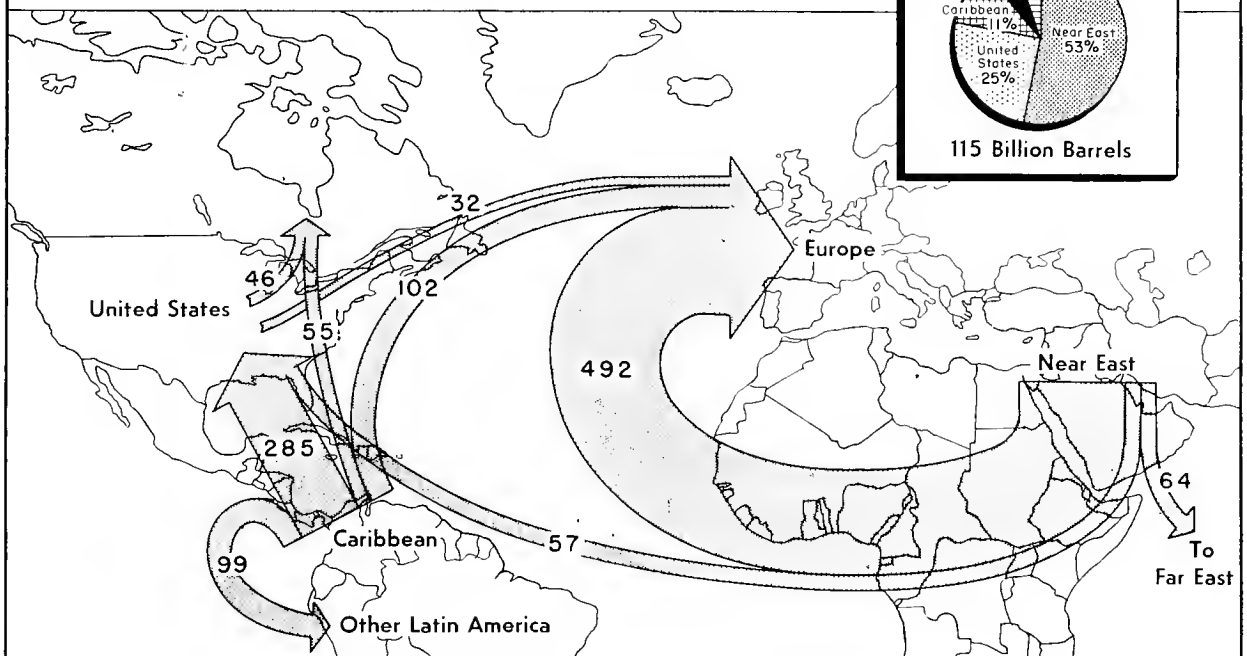
The frank and intimate discussions with political leaders of each country proved fruitful and beneficial to all concerned. We learned much of their point of view, and they in turn became better informed on United States intentions and attitudes.

Despite the heavy frictions within the area, the peoples of the Near East share common aspirations for better living standards, and these aspirations can no longer be ignored. Of course, it is the governments and the peoples themselves who must carry forward the task of bringing about a better way of life. The United States, however, can offer useful assistance, not with expenditures of dollars alone, but by demonstrating practicable applications of modern knowledge to problems of irrigation, disease control, food growing, and other specific fields.

The Near East Is The Largest Supplier Of The World's Oil Import Needs And Holds Over Half Of All Known Reserves

Major Inter-Continental Petroleum Movements—1952

(Millions of Barrels)



Technical and Economic Assistance

The United States is helping provide the governments of the Near East and independent Africa with the skilled personnel they have requested to help carry out their country development programs. As of June 30, 1953, some 600 American technical experts were supporting the efforts of the people of the area in every vital field of economic and social endeavor—in agriculture, health, education, public administration, resource development. Working side by side with our technicians, the technicians of the host government are learning through international partnership the roads which lead to productivity and progress.

In the fiscal year 1953, \$34.5 million was expended for technical cooperation programs in the Near East and Africa. This brings to \$60.6 million the total amount expended for these programs since July 1, 1951.

More water for irrigation, better seed, modern soil practices, improved tools—all have brought tangible results. It has been demonstrated that preventable diseases can be controlled. DDT spraying has brought about a marked decrease in malaria. Safe water wells have cut down water-borne diseases. The training of teachers and the improving of instructional facilities and methods have helped expand rural and vocational education.

To make an immediate impact on the economic difficulties now standing in the way of area stability, and to improve relations with the West with a view to obtaining wider participation in the structure of the non-Soviet world, a regional approach must also be made to the problems underlying United States relations with the nations of the area. For this reason, a "single package" of special economic aid funds has been authorized for the next year's program. This integrated approach will enable the United States to meet specific situations of a political and security nature and to take prompt advantage of opportunities for economic and social development.

Agriculture

Far-reaching programs are under way that will reclaim hundreds of thousands of acres and turn vast areas of wasteland into productive fields.

In Jordan, the Arabs have witnessed the magic of modern methods. Water-spreading techniques developed in the western part of the United States were introduced, and arid land that has been wasteland for centuries sprouted grass. The Arabs have found that barren soil at last may be put to fruitful use. One hundred acres of grass grew in the desert. The yield per acre averaged about 2 tons of hay for camels, goats, sheep, and horses, with the stubble available for grazing.

Interest in this project sponsored under the Mutual Security Program was not limited to officials. Bedouins by the score came from great distances to visit the area.

Egypt and the United States are cooperating in a program to reclaim wasteland and resettle farmers. Egypt today is over 95 percent desert land, and virtually all the country's population is squeezed within a narrow strip in the Nile Valley.

An Egyptian-American Rural Improvement Service has been established, and plans are under way to carry out drainage and development work in two project areas—Baheira and Fayoum—that will reclaim 80,000 acres and make room for



A triumph of irrigation over desert at the Dujaila project in Iraq—a part of the Miri Sirf Land Resettlement Project. American technicians are assisting the Government of Iraq in its program to increase food production.

resettlement of 16,000 families of landless peasants. The land reform program calls for the establishment of rural schools, the organization of a system of fundamental education for adults in health, sanitation, and agriculture, the development of village crafts industries, and the installation of sanitary water-supply services and health centers.

In Iraq, a similar land resettlement project is underway with United States technical assistance. Under an agreement reached between the United States and the Government of Iraq, American technicians will assist Iraqi officials in the fields of agriculture, irrigation, education, health, and housing. This program, known as the Miri Sirf Land Resettlement Project, ultimately will include 19 million acres.

A battle to hold back the shifting desert sand dunes is being waged in Libya with American help. Mutual Security Program technicians are demonstrating new methods of dune fixation for preventing oases from being engulfed with sand. They are making it possible for the work to proceed faster, with less labor and more dependable results.

The storage of grain is another problem that has bedeviled this part of the world for centuries. Facilities for storage and protection from pests, weather damage, and spoilage are poor, and in some cases nonexistent. In Jordan, grain storage bins for demonstration purposes are being constructed with United States aid. In Egypt, one of the projects is the development of a grain storage and handling program to reduce grain losses.

Pilots also have been trained in Egypt in the operation and maintenance of helicopters for dusting cotton. Control of crop pests and diseases is also being achieved in other countries through demonstration, training, and introduction of new chemicals.

The growing of fodder for the milk and beef herds has resulted in the adoption of new irrigation and dry-farming methods. An Israeli technician in this field made a special trip to the United States to study and observe American techniques for possible adaptation in Israel. An American wool expert has demonstrated to the wool growers of the province of Cyrenaica in Libya how their returns can be more than doubled by better sorting, grading, and cleaning methods.

Health

Healthy people are a nation's greatest asset. The Mutual Security Program's health and sanitation program is aimed directly at reducing the incidence of preventable diseases by improving the medical services to the people and instituting better water sanitation facilities.

Saudi Arabia and Iran, like so many other countries in the Near East, have a high rate of malaria and other diseases. A public health program, concentrating on preventive measures, is underway in Saudi Arabia. A DDT antimalaria spraying campaign was carried out in Iran on a nationwide scale by Iranian technicians trained for the job by American experts. Specially designed mobile health units are being used to demonstrate trachoma treatments and to train health technicians in Libya.

In many countries, high priority has been given to drilling wells to supply sanitary water to meet village needs and to help irrigate the land. In Liberia, the government's first municipal water supply and sewerage systems virtually are completed in the capital city of Monrovia. In Iran, work has begun on a water-treatment plant for Tehran, one of the largest cities in the world without a pure water supply. Elsewhere in Iran, deep-water wells are being drilled. These wells will be equipped with pumps and turned over to authorities to be operated by a village or a special cooperative. The United States is also assisting in the construction of a central government laboratory in Jordan that will be devoted to all phases of plant culture, veterinary study, and general chemistry.

In oil-rich Saudi Arabia, the development of the country and the improvement of living conditions depends primarily on one factor—water. There, as in many other countries, water is scarce and has to be carried for many miles. Finding water in this thirsty land was a task that was tackled by topnotch American hydrologists who described it as the toughest geological problem anyone ever came up against. But additional water supplies have been found.

Education

A primary objective in education has been to demonstrate not only how existing facilities can

be expanded but why certain types of programs should be established where none had previously existed. Fulfillment of this objective takes many forms: training capable teachers, improving curricula and methods of teaching, reorganizing school administration, and providing better textbooks. The emphasis has been on elementary and vocational education in both rural and urban areas.

Special courses are being conducted at the American University at Beirut, Lebanon, in agriculture and engineering, public health, economics and finance, and public administration. These courses are designed to train students of Arab nations for public service in the four fields considered essential to the economic development of the region.

Under a bilateral agreement, the University of Arizona is cooperating in the development of the agricultural college at Abu Gheraib in Iraq. Teachers have been provided for agricultural courses, and the college is being developed into a center for research and agricultural extension. Also in Iraq, Bradley University of Peoria, Ill., is helping to establish a technical training school in Baghdad. This school, to be named the American Technical Institute, is expected to be in full operation next fall with training courses adapted to Iraq's needs.

By a similar agreement, the Imperial College of Agriculture is being established in Ethiopia through the cooperation of Oklahoma A. & M. College. It is being modeled along the lines of a land-grant college, with teaching, research, and extension. Also in Ethiopia, American educational specialists are cooperating in the staffing and improving of primary and secondary schools, as well as technical, agricultural, and handicraft schools.

In Iran, more than 6,000 children in one region alone are now able to go to school as the result of a school building program being carried on by the Ministry of Education with American cooperation.

Public Administration

Substantial guidance and assistance has been given under the Mutual Security Program in the field of public administration.

Studies and recommendations of a United States fiscal specialist have enabled the Government of Saudi Arabia to set up a modern system of hand-

ling revenues and expenditures. A firm base for financing programs for the economic betterment of the people has been established through the creation of a monetary agency.

Dependable statistics for economic planning now are being made available in Jordan through the completion of the enumeration phase of the first census ever taken. This census, conducted by the Jordan Government with the advice of Mutual Security Program personnel, was designed to obtain information on housing, industry, and population. At the request of the Liberian Government, the laws of that country are being codified by an American specialist.

One of the major phases of Iraq's public administration activity is a greatly expanded road-building program involving more than \$13 million of the government's own revenues. Technical assistance is being provided by the United States. Two of the country's principal cities, Baghdad and Basra, will be connected by an all-weather highway. For the first time, a set of roadway plans was prepared by Iraqi personnel, and all the work was done by Iraqis, under the supervision of our technicians.

All these activities represent down-to-earth examples of the way the United States is cooperating with the governments and the people of the Near East and Africa. Taken individually, they are not projects of great magnitude, but moving in concert they are pushing the clock centuries ahead. They directly affect the welfare and living conditions of millions of people. As education spreads, as more practical methods replace out-dated techniques, as today's students become tomorrow's teachers, and as governmental services and facilities are improved, more and more people will be reaching into a better way of life that never before had seemed possible.

Benefits growing out of technical cooperation projects also serve to promote stability of government in the region. A desert spot made to grow food, a child cured of trachoma, a well which provides pure water—these are tangible demonstrations to the people that their government is directly interested in their well-being. Popular support is strengthened and the state rests on a firmer foundation.

Palestine Refugee Program

The United States Congress appropriated \$60.1 million under the Mutual Security Appropriation Act of 1953 for Palestine refugee relief and rehabilitation. Of this amount, \$16 million was paid to United Nations Relief and Works Agency (UNRWA) by June 30, 1953.

The first 6 months of 1953 witnessed the further development of programs by UNRWA to help the Palestine refugees become self-supporting. Previously sketchy projects became the subject of concrete planning, with UNRWA and Near Eastern Governments working in active and close collaboration. Meanwhile, a relief program was being maintained for the more than 800,000 refugees on relief rolls.

UNRWA set aside \$40 million for the development of water storage and irrigation facilities in the Jordan-Yarmuk watershed, and studies are proceeding rapidly in an effort to solve the remaining problems of water utilization and land settlement. The Egyptian Government has made a proposal for aiding the refugees in the Gaza area through the irrigation of a portion of the Sinai peninsula with Nile River water. Preliminary engineering reports are favorable, and the technical surveys are now being carried out with the cooperation and support of the Egyptian Government.

Additional tracts of land have been designated by the Syrian Government for possible development for the benefit of refugees. Reclamation of lands already made available by the Government is underway, using the labor of the refugees themselves.

UNRWA continued to receive the backing of virtually all of the membership of the United Nations outside the Soviet Bloc. Over 50 nations have contributed since the agency was established, although most of these contributions have necessarily remained small.

Economic Aid to Israel

The United States continued to carry out a program of special economic aid to Israel, in addition to a program of technical assistance. This special program was initiated in the amount of \$63.5 million from fiscal year 1952 appropriations and was continued through fiscal year 1953 with an appropriation of \$70.2 million.

Of the \$70.2 million in special aid funds for fiscal year 1953, roughly \$44.6 million was expended for current consumption items. The largest portion, about \$23 million, was used to buy foodstuffs. Other commodities purchased included fuel, fertilizer and fodder, pesticides, raw materials, and medical supplies.

Resettlement and capital development items totaled \$25.6 million. The two largest items of these expenditures, totaling about \$11.5 million, were for irrigation equipment—principally materials for manufacturing irrigation pipe, motors, and pumps—and for housing construction. Power and industrial equipment, farm machinery, transportation equipment, and similar items accounted for the balance of expended funds.

Near East Security

From the standpoint of defensive strength in the area of the Near East as a whole—that is, the area stretching from the Greece-Turkey Mediterranean region, eastward to the subcontinent of India, and southward through Saudi Arabia and Egypt—the Mutual Security Program has achieved substantial, if partial, success.

The substantial success lies in the greatly strengthened posture of Greece and Turkey. Powerful resistance could be offered to any direct attack. Turkey is in a strong flank position to protect the road to the oil of the Persian Gulf.

The success is only partial because, although the area is still free of actual Soviet occupation, it cannot by any means be considered safe for the free world.

Military Aid to Greece, Turkey, and Iran

The United States has supplied military assistance to Greece, Turkey, and Iran in order to enable these strategically located nations to improve their armed forces and to strengthen their defensive capabilities. The value of the military aid shipped to these three countries under the Mutual Security Program through the end of June 1953 amounts to over \$600 million. Almost \$150 million of materiel was shipped in the first 6 months of 1953.

The military assistance program has had a direct impact on the combat effectiveness of the Greek armed forces. Since the beginning of the



United States Air Force section adviser gives final advice to Royal Hellenic Air Force jet students preparing to take off on solo flights in F-84's (thunderjets). These aircraft have been supplied to the Royal Hellenic Air Force under the United States military assistance program.

program, the Greek military establishment has changed from a loosely knit organization, designed to cope with guerrilla activity, into a compact and well-trained force. Supporting weapons provided by the United States have included armor and antitank weapons, as well as light and medium artillery. The Royal Hellenic Air Force is being provided with jet aircraft to modernize those units now utilizing conventional propeller-driven planes.

In improving her armed forces, Greece has demonstrated a ready ability to assimilate United States military advice and assistance and to utilize efficiently the equipment provided. The Greek Government has contributed strong military units to NATO, and also to the United Nations forces in Korea where a reinforced battalion of Greek Infantry and a squadron of C-47 transports have served with distinction.

The military assistance program has also provided the necessary impetus for Turkey to rehabilitate her armed forces. When the military aid program started in 1947, the Turkish defense establishment consisted of well-disciplined and hardy troops, but little modern equipment, training, organization, logistic support, or funds. Since that time, the Turks have steadily expanded their forces and built up their military strength.

The defense effort in Turkey has developed with emphasis on a strong army. Bordering on powerfully manned Iron Curtain countries, Turkey has been compelled to rely on a large standing army to meet the initial impact of any invasion. The Turkish Army is being organized into a hard-hitting, relatively mobile force that can be deployed quickly along the country's critical frontiers. The Turkish Air Force is being equipped for vital support missions.

The buildup of its armed services has enabled Turkey to make substantial forces available to NATO. The performance of a Turkish brigade, fighting alongside other United Nations troops in Korea, has displayed Turkey's magnificent fighting qualities and firm determination to stand with the free world.

In Iran, United States military aid has been designed to assist in the maintenance of internal

security and to increase the defense capabilities of the Iranian armed forces. Since the beginning of the military aid program for Iran in 1950, the major items provided have included motor vehicles, tanks, mortars, rocket launchers, recoilless rifles, ammunition, signal communications equipment, and maintenance spare parts. While the military aid has been moderate, it has been reflected in the general improvement of the Iranian armed forces.

CHAPTER IV

South Asia and the Far East

DURING the first half of 1953, 12 nations in the South Asian and Far Eastern area were participating in the Mutual Security Program. Four of these nations—India, Pakistan, Afghanistan, and Nepal—are in South Asia. Eight are in Southeast Asia and the Pacific region—the Republic of China on Formosa, the three Associated States of Indochina, the Philippines, Burma, Indonesia, and Thailand.

If Communist expansion is to be halted, it is essential that these countries of free Asia, with their wealth of human and material resources, continue to be allied with the free world. In varying degree, they all face grave threats to their freedom and independence. The Communists have been waging open warfare in Korea and Indochina, while fostering militant subversion—armed and unarmed—in other parts of the area. In most of these countries, too, there is pervasive discontent, which can at any time flare up in violence and revolt. While free Asia thus offers fertile ground for communist aggression, it also presents a challenge for effective action by the rest of the free world. The Mutual Security Program is the American response to that challenge.

The general instability and critical difficulties of the area are a product of numerous, complex factors. Most of the governments are newly independent and consequently inexperienced. There is an acute shortage of trained and educated personnel, both in private and public operations. Capital equipment is inadequate and obsolete, and outmoded techniques keep productivity low. Maldistribution of income produces dangerous extremes of poverty and wealth. There is insufficient domestic or foreign private investment, with little prospect of near-term increase in the rate of capital formation. Country development is unbalanced and characterized by reliance on a

few major exports so that national economies are at the mercy of fluctuating world markets. Chronic food shortages bring recurring crises, and many countries cannot fill their import requirements for rice and other food grains.

The solution to these basic and multiple problems is not found in quick cure-alls or magic nostrums but in persistent and well-planned cooperative effort. The burden of such effort is being shouldered primarily by the Asian countries themselves, but the United States, under the Mutual Security Program, is doing much to remove bottlenecks and fortify the chances for ultimate success. The free world needs a strong, free Asia.

Mutual security programs are speeding progress and promoting stability in a variety of ways—by providing the technical advice and material aid needed to do specific jobs; by helping to develop local trained leaders and technicians; by demonstrating methods to raise food production; by making available advanced medical knowledge and providing critical drugs; by helping to plan and install adequate public services; by showing how to improve educational methods, budget practices, and tax systems. Mutual security programs are also aimed at creating more favorable conditions for private investment, both foreign and domestic. In short, the aid program serves as a catalyst, making possible the more effective utilization of a country's own resources through its own efforts.

In certain countries of the area—Indochina, Formosa, the Philippines, and Thailand—the Mutual Security Program is strengthening military and internal security forces by providing necessary equipment and training. Economic and technical assistance measures contribute directly to this objective by helping to build firmer economic

foundations and develop political and social stability.

The area as a whole, as well as individual countries, must be strengthened. Critical shortages of food and other essential materials can only be met through an increase in production and trade. By expanding trade among themselves and with the rest of the free world, these countries can contribute to one another's development. The loss of prewar trade with China, makes Japan, in particular, dependent upon the countries of South and Southeast Asia for essential materials and markets. The Japanese can, in turn, supply capital equipment and technical skills which these countries require for their development.

requirements and the opportunities for regional development.

Supplementing Free Asia's Resources

On the military side, in the first 6 months of 1953, materiel valued at \$390 million was shipped from the United States to the nations in the Far East receiving military assistance. From the start of the military assistance program in this area in 1949 to the end of June 1953, a total of \$1,626 million worth of aid had been programmed. By the end of June, \$974 million worth had been shipped. In addition, offshore procurement contracts of nearly \$38 million have been placed by the Department of Defense in Japan and Formosa for military materiel.

During the 6 months ended June 30, 1953, the total value of Mutual Security Program expenditures for defense support, and economic and technical assistance in the Far East and South Asian area, was \$130 million. Expenditures since the beginning of this program in June 1950, totaled \$391 million.

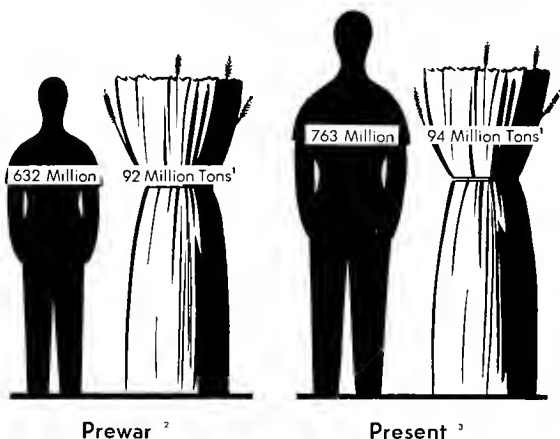
Indochina.—For over 6 years, the forces of the French Union and the national armies of the Associated States of Indochina have been fighting a bloody but indecisive war against the Communist-reinforced Viet Minh aggressors. France has incurred heavy losses of her officers and men. The French Government has been spending over \$1 billion a year to support the exhausting and difficult military campaign, but it cannot shoulder the entire cost without adversely affecting France's military contribution to the forces in Europe.

The defense of Indochina, an important gateway to the vast resources of Southeast Asia, is a matter of grave concern to the whole free world. Since France cannot fulfill her commitments both in Europe and Asia without outside assistance, the United States is providing needed weapons and equipment to the non-Communist forces in Indochina.

Military assistance to the armed forces of the French Union and the Associated States continued on a high priority basis during the first 6 months of 1953. Deliveries during this period included large numbers of vehicles, artillery pieces, communications equipment, landing craft, and certain types of vitally required aircraft

Production Of Rice—Mainstay Of The Asian Diet—Has Not Kept Pace With Population Growth

(Data refer to non-Communist countries of South Asia and the Far East)



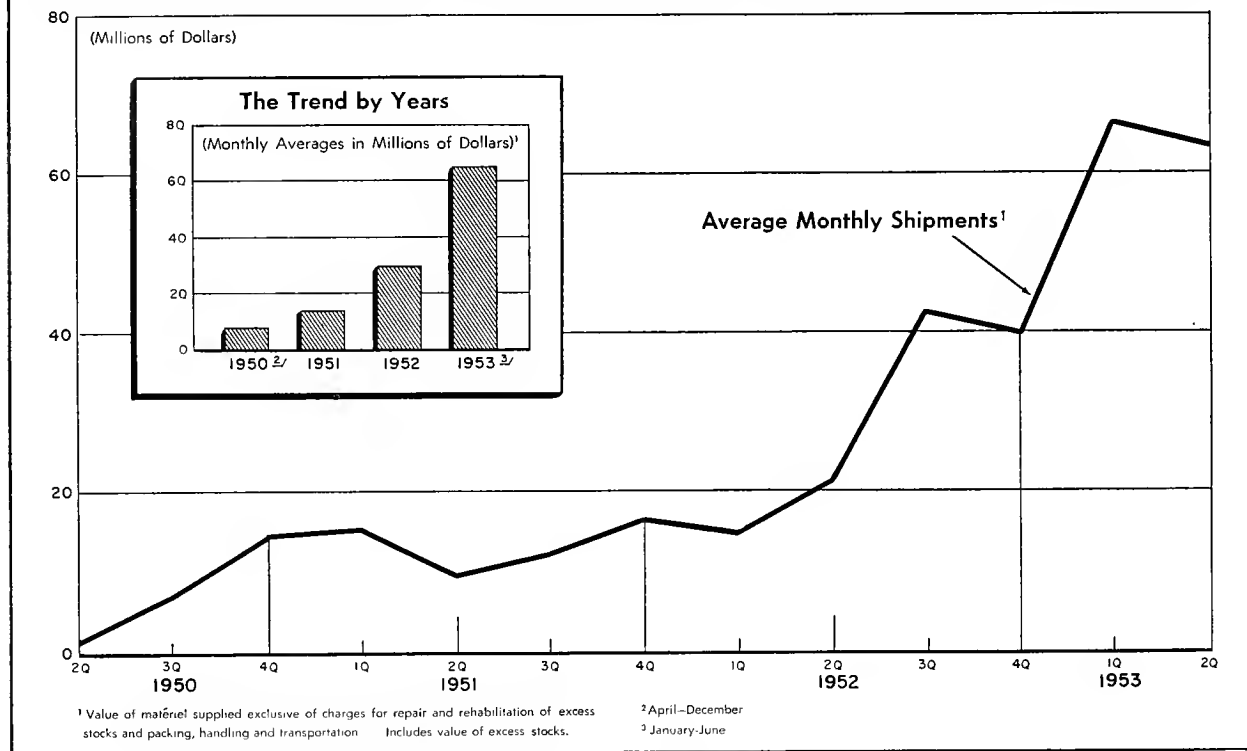
¹ Metric tons of rough rice

² Population—1938, production—average for crop years 1935-36-1939, 40

³ Population—1952; production—average for crop years 1950-51-1952/53

The inexperience of most Asian governments in the field of economic planning, their preoccupation with pressing internal problems, and lack of stable economic ties with one another in the past combine to retard a coordinated regional effort. As the governments gain in experience and knowledge, however, greater progress in this direction may be anticipated. The United States is prepared to support efforts along this line. In the meantime, our bilateral assistance to each of the participating countries takes into account both the

Military Aid Shipments Were Accelerated To Meet The Critical Situation In The Far East



The monthly rate of shipment was almost double the average for 1952. These shipments, and their effect upon military operations, have been of major importance in improving the critical military situation in Indochina and denying Communist ambitions for control of all Southeast Asia. However, victory is far from won.

Additional emphasis is being placed on building up the national armies of the Associated States. In the struggle to prevent the Indochina region from being overrun by Communist might, the assistance of French Union military forces, in terms of men, equipment, and training, has been indispensable to the development of these national armies. In time, however, the Indochinese forces should be able to take over a larger share of the burden of protecting their fellow countrymen from Communist attack. As the local forces become stronger, the French will increasingly be able to transfer from Indochina to Europe the trained officers and men who are much needed for the buildup of NATO forces.

Despite the substantial assistance of France

and the United States, the Associated States are obliged to strain their resources to the utmost in order to finance their military effort. Vietnam, largest of the three states, is now spending about 70 percent of total budgeted funds on its armed forces.

In addition to weapons and material, the Mutual Security Program has provided also a substantial amount of dollar aid for defense support to the anti-Communist forces. Transport and communication projects, for example, while useful for the civilian economy are currently essential to the conduct of military operations. The total road mileage in the strategic Tonkin Delta reconstructed or repaired with United States assistance was considerably expanded during the first half of 1953. Airfields and waterways were improved, and construction was continued on warehouses and port facilities.

To relieve the military authorities of responsibility for the care of war-tossed refugees, the United States continued to provide food, blankets, medicines, and material for temporary housing.

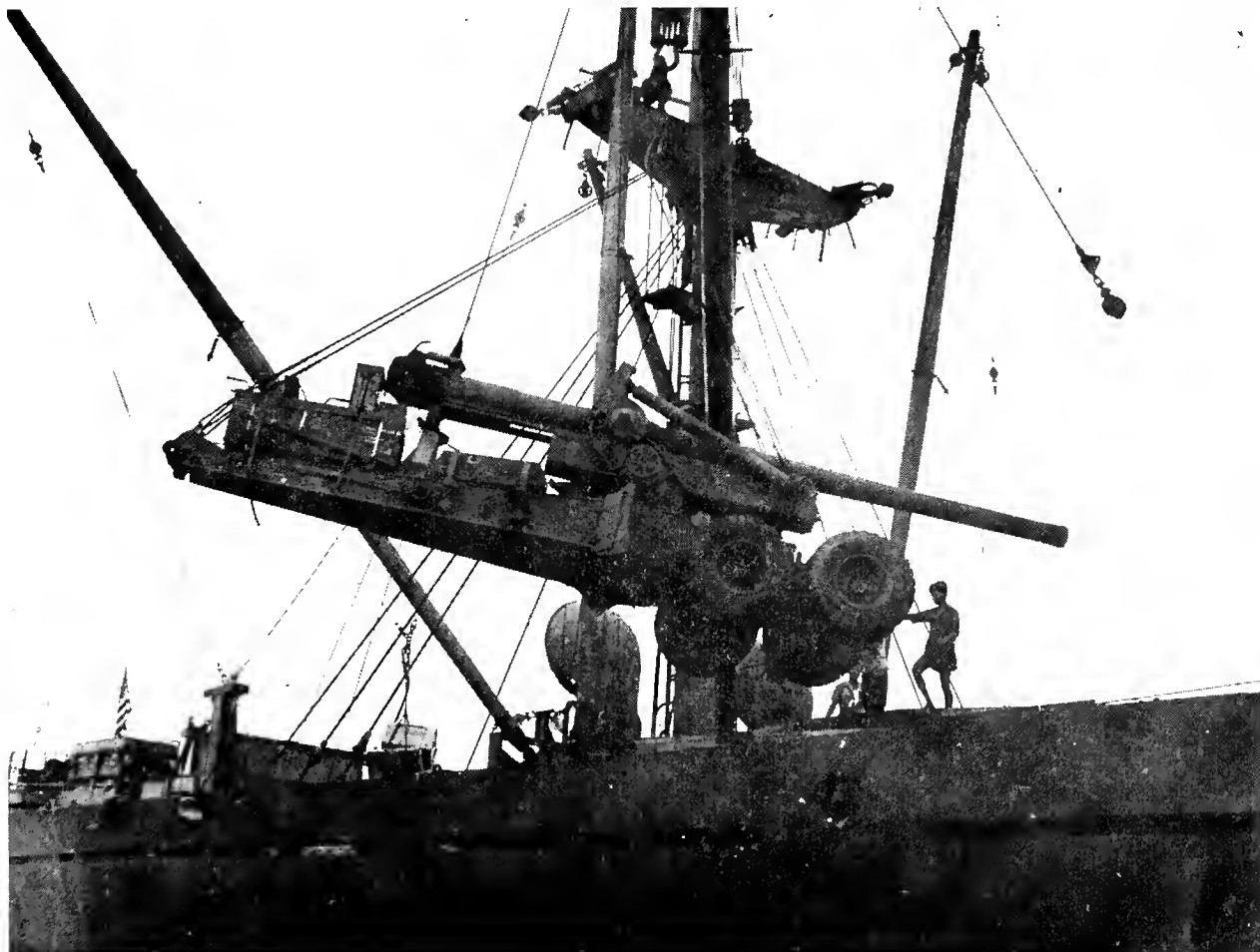
In the past 6 months, the United States also assisted the government of Vietnam in resettling 5,000 war refugees on 75,000 acres of idle land in the southern part of the country.

Early this year, the United States undertook to help establish a pilot project at Dong Quan in the Tonkin Delta, under which some 25 rural villages are to be regrouped into a single fortified center. This project is designed to prevent Viet Minh raiders from extorting food and conscripts from the defenseless farming population. If Dong Quan is successful, similar defensible centers will be built which will not only improve the difficult life of the villagers but will also weaken the military potential of the Communists.

Technical and economic assistance is increasing the effectiveness of public services and helping the governments in the three Associated States to

gain greater popular support. American medical experts and supplies have been made available to assist the local public health authorities. This aid has made it possible to extend protection against malaria to over a million people, to treat 180,000 victims for the blinding eye disease of trachoma, to equip 1,800 first-aid dispensaries in rural areas, and to sink hundreds of deep wells which provide safe water and reduce the parasitism which plagues the farming population. Assistance has also been given to the Associated States' campaign against illiteracy. This campaign has been highly successful in refuting the Viet Minh charge that the non-Communist governments are anxious to keep the people in ignorance.

In the 6-month period, the integrated program to aid agricultural production was continued. Fertilizer was distributed on a demonstration



A 155-mm. rifle being unloaded at the port of Saigon as part of the military assistance program to aid in the defense of Indochina.

basis to over 270,000 farm families, irrigation works were extended, rice storage facilities were built, and more productive strains of rice seed were developed.

Formosa.—It is in the interest of the United States to develop the military capabilities of the Republic of China on Formosa. The Mutual Security Program accordingly is furnishing military equipment and training assistance to the armed forces of the Chinese Government. This military aid program has materially helped to improve the combat efficiency of the Nationalist military establishment.

Progress toward the military goals of the Republic of China was greatly accelerated during the first half of 1953 by deliveries under the Mutual Security Program of aircraft, vehicles, and communications equipment. A successful effort was made to increase standardization both in materiel in use and in the local production of ammunition.

A United States Military Assistance Advisory Group has not only supervised the supply of needed equipment but has also helped to provide military training, to reorganize the Chinese Nationalist armed forces and to plan the defense of Formosa.

To complement the military end-item and training aid, the Chinese Government also receives defense support from the technical and economic

assistance program. Direct assistance is provided in the form of United States-financed imports of food, petroleum, engineering equipment, and medical supplies. Under this program, too, dollar funds are made available for projects recommended by the MAAG, primarily the construction of roads, bridges, storage facilities, and barracks. Counterpart funds, derived from the sale of commodity imports financed under the Mutual Security Program, are used to defray the local currency costs of these logistical support projects.

Chinese arsenals, rehabilitated in part with United States assistance, now are being used to manufacture small arms and ammunition. The proceeds from current contracts under the offshore procurement program, valued at \$5.8 million, are being controlled carefully so that they will finance additional supplies of raw materials needed for further production.

The cost of maintaining the existing military establishment, with armed forces of all types totaling about 550,000 men, results in expenditures amounting to 63 percent of the combined national and provincial government budgets. The Chinese Government requires counterpart assistance to cover budgetary deficits arising from the high cost of maintaining its military forces.

Economic and technical assistance measures also build up the capabilities of the Chinese Government on Formosa by helping to develop economic stability and increase the capacity for self-support through planned development of Formosan industry and agriculture.

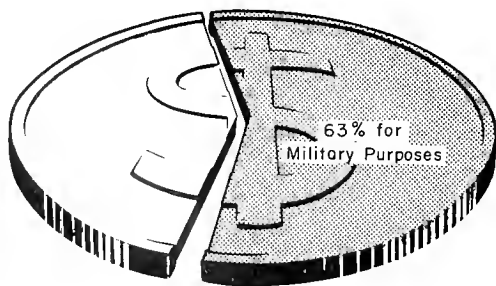
The maintenance of economic stability has been facilitated by the improvement of the economy in general in terms of increased production and higher exports. Certain basic weaknesses, however, still exist. Although export earnings have gradually increased, there is still a considerable gap between receipts and import requirements. Production facilities remain inadequate to support the present population. The economy is still vulnerable to inflation, and the price structure is highly sensitive to supply shortages. The economic stability thus far achieved is consequently only precariously maintained.

Despite the delicate internal balance, development of industry and agriculture, planned with a view to achieving ultimate self-support, has moved forward steadily. In the field of agriculture,

Military Costs Absorb Almost Two-Thirds Of Chinese Government Expenditures

Consolidated National and Provincial Government Finances

1953



\$132 Million¹
(In Dollar Equivalents)

¹ Converted at the rate of one U. S. dollar = \$15.65 new Taiwan dollars.

dollar and counterpart funds have been used to finance the program of the Sino-American Joint Commission on Rural Reconstruction (JCRR), designed to increase crop and livestock production, improve farmers' living conditions, and support and strengthen local agricultural services. Increased application of fertilizers, made possible largely by United States financing, has been a major factor in achieving increased production of principal agricultural crops, such as rice. During 1953, the local fertilizer distribution program is being expanded in a drive to raise rice production to 1.7 million tons, a figure which tops by 20 percent the peak achieved before the war.

During the first half of 1953, the JCRR played an important role in initiating the third and final phase of the comprehensive land reform program. After helping to carry out rent reduction and the sale of public lands, which constituted the first two phases of the program, the JCRR is now actively engaged in helping to train thousands of workers to perform the complex task of equitably transferring some 400,000 acres from private landlords to tenant farmers.

Philippines.—Military commitments of the Philippines include those which pertain to preservation of its own internal security and those assumed under the United Nations and the mutual defense treaty with the United States. Military aid has made it possible for the armed forces of the Philippines to suppress in large measure the Huk insurrection which has been aided and, in part, led by Communists. The final elimination of armed dissidence, however, depends upon improved conditions in rural areas.

The Philippine Army maintained one battalion combat team in Korea. The Philippine Navy adequately supported this expeditionary force and also performed creditably in disaster relief and rescue missions. The capabilities of the Philippine Navy, with regard to performance of its Coast Guard functions, increased materially with United States deliveries of Coast Guard patrol craft.

To finance the buildup of its military establishment and to defray the cost of extended operations against the Huks, the Philippine Government has increased military appropriations from the equivalent of \$52 million in 1950 to \$91 million in 1952.

In providing assistance to the Philippines, the United States seeks to encourage and support the government in carrying out needed economic and administrative improvements. An essential prerequisite to the most effective use of American aid is the formulation of an overall development plan. During the first half of 1953, the Philippine Government, with American advice and assistance, directed the National Economic Council to undertake a revision of existing, incomplete development plans and, with the aid of counterpart funds, provided the support which the Council needed to initiate the task.

The past 6 months also saw marked progress toward increasing food production, primarily rice and corn. Distribution of fertilizer to 85,000 small food crop producers was completed; three government seed farms, rehabilitated with American assistance, produced 75,000 pounds of improved seed. Work progressed on 5 gravity irrigation projects, designed to irrigate 215,000 acres. Nine pump irrigation systems, each capable of watering 700 acres, were installed and construction of 20 more undertaken. These varied but complementary activities have aided so materially in increasing production that this year, for the first time in recent history, the Philippines has attained virtual self-sufficiency in rice and corn.

The Mutual Security Program is assisting the Philippine Government to open public lands to orderly settlement and thereby reduce the pressure of population on overcrowded rural areas. In the past 6 months, land survey teams, trained and equipped under the Mutual Security Program, classified 200,000 acres and allocated 20,000 farm and 1,000 urban lots.

To help the farmer retain a fair share of his increased production, 14 rural banks offering low-cost credit were capitalized with counterpart funds, and 3,000 farmers were organized into credit co-operatives during the first half of 1953. Similarly, to help the worker obtain an equitable return for his labor, American technical experts assisted in drafting the new basic labor law which establishes the right of employees to organize freely and bargain collectively.

During the past 6 months, United States-financed surveys of coal and mineral resources were stepped up and resulted in the discovery of numerous deposits suitable for economic development. A peso industrial guaranty and loan fund

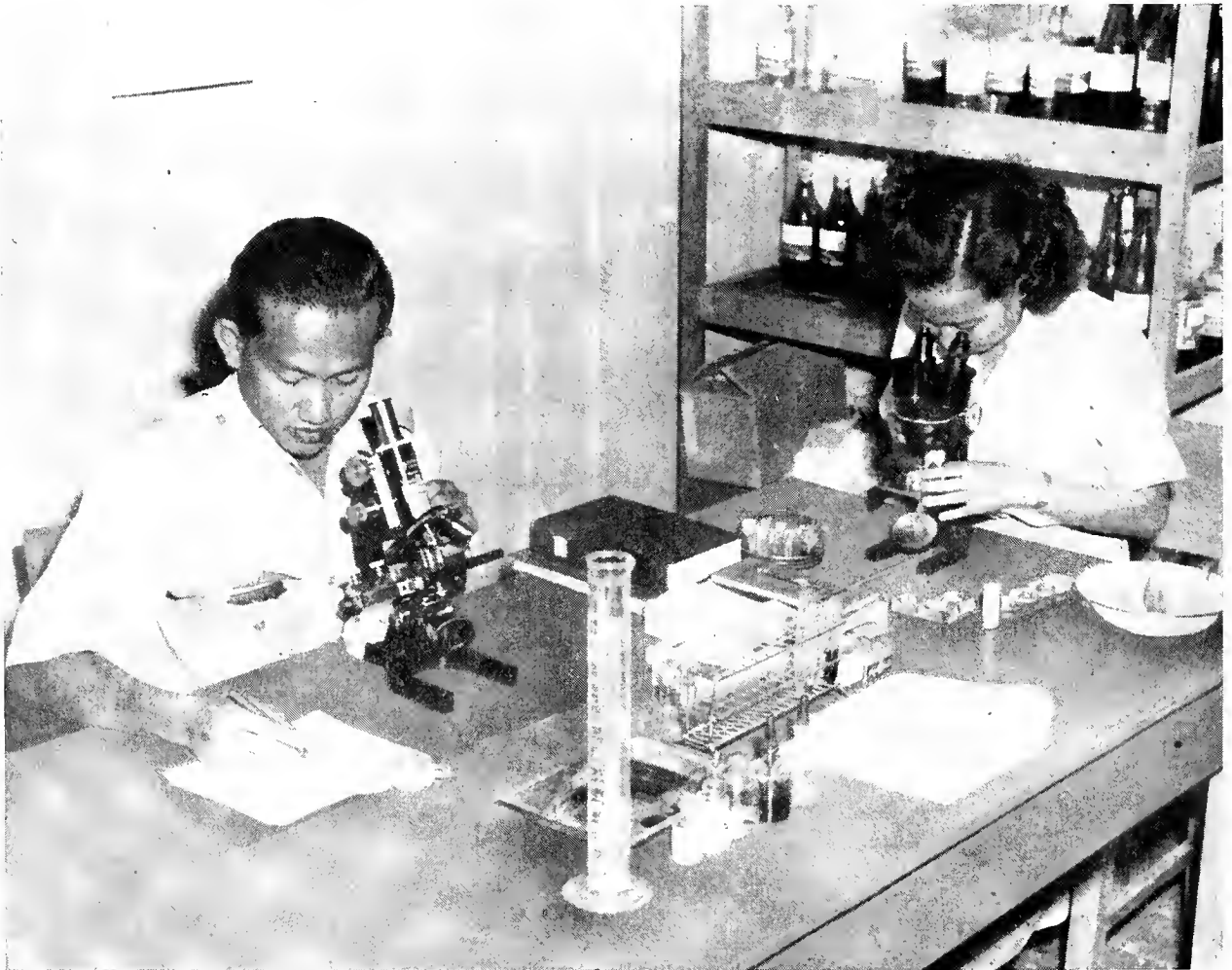
equivalent to \$5 million, began operating to stimulate Philippine private investment through long-term industrial loans by commercial banks.

Despite these accomplishments, much remains to be done if long-standing economic and social ills, aggravated by war and insurrection, are to be corrected. A more equitable system of land tenure is needed to allay agrarian unrest, while food production must be constantly expanded to keep pace with the growing population. Permanently enlarged sources of revenue, adequate to cover needed increases in expenditures for public services and for defense, must be found. Planning and administration must be further improved, and the climate for foreign investment made more

favorable if the Philippines are to realize their economic potential.

Thailand.—The invasion of the state of Laos by the Communist-reinforced Viet Minh forces in April 1953 posed a potential threat to Thailand. High priority was given to the shipment of United States military equipment to combat this menace. Materiel delivered during the first 6 months of 1953 enabled Thailand to continue the process of modernizing its ground forces and training its small but efficient air arm.

The Royal Thai Air Force is a striking example of the utilization of military aid equipment. For example, from 1947 to 1950, the entire air force averaged 1,500 hours per year flying time, but in



Thai technicians studying ways to combat liver fluke infection. An estimated 1,500,000 people in northeast Thailand are infected with this parasitic disease. Parasitic infection control units are being set up in the area with American technical advice and material help.

1951 and 1952, it flew 48,000 hours per year or an increase of over 3,000 percent. Military assistance from the United States helped the Thai to maintain one battalion of troops in Korea under the United Nations Command.

The Thai Government is devoting an increasingly large share of its revenues to improving the combat efficiency of its armed forces. In 1953, the equivalent of \$107 million, or approximately 36 percent of total national budget expenditure, was set aside for this purpose. The recent stepping-up of Communist activity in Southeast Asia may obligate the Thai to devote even greater sums to national defense.

A large proportion of aid funds for Thailand has been spent on various measures to increase food production. During the past 6 months, the first phase of the extensive rice-breeding project, initiated with American aid during 1951, was virtually completed. Almost 150,000 selections of rice strains have been made since the inception of this project, and a large number of these show increases in yield of as much as 50 percent above standard varieties. These more productive strains have now been chosen for multiplication and will be available for distribution in 1954.

The Mutual Security Program has supplied technical assistance and equipment for a series of irrigation projects which have already brought 150,000 additional acres of land under cultivation. The first 6 months of 1953 saw the successful completion of ditching and diking projects, and of pump installations in several areas.

With United States assistance in the form of technical advice, sprayers, and DDT, the Thai Government is carrying out a comprehensive program designed to eradicate malaria. During the past 6 months, the scope of this program was broadened to provide protection to 3 million people. Increased emphasis was also placed upon training so that sufficient personnel will be available to staff the expanded public health service.

In the field of education, the United States is helping to expand the facilities of the Technical Institute established last year, so that enrollment can be increased almost tenfold over the level of June 1953. Equipment and technical advice on training courses also have been provided for Thailand's trade schools.

The Thai Government is taking active measures to develop the country's resources. During the past years, increasing amounts have been appropriated for development projects entirely self-financed. The 1953 budget provides triple the amount spent for such investments in 1949 and earmarks particularly large sums for railroads, highways, and power developments.

Counterpart Funds.—The foregoing four countries deposited the equivalent of over \$220 million in their local currency counterpart accounts between June 5, 1950, and June 30, 1953. Withdrawals from these special accounts are made for purposes mutually agreed upon by the United States and the depositing country. Local currencies equivalent to nearly \$215 million were available for financing counterpart programs within these countries, following the transfer of the equivalent of about \$7 million to the account of the United States to meet certain overseas costs incurred in administering the aid program.

The Mutual Security Agency, through June 30, 1953, had approved the use of approximately \$180 million of counterpart funds for these Far Eastern countries.

In Formosa, about 43 percent of counterpart funds has been released for the procurement of military materiel and the construction of military installations. Major non-military uses of counterpart have included \$19 million for the operations of the Joint Commission on Rural Reconstruction (JCRR), \$19 million for agricultural development, \$7 million for power facilities, \$6 million for highways, and \$5 million for development of manufacturing and mining.

In the Associated States of Indochina, counterpart totaling over \$23 million has been released for a wide variety of projects. Over \$5 million has been used for highway reconstruction and development, and a like amount for public administration. Other major projects include agricultural development, public health, and low-cost housing.

Philippine counterpart funds have been earmarked in large part to finance agricultural development. Other major purposes for which counterpart has been utilized include construction of highways, industrial development, improvement

of government services, low-cost housing, and general public works.

In Thailand, counterpart funds have been used mainly for agricultural development and public health programs. Counterpart funds have also been released to finance the development of mining and to improve and expand educational facilities.

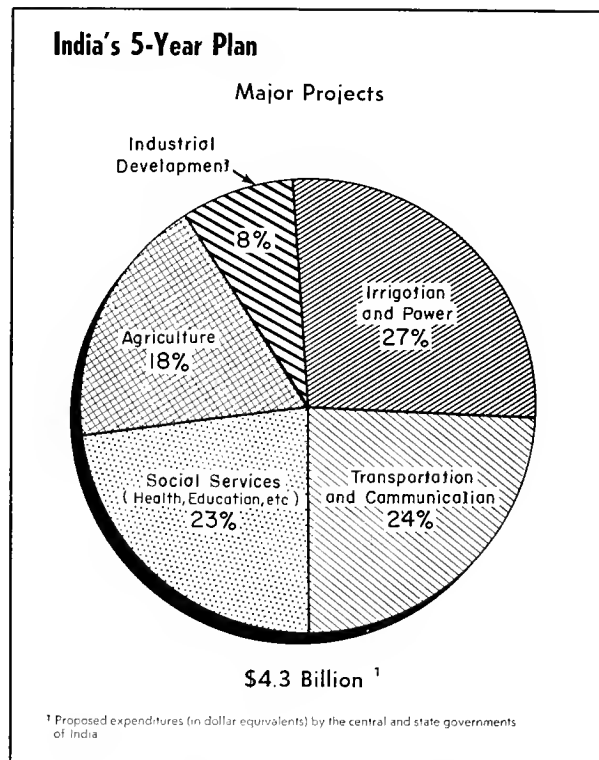
India.—The democratic way of life is today undergoing perhaps its most crucial test in India. Here we have, on the one hand, the largest self-governing nation in the free world engaged in a great effort to lift its millions onto a higher plane of social and economic life through the concept of democracy and the ways of freedom. On the other hand, in direct competition next door, so to speak, Communist China professes a similar effort toward progress but through the concept of totalitarianism and the ways of the police-state.

This rivalry in method and ideals between the two largest countries in the world directly affects the lives of some 800 million people, almost a third of the world's total population. It is inevitable, therefore, that the ultimate outcome will bear heavily upon all mankind, including ourselves.

India is presently striving under its first 5-year plan to reach a set of minimum development goals by 1956. These goals are concentrated primarily on agricultural requirements, but other economic needs are taken into account. Development plans call for more intensive and efficient use of water resources for agricultural production, and power generation for industrial expansion. Railways and port facilities will be extended. Existing manufacturing plants will be modernized, and new plants constructed.

India's 5-year plan proposes an expenditure of roughly the equivalent of \$4.3 billion by central and state governments. Private industry and private individuals are expected to invest the equivalent of another \$3 billion in economic development activities. This is a sum which imposes the most severe strain on India's economy.

Achievement of the 5-year plan will not automatically bring satisfactory living standards to all India, but it will lay a sound foundation for progressive development of the country's economy. It will give the Indian people the strength and hope they need to continue the struggle for more than just marginal subsistence levels. Success of this plan involves demonstrated success of the demo-



cratic method as the right way to greater progress for hundreds of millions of Asians.

Village improvement is a major phase of India's development plan, and United States technical cooperation is centered around this concept. For the fiscal years 1952 and 1953, a total of \$11 million in United States funds and about \$80 million in Indian rupees have been obligated for community development work. Out of 124 American technicians in India at the close of the fiscal year, over half were working directly with more than 1,000 Indian associates in village improvement projects. These projects are introducing more efficient agricultural tools and techniques, building schools, laying down farm-to-market roads, digging wells, installing sanitary sewage disposal systems, and opening new farm cooperatives.

In a typical village community, about 100 villages are grouped together in a development block which takes in about 50,000 acres and 100,000 people. In the fiscal years 1952 and 1953, over 160 of these development blocks were initiated, encompassing over 16 million people.

A field report from Nayagarh, Orissa, gives a microcosmic picture of India's village development program: "In five of the villages, drains have



Water for India's campaign to grow more food comes from this new tube well, financed in part by the Indian Government and built with the assistance of American technicians.

been dug for the village streets; hundreds of cartloads of earth hauled in to grade the street; every family has dug a compost pit; a small dispensary and a library have been established. The villagers are working toward a goal of sowing 100 percent of their rice crops with new varieties."

The productive efforts of villagers like these to improve their standard of living are the result of the spirit and teamwork flowing out of Indo-American technical cooperation.

American experts are advising the agriculture departments of the state governments on methods for improving cultivation techniques and raising agricultural productivity. As a result of seed and fertilizer demonstrations, rice production in one development area is already $2\frac{1}{2}$ times last year's level.

River-valley development projects are increasing irrigation and expanding power-generating capacity. The projects which the United States is already aiding with technical advice and construction equipment will bring 3.7 million acres of land under irrigation and provide power capacity of 325,000 kilowatts by 1956. This will mean almost 2 million tons of food added every year to India's domestic supply.

The United States is participating in a program to provide over 2,000 irrigation wells, averaging 300 feet in depth. These wells are being drilled under a program to irrigate a land area of 640,000 acres in the region of the Ganges Plain. This type of irrigation will bring an estimated increase of 480,000 tons in food-grain output.

The United States is also providing India with

needed fertilizer, iron and steel for farm tools, DDT for malaria control, and essential medical supplies.

Pakistan.—The Government of Pakistan is planning to improve the present critical agricultural situation and lay a foundation for future basic industrial development along lines suited to the country's requirements.

One method of achieving these purposes is through the establishment of agricultural-industrial development centers to train village-level workers in such fields as vocational agriculture, environmental sanitation, and village industry. These workers will then operate as extension personnel in surrounding areas to impart improved methods and techniques to the Pakistani farmers. It is hoped to have workers servicing about 10 percent of all Pakistan's villages by mid-1954.

Training centers are being established in both East and West Pakistan. Village leaders in the northwest frontier province have already begun their training, and American technicians assigned to the centers have helped lay the basis for further expansion of the village development program.

Fertilizers are vital to any substantial increase in crop yields. The United States has shipped 13,000 tons of artificial fertilizer to Pakistan under the 1952 program, and shipments under the 1953 program will total 75,000 tons. This additional fertilizer will add at least 170,000 tons of food grain to Pakistan's next food crop.

Locust control work has been extremely effective in reducing locust damage to food crops. In addition to spraying from planes, American technicians, supplemented by hundreds of Pakistani volunteers, have assisted the ground-control operations of the Pakistan Government.

Pakistan presently is facing serious economic difficulties. Foreign exchange reserves have declined 60 percent in the past year. Two crop failures in succession have brought the imminent danger of widespread famine and caused the government to turn to outside emergency aid. In the fall of 1952, the United States made a \$15 million loan to Pakistan for the purchase of wheat.

Continued damage to crops, however, resulted in even heavier demands for food imports in order to avert starvation and the possibility of a govern-

ment breakdown. To help the Pakistani people through their time of crisis, the United States Congress authorized the President to make available up to 1 million tons of surplus wheat. About 700,000 tons are being furnished immediately on a grant basis. Disposition of the remainder will depend on the future situation. The first shipment was dispatched on June 26, and every effort is being made to expedite transportation of the balance.

It has been provided that the grant wheat will be distributed without discrimination and without cost to those who are unable to pay for it. The Pakistan Government has proceeded to give full publicity in Pakistan to the objectives and progress of the aid program and to carry information to the people of Pakistan that this program is evidence of the friendship of the people of the United States for them.

Afghanistan.—The major phase of Afghanistan's development program is a project to develop the irrigation and power potential of the Helmand River and its tributaries. The construction of two high dams and other works is being carried on by an American engineering and construction firm. To finance the project, Afghanistan has expended \$17 million of its own funds and has borrowed \$21 million from the Export-Import Bank. The United States contribution was the cost of providing the services of 10 technicians for a 2-year period.

Major phases of the dam construction program have been completed, and water is already being stored. Afghanistan now faces the problems of organizing nomads for community life, of teaching efficient irrigation and farming techniques, of establishing health, education, and processing and distribution systems. Because Afghanistan has only a handful of men trained for this work, the Mutual Security Program has provided a team of specialists to help the country in its planning and surveying problems.

Under the Mutual Security Program, the University of Wyoming has sent a director of vocational agriculture and three instructors to the agricultural school in Kabul. Thirteen Afghans in turn were brought to the United States for training at the university in the fields of agri-

culture and engineering. American technicians are also helping to increase Afghanistan's coal production and develop its mineral resources.

Burma.—The government of the Union of Burma on March 17 notified this Government that it did not desire further United States aid after June 30, 1953. In asking for the termination of additional aid, the Burmese Government put on record its gratitude for the materials and services furnished by the United States under the Mutual Security Program, and expressed its appreciation of our help in implementing Burmese rehabilitation measures. No new funds have been requested for this program for fiscal year 1954.

Under a joint Burmese-American plan to close out the program in an orderly fashion, project agreements under which no activity had begun were canceled. In order to complete those activities in which inordinate waste, or dissipation of material progress achieved, might be caused by complete withdrawal of United States participation on the specified date, projects which can be completed without further ordering of substantial equipment are being continued.

With United States economic and technical assistance, Burma has made good progress toward increasing its rice production. Milling processes have been improved, and storage facilities have been made more efficient.

Rehabilitation of the key port of Rangoon has been a major accomplishment of the assistance program to Burma. The United States has supplied the necessary engineering advice and critical supplies for this restoration project. Not only has the port been largely rebuilt and improved, but a large pool of skilled workers has been trained.

In the field of public health, malaria and other rural health problems are under vigorous attack over a wide area.

Indonesia.—The present rice shortage is a major threat to Indonesia's economic and political stability. In recent years, Indonesia has had to import an average of 500,000 tons of rice annually to feed her 80 million people.

The technical cooperation program is assisting in several ways the Indonesian Government's efforts to increase food production. Over 370,500 acres of riceland are being rehabilitated, and yields on 7,500 acres have already been doubled. American technicians are training Indonesians to

clear land mechanically, and to operate and maintain purchased equipment. American agricultural experts have demonstrated how hybrid corn can double yields, and are now working with the Indonesian Extension Service to show the Indonesian farmers how to get bigger crops. The program also is helping to develop better marketing techniques and improve food processing. Particularly encouraging progress was made in fisheries improvement. The Mutual Security Program enabled the purchase of 60 motorized boats, 50 to 60 feet in length, capable of going out 60 miles and keeping the catch fresh for 3 or 4 days. These craft were turned over to village cooperatives.

As a result of a project in ceramics production in Indonesia, workers' wages in one area have increased 50 percent in recent months, and a better product is being produced at lower cost.

Nepal.—In Nepal, the idea of agricultural extension and village development was new until about a year ago. This year, the first class of village workers in Nepal's own village improvement program—a miniature of the Indian program—finished their training and went into the field in five different areas of the country. The second class was about to graduate as this report was written.

It is planned to initiate a modern irrigation program in Nepal. United States assistance in demonstration and training projects will help to carry forward the drilling of tube wells to irrigate 8,000 acres and increase food-grain production by about 1,600 tons a year.

American technicians are also helping Nepal to combat malaria and develop its mineral deposits.

The Situation in Japan and Korea

Japan

Up to the present time, Japan has not participated directly in the Mutual Security Program. Yet the progress of all countries of the Far East is immeasurably influenced by the economic health and security of Japan. In recent years, almost half the value of Japan's commercial exports has been directed to the nations of South and Southeast Asia. In addition, Japan has

provided vitally needed supplies to the United Nations military forces in Korea.

Despite these existing links with the rest of free Asia, Japan has great reserves of technical skills and productive capacity which are not now being fully utilized in building the economic strength of the region. Although significant economic progress has been made since the end of World War II in rebuilding industries and restoring international trade, Japan's commercial exports during the first half of 1953 have been far below the level of a year ago. Sterling reserves are nearly exhausted. It has been possible to pay for increasing imports only on the basis of extraordinary dollar receipts. These receipts amounting to approximately \$800 million a year are derived from procurement for United Nations forces in Korea, the support of American security forces in Japan, and the purchase of yen by those forces for their personal requirements.

As this temporary source of funds begins to dry up, Japan will be faced with crisis, unless in the meantime greatly augmented foreign trade with the free world, and particularly with the developing nations of the region, has been fostered. At present, the level of this trade is held down by various factors including high Japanese costs, import restrictions throughout the free world, reparations stalemates, and lingering distrust of the Japanese.

In these circumstances, the United States Government should encourage Japan to formulate realistic and farsighted economic policies. To assist in the development of such policies, we are seeking careful programming of United States procurement in Japan, and are encouraging the growth of mutually beneficial trade and investment among the free countries of the region.

The Security Treaty between the United States and Japan, signed at San Francisco on September 8, 1951, recognized Japan's inability at that time to provide adequately for its own defense and granted to the United States the right to station its forces in Japan. The treaty also expressed the expectation that Japan would "increasingly assume responsibility for its own defense." In its national safety forces, Japan is creating a means to maintain internal security and order. The United States is following a policy of assisting Japan in the development of these forces for its own defense by providing certain types of

equipment which cannot be provided by the Japanese Government. In this connection, negotiations between the United States and Japan on a Mutual Defense Assistance Agreement under the mutual security legislation were commenced in Tokyo on July 15.

Korea

Even before the Communists attacked in June 1950, South Korea suffered severely from economic disorganization and underdevelopment. The North Koreans controlled most of the nation's industrial capacity. Three years of bitter warfare has caused enormous damage to housing, public building, transportation, communications, and industrial facilities. Agricultural production has been cut severely. Five million people have been swept southward, and many remain homeless in temporary camps. It is estimated that about 700,000 Korean men are either in the Korean army or engaged in military-support operations.

Bilateral aid has been extended to Korea by the United States, not as a part of the Mutual Security Program, but under a separate program, Civilian Relief in Korea, which was authorized by Congress in 1951 and has been administered through the Department of Defense and the United Nations Command. Under this program, relief goods valued at more than \$300 million have been provided by the United States.

UNKRA.—The United States has provided economic assistance to the Republic of Korea by contributions to the United Nations Korean Reconstruction Agency (UNKRA), which was established in December 1950 by the United Nations to relieve the sufferings of the Korean people, to assist them to repair the devastation caused by aggression, and to lay the necessary economic foundations for the political unification and independence of the country. The United Nations approved a \$250 million initial budget for UNKRA. Subject to congressional approval, the United States pledged \$162.5 million as its share and has contributed \$50.8 million. Continuance of hostilities deferred large-scale operations by UNKRA until January 1953, at which time UNKRA, in agreement with the United Nations Command, embarked on a program calling for the obligation of \$70 million by June 30, 1953, and contemplating a \$130 million program for the 12 months following that date.

UNKRA program obligations for the 6-month period ended June 30, 1953, have included approximately \$20 million for sustaining commodity imports of grain and fertilizer. Other obligations have been, for the most part, divided in roughly equal proportions among projects of economic assistance in the fields of education and health, agriculture and fisheries, industry, power, and transport. UNKRA's studies indicate that far greater economic assistance will be required in the

future to restore the Korean economy to the minimum basis under which the Korean people can survive as a free country.

A United States presidential representative recently surveyed the Korean economy to make recommendations with respect to additional economic assistance needed in Korea. These recommendations are now being considered in planning measures of economic assistance to the Republic of Korea.

CHAPTER V

American Republics

THERE has been little question regarding the necessity for close working relations between the United States and Latin America. Representatives of this Government and representatives of the Latin American countries, in general, have taken essentially the same position on outstanding political issues. Furthermore, the United States and the Latin American countries are participants in the oldest regional organization of which this Government is a member—the Organization of American States. This Organization had its beginning more than 60 years ago and has played a vital role in political, economic, and military cooperation among the American Republics.

The basic interests of the United States and those of the Latin American countries are rooted in common ground. Even greater cooperation would be highly beneficial to both areas; on the other hand, decreased cooperation would be prejudicial to the entire Western Hemisphere.

Latin America is today undergoing far-reaching political, economic, and social change. Life as it has been lived in the past is under heavy criticism as the position of the relatively small group which has heretofore controlled most of the wealth and power is being challenged. There is an increasing awareness on the part of a great body of the people not only of their depressed economic and social status but of their expanding political power.

An extreme nationalism is being nurtured in some countries by a deceptively misleading, though effective, dogma. This dogma holds that the Latin American countries are poor solely because they have been exploited ruthlessly by the more highly industrialized countries. The great disparity in wealth and power between the United States and Latin America makes our country a choice target for this type of insidious criticism.

Economic conditions in Latin America at the present time vary widely as between countries, but everywhere the lot of the bulk of the people is hard. In Latin America as a whole, per capita income is not more than one-eighth the per capita income in the United States.

Such circumstances are tailor-made for exploitation by the Communists who, though they constitute a relatively small part of the total population, exert an influence out of all proportion to their number in fomenting popular discontent. The Communists find it expedient and profitable to associate themselves with nationalist hopes and feed the fires of nationalist desires. They sow suspicion, discord and hate, hoping to reap chaos and ultimate control of governmental processes.

It is not surprising therefore that old institutions as well as time-honored concepts—even the concept of cooperation with the United States—are being subjected to question in Latin America. The political orientation of the Latin American countries and our ability to count upon their support in a divided world, as well as our ability to assist them, will depend to a major degree upon the extent to which they realize that mutual cooperation is in the mutual interest.

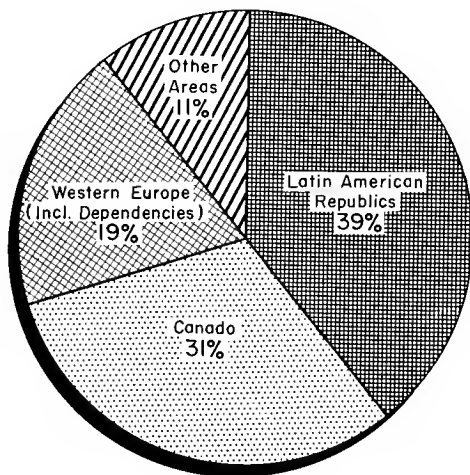
Our Economic Interdependence

The economic interests of the United States and Latin America are heavily interdependent. This is reflected both in statistics on private investment and in the flow of two-way trade.

Our direct private investments in Latin America amount to approximately \$5 billion. If investments in Canada are excluded, direct private United States investments in Latin America ex-

The Largest Share Of U. S. Private Capital Abroad Is Invested In Latin America

U. S. Direct Private Foreign Investment
1951, by Area



\$13.1 Billion

Based on latest available data

ceed those in all of the other countries of the world combined.

Approximately one-half of Latin American foreign trade is with the United States. In 1952, Latin America exported to the United States about \$3.4 billion worth of goods and imported approximately \$3.5 billion worth from the United States. Our imports in 1952 from Latin America accounted for approximately 32 percent of our imports from all sources; our exports to Latin America were equivalent to approximately 23 percent of our total export. In appraising the significance of these figures, it should be noted that virtually none of our exports to Latin America were financed by grant aid.

In addition to basic foodstuffs such as sugar and coffee, we obtained from Latin America many of the raw materials which are essential to our economy both in peace and war. Latin America is the major single source of some twenty materials on the United States stockpile list. Its dependence upon imports from the United States, however, is probably greater than our dependence upon imports from it. Latin America's exports to us provide employment for a large segment of its population. These exports also earn the dol-

lar exchange needed for the purchase of manufactured goods, foodstuffs, and capital equipment and for servicing dollar indebtedness and equity investment utilized in economic development.

As a part of a broad program to encourage participation of United States private capital in industrial development, a cooperative project is being undertaken on an experimental basis in selected countries in Latin America. Competent United States investment advisors are being sent to these countries to help them reduce local factors which retard the flow of investment capital and to explore existing investment opportunities.

Continued effort is being made to coordinate and bring into play all available facilities, both government and private, to promote the flow of investment capital. United States technical assistance can help provide a sounder basis for economic growth, but the flow of private capital to Latin America can stimulate and carry economic development far beyond the capacity of a technical assistance program and produce mutual benefits to all participants, both here and abroad.

Hemispheric Defense

The Latin American governments have become increasingly aware of the need to improve the effectiveness of their military establishments. They have been spending sizable portions of their own budgets on national defense, and they have continued to request and utilize the services of United States Army, Navy, and Air Force Missions to improve the state of readiness of their armed services. They have purchased from this country substantial quantities of arms with a view to modernizing their forces. They also have made purchases in countries other than the United States when we have been unable to meet their needs or to provide them as favorable terms of sale.

There is at present, however, a wide gap between the willingness of many of the other American Republics to share in defending the hemisphere and their ability to do so. They produce little modern military equipment. Their armed forces, in general, are not sufficiently large or properly trained and equipped to carry more than a part of the burden of protecting the hemisphere.

It was largely for this reason that during World War II it became necessary for the United States to station more than 100,000 troops in Latin America and to use our naval forces to guard installations and critical areas in the other American Republics.

The military grant aid and training programs for the American Republics are designed to strengthen Latin American armed forces so that they will be more capable of handling tasks which are vital to the security of the Western Hemisphere and which might otherwise require the deployment of United States military components.

Military assistance appropriations for the American Republics through June 30, 1953, totaled \$89.8 million. Of this amount \$79.9 million has been earmarked for procurement and delivery of materiel, \$1.7 million for training expenses, and \$8.2 million for the fiscal year 1954 program. Materiel valued at \$140 million (including value of excess stocks not charged against the military assistance appropriation) was programmed for delivery to Latin American countries as of June 30, 1953; the value of materiel shipped totaled \$65 million.

During the first half of 1953, military aid has been supplied to Chile, Colombia, Cuba, Ecuador, and Peru. In May and June, Brazil, Uruguay and the Dominican Republic were added to the list of countries eligible for military assistance when they ratified bilateral military agreements with the United States.

The Latin American governments are spending substantial sums of their own funds to support the forces included in the military aid program. They are defraying such costs as pay, rations, and uniforms. They have made or are making purchases of materiel to help equip these units. Such purchases by all Latin American countries through May 31, 1953, totaled \$58.9 million. The Latin American governments participating in the program also have agreed to pay the administrative expenses of United States military personnel assigned to their countries to direct the program.

The proportion of expenditures borne by the recipient countries is particularly large in the case of the navy and air forces. In spite of limited and obsolescent facilities, most of the Latin American countries have demonstrated that they

can maintain ships and aircraft, as well as other military equipment, in effective operating condition. A majority of the Latin American nations have taken active steps toward correcting deficiencies in training and organization by requesting and securing the assistance of United States military missions or advisors. It is expected that the training programs currently in effect under the guidance of United States military missions and advisors will be continued. To supplement the training we give abroad, spaces are being made available in service schools in this country for on-the-spot study of our military methods by Latin American military students.

The Technical Assistance Program

Latin America has the potential in terms of natural resources both to build a prosperous home industry and agriculture and to expand foreign trade. There are, however, a number of handicaps that it must overcome. In terms of present technology and the basic needs of an industrial society, Latin America is not well endowed. To a large extent, the geographical and physical environment of Latin America impedes economic development. The Andean mountain range, which lies athwart the length of the area, constitutes a formidable barrier to transportation and communication. Climatic conditions in many regions are unfavorable to optimum human production. Land and mineral resources in a number of countries of the area are limited.

Through the bilateral cooperative technical assistance program, United States skills are being sent to 19 of our neighboring American Republics¹ to help them solve their most pressing economic and social problems.

Spurred by a widening realization among Latin American leaders of the need for overall economic growth, the various phases of the cooperative technical assistance program gradually are being combined within the framework of a single broad effort toward total country development. Under

¹ These countries are: Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela.

this concept, the efforts of all technicians within selected areas of a country are being integrated, and each individual project is being fitted into a pattern designed to bring about a balanced development in the total economy of the country.

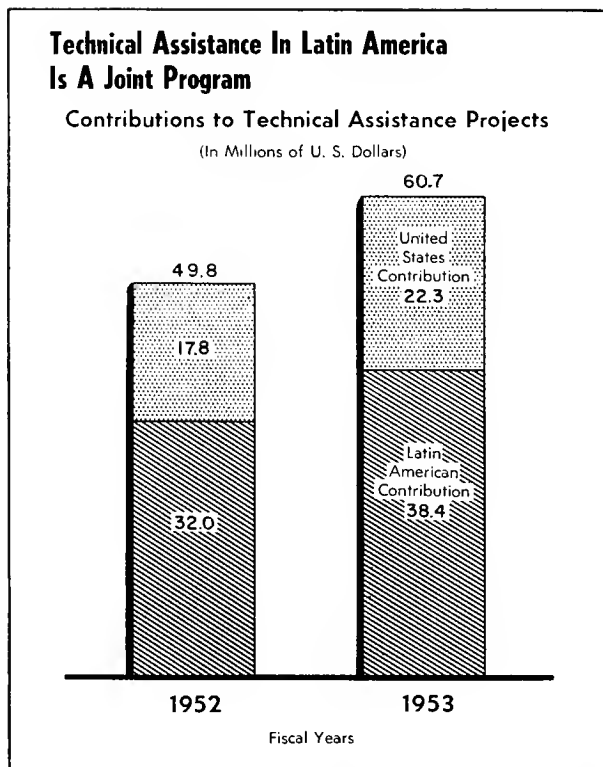
A significant factor in carrying out development projects is the large number of Latin Americans who have been trained as a part of the cooperative program. To date more than 3,000 doctors, nurses, sanitary engineers, laboratory technicians, agriculture specialists, industry and transportation specialists, educators, and other technicians have received training in the United States. Most of these professionals are now occupying responsible positions within their own countries in the fields in which they were trained.

In addition, approximately 20,000 Latin Americans have received on-the-job training within the program. Together these groups form a nucleus of skilled Latin Americans around which broad regional development programs can be planned and put into effect. To supplement the efforts of these trained Latin American technicians, there are at present 665 United States technicians in the other Americas who are skilled in the know-how that has been developed in this country.

All technical assistance activities emphasize self-help as the basis for any program. Projects must be cooperatively administered and financed. For fiscal year 1952, the total of the United States contribution towards the technical assistance program was \$17.8 million; the Latin American governments contributed about \$32 million. The United States contribution towards the fiscal year 1953 program will total about \$22 million. The commitments of the Latin American governments to match this will total about \$38 million.

Bolivia—A Typical Example of Technical Assistance.—Bolivia is one of the countries that illustrates the need for technical assistance on an area development basis. In the Bolivian highlands, averaging over 12,000 feet above sea level, little food has been produced in comparison with what is needed. Yet most of Bolivia's population live in this region, and here is where the country's extractive products—tin, tungsten, lead, zinc, antimony, and silver—are found.

The lowland districts of Bolivia, on the other hand, contain one-half the country's area, with large tracts of fertile land. Yet this region is



the most sparsely populated and the least developed region in the country. To those who had set out to make plans for improving Bolivia's total economy, it was evident that food production had to be increased to reduce the dependence on food imports; that transportation facilities had to be expanded so that available foodstuffs could be distributed more efficiently and equitably; that health, sanitation, and housing facilities had to be improved; and that better mining techniques had to be introduced to lower the cost of Bolivian production and locate new mineral sources.

A concerted attack is being made along a wide front to overcome these problems. Four agricultural extension offices have been established. These regional offices supervise the work of 18 branch offices and 24 national agricultural extension agents, all of whom have been trained by United States technicians at the regional extension and research centers. Advanced methods of cultivation, which increase production and reduce production costs, have been demonstrated. New and improved seeds adapted to local soils and growing conditions have been introduced. It has been demonstrated to the people themselves that the use of fertilizer can greatly increase the

yields of many crops, and that modern insecticides and pesticides can considerably decrease loss from plant insects and diseases. Purebred cattle have been brought into the country to bring about greater dairy and beef production. It is expected that large areas in the lowlands will be opened up for farming and colonization.

Bolivia has improved its medical facilities and hygiene with the assistance of United States technicians. Through the operation of 10 health centers, 3 dispensaries, and 3 mobile units serving over half a million persons annually, Bolivia has made good progress in reducing malaria, typhus, and intestinal diseases. United States technical assistance has been given to municipalities and schools in construction of water supply systems and installation of chlorinating equipment.

A program of industrial hygiene has been initiated in the mining districts to protect the miners against silicosis. Also in the mining field, research and tests have been carried on at two laboratories in the United States with a view to developing methods of concentrating and refining low-grade tin ores and tailings in order to reduce costs of production and increase workable Bolivian tin reserves.

Efforts in the educational field have been concentrated on improving elementary teaching and on making industrial education meet the needs of industry itself. A large new teacher-training center is in operation at Warisata, high in the Andes. Here a group of United States and Bolivian technicians are preparing prospective teachers who will be able to teach not only the 3R's but also health measures, the production, preparation, and processing of food, home improvement, and handicrafts. Thousands of children have been organized into 4-S Clubs, which correspond to our 4-H Clubs. The one industrial school in Bolivia has been improved with better equipment and teaching materials, and other industrial schools are being planned.

In the transportation field, 18 airport sites have been surveyed by our technicians, and the Bolivian Government now is independently negotiating contracts with United States firms to begin installations on several of those sites.

Thus the cooperative effort to improve national production and living standards in Bolivia has been moving in an orderly fashion. It has been initiated as a result of requests made by the

Bolivian Government for United States technical assistance. It has been carried on in accordance with agreements that carefully delineate what is to be done and what contribution each government is to make in both funds and personnel.

Brazil—Another Example.—Another example of broad planning and the interrelationship of diverse activities is found in the completed and successful work of the Joint Brazil-United States Commission for Economic Development, established in 1950 to assist Brazil in planning its long-range economic development program. The Commission was expected to complete its work shortly after July 31, 1953. The new Brazilian Economic Development Bank will take over responsibility for putting the plans into effect.

Following a general survey of Brazil's economy, the Joint Commission determined that railroad and highway transportation, power, minerals, agriculture, and shipping should be given priority, since they represent Brazil's fundamental needs. On the basis of technical studies, projects were selected in the specified fields, and loan applications were prepared and submitted to the Brazilian National Economic Development Bank for local financing, and to the International Bank for Reconstruction and Development or the Export-Import Bank of Washington for foreign currency financing.

The Joint Commission has given particular attention to the development of adequate power facilities, encouraging the development of hydroelectric projects. Emphasis also has been placed on the development and improvement of transportation facilities. Since the existing railroad and highway networks, for the most part, lead from inland Brazil to the coast, distribution of industrial and agricultural commodities is limited. To solve this problem the Joint Commission development program laid out farm-to-market road systems, terminal storage facilities, and improvements in railroads, ports, and coastwise shipping.

Cornerstone of the Commission's planning has been the selection of projects which would make the greatest contribution to Brazil's economic development based on that Government's ability to pay its own way. Each project has been developed on sound banking principles necessary to justify the loans the Brazilian Government is requesting. This country's participation in the program is solely that of making available United

States financial, technical, and engineering services.

Brazil's economic development will require participation by outside private investment sources. To expand its economy, the Brazilian Government will have to encourage additional private, local, and foreign capital participation.

Important gains are being scored on Brazil's health front. In the Amazon River valley, 56 centers and their subposts are available to serve an estimated 2 million people scattered over this immense area. Efforts have been concentrated on reducing malaria and infectious diseases that affect almost the entire valley population. As a result of these cooperative programs, the incidence of these diseases has been reduced drastically. When work on this project first began in 1942, there were 40 United States technicians working with 500 Brazilians. Today the work is being carried forward entirely by Brazilian staffs, most of whom were trained as part of the cooperative program.

Other Recent Progress

Activity in the fields of agriculture and natural resources, health and sanitation, and education was described in the previous Semiannual Report. Progress has continued in these fields and has made a significant contribution to the economic development of Latin America. During the past 6 months, increased attention has been given to activities which may be divided into four major categories: industry, transportation and communications, public administration, and specialized scientific and technical services.

Although diversified, projects in these categories are interrelated, and the program is so administered and planned that each project contributes to the broad objectives of the program.

Industrial Development.—A number of Latin American countries recently have shown a growing interest in raising their industrial productivity. Local industries are developing, and the demands for greater production are insistent. Yet industrial productivity levels generally are low, and the pace of development lags because there is not available locally in most areas knowledge of techniques necessary for optimum production.

Recognition of the need for industrial know-how and engineering techniques has led to specific

requests from Latin American countries for technical assistance, and industrial productivity Servicios have been established in Chile and Brazil.

These Servicios are jointly financed cooperative agencies, set up by Latin American government as bureaus within appropriate ministries, to carry out specific programs of assistance. Under the Mutual Security Program, there is a small United States field party of three to six technicians in each Servicio, and United States industrial engineering firms provide specialized technicians on a contract basis. As in other Servicios, the cooperating country pays a substantial share, usually more than half the cost of the program. The cooperative programs in the field of industrial productivity are directed toward assisting countries in which at least a moderate degree of industrialization has taken place.

To aid the less industrialized countries of Latin America, the United States has made available assistance which thus far has taken two main forms—economic surveys and aid to small industries. In some instances, requests have been received for basic surveys of a country's industrial potential. The United States is meeting these requests by contracting with private industrial organizations to make the surveys.

A field of activity with important potentialities is that of handicrafts and manual industries. In several countries of Latin America, the sale of handicraft articles constitutes an important source of income for portions of the population; in other countries, it is a potential though undeveloped source. Mutual security programs are aimed at helping to improve methods, designs, and tools without losing the local skills and traditions on which the handicraft arts are based.

Transportation.—Transportation facilities in much of Latin America are inadequate. The entire area, twice as large as that of the United States, has about one-third of our railroad mileage and fewer motor vehicles than the whole State of New Jersey. Shortage of farm-to-market transportation handicaps the movement of foods and other agricultural products.

The transportation program has been given renewed emphasis both to achieve fuller utilization of existing facilities and to provide new facilities to keep pace with other phases of the overall economic development programs. Active techni-

cal cooperation projects now in process and under consideration include road development in Mexico, Bolivia, Honduras, Costa Rica, Paraguay, and Brazil; railroad assistance in Brazil, Ecuador, and Peru; port development and shipping assistance in Peru, Costa Rica, Brazil, Haiti, Honduras, and Nicaragua; inland waterway development in Brazil and Paraguay; and civil aviation assistance in six countries.

Public Administration.—The main objective of the public administration program is to help the cooperating country, at its request, improve its administrative methods and techniques. Programs in this field are in effect in cooperation with the governments of the following countries: El Salvador, Costa Rica, Honduras, Panama, Colombia, Chile, Brazil, Mexico, Paraguay, and Uruguay.

In Brazil, our technicians are serving as consultants to the Brazilian Board of Advisors on Public Administration. This board of advisors is composed of 11 officials who represent federal and state governments, academic institutions, and the legislative branch. Its functions are to identify problems, to reduce them to projects, to assign priorities based on the importance of the projects to the development of the country, and to determine if there are sufficient Brazilian resources

available or if special external assistance should be requested.

In Chile, a United States advisor is working with a Hoover-type commission which has been established to study and recommend possible improvements in organization of the Chilean executive branch. In the other countries, a wide range of local projects is under way with the benefit of technical advice from United States technicians—for example, reorganization of state and city governments, establishment of civil service systems, and surveys of national health, welfare, and social organizations. By assistance of this type, government administration is being improved and economic progress accelerated.

Technical Services.—In addition to the foregoing activities, the program in Latin America includes technical assistance in census methods and statistics. Projects in these fields are being carried forward in eight countries.

To fit in with industrial developments, technical labor services in industrial safety, labor statistics, employment service operations, and industrial relations now are being provided at the request of seven Latin American countries.

Assistance in the fields of taxation, customs, material standards, and surveying also is being provided as needed.

CHAPTER VI

Other Parts of the Program

A number of activities under the Mutual Security Program cannot properly be grouped on a regional basis. A report on these activities is contained in this section.

Participation in International Organizations

As a member of the United Nations, the United States contributes its share towards the cost of carrying on international programs of technical assistance, and relief and rehabilitation. It also coordinates United States bilateral foreign assistance operations with those of international organizations to maximize the benefits not only to an individual country but also to the collective effort of the free world.

United Nations Expanded Program of Technical Assistance.—The United Nations program is an international effort to enlist technical skills from many nations to help the governments and people of underdeveloped areas expand their economic resources.

In 1950, the United States joined with 54 other governments in making voluntary contributions to a special United Nations technical assistance account. At present, we provide approximately 60 percent of total contributions to this account. By careful planning in Washington, at United Nations headquarters and in the field, United Nations and United States technical assistance programs do not overlap but complement each other. In some sensitive areas, United Nations programs are more acceptable to governments than those carried out solely by this country. Furthermore, the United Nations program recruits the majority of its experts from other countries, thereby reducing the drain on American technicians and making the fullest use of the technical resources of other nations.

Sixty-seven countries pledged slightly over \$21 million in February 1953 in support of the United Nations Expanded Program of Technical Assistance for 1953. Although this figure was almost \$2.5 million more than was pledged for 1952, it was substantially short of the target figure of \$25 million in new funds for 1953 which the General Assembly had established.

The United States was prepared to make available to the 1953 program a total of \$14.7 million. At the 60 : 40 ratio, however, the pledges of other countries were not sufficient to draw down this entire amount, and the United States pledge therefore amounted to \$12.8 million. Of this amount, \$6 million had been contributed as of June 30, 1953.

Experts have been recruited from 64 countries, and are serving in 62 countries. Fellowships have been awarded to nationals of 92 countries and territories for study in 76 countries. It is noteworthy that approximately 25 percent of the total number of experts is drawn from underdeveloped countries, and that about 13 percent of the total number of fellowships awarded has been for study in underdeveloped countries.

United Nations International Children's Emergency Fund.—In 1952, the United Nations International Children's Emergency Fund (UNICEF) placed increasing emphasis on aid for long-range child care programs, particularly in underdeveloped countries. Such programs include basic maternal and child welfare services and training; and mass health programs including the control of tuberculosis, malaria, yaws, syphilis, and other diseases.

Under UNICEF-aided programs in 1952, 13.5 million children were tested for tuberculosis and 5 million were vaccinated; 5 million were examined

for yaws and prenatal syphilis, and 1.3 million were treated.

Also 8.3 million children were protected against malaria and other insect-borne diseases; 126,000 were immunized against diphtheria and whooping cough; and 3 million received diet supplements. During the year, aid was approved for 2,000 maternal and child welfare centers, mainly in rural areas.

A target goal of \$20 million has been approved for allocations from the central account of UNICEF during calendar year 1953. At its March meeting the Executive Board of UNICEF allocated \$5.3 million, including \$4.7 million for programs in 46 countries and territories and \$662,000 for freight. Allocation of these funds, which were received in their entirety from sources other than the United States Government, left the UNICEF central account with an approximate balance of \$2,600 in unallocated funds. Since then, additional contributions from other governments, resulted in the availability as of June 30, 1953, of approximately \$600,000. The Congress has appropriated \$9.8 million to permit the United States to make a contribution toward the calendar year 1953 UNICEF program.

Program of Technical Cooperation of the Organization of American States.—On January 22, 1953, the Inter-American Economic and Social Council approved a program containing 11 projects, at an estimated total cost of \$1.9 million, for the 1953 Program of Technical Cooperation of the Organization of American States. Six of these projects, which are continued from 1952, are in the fields of agricultural extension, cooperatives, housing, child welfare, economic and financial statistics, and animal husbandry. The last-named project involves a research and diagnostic service, and a demonstration and training center in hoof-and-mouth disease control.

As of June 30, 1953, pledges from 18 governments for 1953 totaled \$1.4 million. The United States pledged \$1 million on the understanding that its contributions would not exceed 70 percent of total payments. As of June 30, 1953, the United States had paid \$303,230 toward its pledge.

Reimbursable Military Assistance

Reimbursable military assistance is provided under the authority of section 408 (e) of the Mutual Defense Assistance Act of 1949, as

amended. Under this section, the President is authorized to transfer—or enter into contracts for the procurement for transfer—equipment, materials, or services to eligible foreign governments and international organizations, without cost to the United States.

Assistance in this form provides a means whereby the United States can help the friendly nations of the world to help themselves. At the same time, requests from other nations for military items can be merged with the overall procurement programs of the United States military departments, thus avoiding conflicting demands on the productive capacity of the United States. Fifty-four countries and two international organizations are at present eligible to make purchases under this authority.

As of May 31, 1953, requests for reimbursable military assistance had been submitted by 50 countries. Forty-five of these countries had made purchases of equipment, materials, and services. These purchases—including cost of rehabilitation, renovation, repair, training, and accessorial charges—were valued at \$647 million. Purchases were made by \$478 million in cash advances, and \$169 million through the use of contractual obligational authority under the “dependable undertaking” method of payment provided for in the Mutual Defense Assistance Act of 1949, as amended. Of the total purchases, \$559 million were for equipment and materials such as end-items, spare parts, and supplies. Deliveries of these items, valued at \$244 million, had been made to 43 countries through May 1953.

Almost every type of military equipment has been purchased by the countries participating in this program. The more important purchases have been: 6 light cruisers, 5 destroyer escorts, 5 coast guard utility vessels, 4 patrol frigates, 430 aircraft of all types, 485 tanks, 187 gun motor carriages, 318 armored cars, and such items as motor transport vehicles, weapons, ammunition, and electronic equipment.

Military Training

Foreign military students are being trained by the United States under the military assistance program to insure that our allies will be capable of effectively employing and maintaining the materiel they receive. Training requirements are related directly to the delivery of end-item

equipment. A tank or an airplane will contribute little to our defense unless our allies are trained to use these weapons properly and can keep them in operating condition.

Country training programs provide a cadre of indigenous American-trained military personnel. With this cadre as a nucleus, our allies can expand and modernize their own training establishments and accelerate progress toward military self-support. We will have accomplished our training mission when we have worked ourselves out of a job by providing countries with a sufficient number of capable instructors to meet their own requirements. When that point is reached, only limited training will be required for our partner nations to keep abreast of our latest techniques

and technical developments. The training budget amounts to approximately 1.5 percent of the total funds appropriated for military assistance but it is a vital factor in the success of the entire program.

The self-help provisions of the Mutual Security Program have been stressed, and countries financially able to do so have borne a portion of the cost involved in the training programs. For example, these countries pay transocean transportation costs of their students and certain costs of maintaining United States advisory and instructional personnel overseas. In the interest of economy, training is carried on in American overseas installations to the greatest extent possible.

Maximum use is made of existing personnel and



A group of NATO officers and soldiers being instructed in the operation and maintenance of a tank at an overseas United States Army ordnance school.

training facilities which are required to support our own overseas forces. When circumstances permit, training is taken directly to the forces in the field by mobile training teams and technical representatives. By the end of the fiscal year, more than 32,500 allied personnel had either completed formal courses or were in training at Army, Navy, and Air Force installations in this country and abroad. This program has paid high dividends in the improved use and maintenance of equipment, and the training requirements of the recipient countries should show a significant decrease in 1954.

Small Business

During the period, activities were stepped up to help United States small business achieve a greater share of the export trade financed under the Mutual Security Program. Efforts were also intensified to promote greater participation in overseas investments by small and medium-sized American enterprises.

Advance procurement information on proposed purchases by, or on behalf of, foreign governments and private importers was provided in the form of small business circulars. From January 1 through June 30, 1953, 563 of these circulars were issued, 215 more than during the first half of 1952.

An important step was taken to increase this flow of advance procurement information to small manufacturers and exporters. All future procurement authorizations issued under the Mutual Security Program will include a provision stating that, "the participating country agrees to make every effort to furnish, as promptly as possible, to the Office of Small Business, MSA/W, the names and addresses of prospective buyers and the individual commodity items and services to be purchased."

The extent to which small business is participating in the United States-financed purchases made by the Emergency Procurement Service is reflected in a report by the General Services Administration. This report shows that 86 percent of EPS purchases made during the last quarter of 1952 and financed under the Mutual Security Program went to small business firms. Small Business Circulars carry notices of proposed EPS purchases.

To encourage and stimulate greater participation by small and medium-sized enterprises in the effort to increase American private investment abroad, plans have been developed to extend "Contact Clearing House Services" to all free countries of the world where encouragement of private investment would promote the objectives of the Mutual Security Program. This free service helps establish contacts between American and foreign private enterprises interested in exploring specific opportunities for entering into investment agreements. It effectively uses domestic and overseas private business service organizations—such as industry associations, chambers of commerce, and banks—for the collection and dissemination of specific investment proposals here and abroad. The Contact Clearing House Service has been welcomed and utilized by private concerns in the United States, in 13 Western European countries, and in Israel.

During the period under review, final arrangements were made for extension of the Contact Clearing House Service to the Philippines and Peru.

Investment Guaranty Program

Through the investment guaranty program, the United States Government has offered, for a fee, insurance protection to new American investments abroad against the risks of currency inconvertibility and loss through confiscation or expropriation. All the countries for which aid is authorized by the Mutual Security Act of 1951 are eligible to participate in the program provided they make certain assurances regarding claims settlement to the United States. By June 30, 1953, the required assurances had been obtained from 17 countries with respect to convertibility guaranties; bilateral agreements with 15 of these countries also were made with respect to expropriation guaranties. The 17 countries included four non-European countries: China, Israel, Haiti, and the Philippines.

Through June 30, 1953, 53 industrial investment guaranties totaling \$41.2 million had been issued to cover private investments in seven European countries. Of the total, \$39.6 million insured against inconvertibility of foreign currency receipts, and \$1.6 million against loss from expropria-

tion or confiscation. Total fees collected amounted to \$839,000; no payments under the contracts have been required.

Transportation

50-50 American Flag Provision.—At least 50 percent of the tonnage of Mutual Security Program cargoes from the United States, insofar as practicable, must be transported in American-flag vessels. This percentage is computed separately for dry-bulk carriers (tramps), dry-cargo liners, and tanker services. During the fiscal year 1953, American-flag participation in the liner and tanker categories met these requirements.

On the basis of reports received for liftings between July 1, 1952, and June 30, 1953, American-flag vessels carried 56 percent of the 2.2 million tons of MSA-financed goods shipped from the United States by liner. During the same period, American-flag tankers moved 52 percent of the 360,000 tons of MSA-financed tanker shipments from the United States.

About 1.6 million tons of MSA-financed dry-bulk cargoes left the United States between July 1, 1952, and December 31, 1952. Fifty-one percent of the shipments moved in American-flag vessels. Since then, under the nonavailability clause,¹ MSA has exempted dry-bulk shipments from the 50-50 provision as there were not sufficient American-flag tramps available to carry half of the MSA-financed shipments.

Through May 31, 1953, American-flag commercial vessels carried 67 percent of all military items shipped under the military assistance program.

Homebound cargoes of strategic materials secured under the Mutual Security Program are also subject to the 50-50 American-flag requirement. Of all such tonnage arriving in the United States since June 30, 1952, 80 percent was carried

¹ Section 111 (a) (2) of Public Law 472, 80th Cong., as amended.

by American-flag vessels. All shipments were in the liner category.

“Formosa Clause.”—The Mutual Security Agency, in order to implement the governmental policy with respect to trade with Communist China, inserted in charters of foreign-flag vessels employed for the transportation of United States Government-financed bulk cargoes to Far East countries a special clause, which has become known as the “Formosa Clause.” This provides for withholding a certain portion of the freight as a penalty in the event that the vessel trades with Communist ports in the Far East within a period of 60 days after discharge. This clause has been adopted for use in connection with shipments to other countries in the general vicinity of China.

Voluntary Relief Shipments

From July 1948 through June 1953, subsidy payments to cover the cost of ocean transportation of voluntary relief shipments totaled over \$27 million. Parcel post relief packages sent by individual donors over the 5-year period accounted for 69 percent of this amount. The balance went to pay for relief shipments of voluntary nonprofit relief agencies. The parcel post subsidy program was terminated March 31, 1953.

The generally improved economic conditions in Europe have been reflected in the progressive decrease during recent years in reimbursements to voluntary nonprofit relief agencies for ocean freight charges on relief shipments. The subsidy payments in fiscal year 1953, for example, were 30 percent less than those for fiscal year 1949.

In May 1953, the Department of Agriculture made available 45,000 tons of dried milk to voluntary relief agencies for distribution abroad. Over 8,000 tons of this milk were shipped by the end of June under the program for subsidizing voluntary agency shipments.





Report to Congress
on the
Mutual Security Program



PRESIDENT'S LETTER OF TRANSMITTAL

To the Congress of the United States:

I am transmitting herewith the report on the Mutual Security Program covering operations during the 6-month period, June 30, 1953, to December 31, 1953, in furtherance of the purpose of the Mutual Security Act of 1951, as amended.

In this report is factual evidence of valuable progress being made through mutual efforts toward the vital goal of increased security for this Nation and all the free world.

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

THE WHITE HOUSE,
March 8, 1954.



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CHAPTER I

Foreign Operations: A Progress Report

A SERIES of new and vital measures to promote the defense capabilities, economic strength, and technical advance of the peoples of the free world marked the progress of the mutual security program during the second half of 1953. These measures reached into every part of the globe, from Latin America to Western Europe to the Near East and Africa and around to South Asia and the Far East. They embraced a multitude of action programs, diverse in character and varied in approach, but all with one central objective: "to maintain the security and promote the foreign policy of the United States." This is the objective laid down by the Congress, and every step taken under the mutual security program has been directed toward its accomplishment.

The Soviet Union and the governments under its control by their actions and attitudes continue to threaten world peace. The mutual security program is based on the practical concept that no one nation, including the United States, can meet this threat with maximum effectiveness by acting alone. The resources and capabilities of the entire free world, strengthened and united in a mutual effort, constitute the best insurance against further aggression and the best means ultimately to remove the tensions and fears which so greatly retard world progress.

Because the threat has manifested itself in so many forms and in so many places, the United States of necessity has moved on a number of fronts. But, everywhere, the basic purpose of our operations abroad has been to build strength and stability throughout the free world. This purpose underlies all mutual security programs whether they concern military aid, economic support, technical cooperation, or world-wide use of our farm surpluses. These measures reinforce

the security of the United States; simultaneously, they help to increase the self-reliance of our free world allies.

In terms of tangible returns for the United States, the mutual security program provides overseas military bases, combat-ready manpower greater in numbers than our own, more productive sources of strategic materials, added industrial capacity, and healthier, stronger partner nations. Above all, it encourages millions of people to work with us in the unceasing quest for world stability and world peace.

Economic Improvement and Shift in Emphasis of Aid

Of particular importance in influencing the recent course of United States mutual security programs has been the general improvement in world economic conditions.

One indication of the strong recovery in the economic health of the free nations of the world lies in a comparison of United States aid and United States exports over the past 4 years. In 1949, this country financed about 35 percent of its total exports of nonmilitary goods and services by grants and loans. In 1953, only about 15 percent was financed by United States aid.

Western Europe, in particular, has made a steady advance. European industrial and agricultural production has risen to new peaks, gold and dollar reserves have increased substantially, currencies have become firmer, inflationary pressures have generally leveled off, and the defense position of the European NATO countries has continued to strengthen.

These achievements—tangible evidence of the successful combination of United States aid and

the energies of the European people—gradually have made it possible to reduce our assistance to Western Europe as a whole. For the future, as the Director of the Foreign Operations Administration, Mr. Harold E. Stassen, noted following his return from the November meeting of the Ministers of the Organization for European Economic Cooperation, "there is a very definite indication that Western Europe can maintain substantially its current defense budgets, and at the same time move forward on a sound economic basis with a considerable reduction in military aid and also—with a few exceptions—the termination of United States economic assistance."

The economic achievements in Europe have permitted a proportionately greater concentration on United States technical cooperation and special economic aid programs in the less developed areas of the world. By carefully planned and properly supported undertakings in these areas, by pinpointing projects on a selected priority basis, by more intensive effort on the part of the participating countries, and by our own cooperative assistance, there is every reason to believe that the peoples of the underdeveloped countries will lift themselves onto much higher levels of economic well-being.

Expanded Technical Cooperation

A world-wide technical cooperation program has been developed and expanded by the Foreign Operations Administration to meet the need for a long-range and relatively economical method of carrying out United States policy objectives for world stability. During the last 6 months, recruitment of qualified technicians has improved, and the United States now has more specialists in the field than ever before. These professional experts, working on the spot and close to the problems at hand, are imparting knowledge of modern methods to the people of the less developed areas. Through increasingly productive cooperative relationships and individual contacts, the foundation to future progress in the underdeveloped areas is being laid. Present plans project an expanding program of technical cooperation, with economic aid, where it is essential, carefully geared into the objectives of the various individual projects.

There are good and compelling reasons why technical cooperation operations must be planned and executed within the overall framework of the total United States effort to help promote world

progress. In most areas, the effectiveness of a technical cooperation program is closely involved with important economic considerations. In some countries, such as Bolivia, for example, technical cooperation must be related to the problem of diversifying a single-industry economy. In other countries, such as India, the technical cooperation program has to be planned with a view to the ultimate effects on the labor force, particularly with regard to possible increases in unemployment or disrupting shifts as between agriculture and industry.

Integration of technical and economic measures for planning and operating purposes increases the effectiveness of each component, and thereby the impact of the total program. This does not imply subordination or amalgamation so that the technical cooperation programs lose the enormous good will they have built up over the years. There continues to be a clear-cut technical cooperation program in each country taking part in the technical cooperation effort.

The effectiveness of the technical cooperation program is being further enhanced by enlarging the opportunities for United States colleges and universities to participate directly in country projects. The Foreign Operations Administration is assisting American universities to develop local technical centers in the host country; there are currently 30 universities under contract in 17 countries.

Some of these contracts are directly with the Foreign Operations Administration; others are with the local universities of the foreign countries. As part of the effort to increase the participation of United States colleges and universities in technical cooperation programs, arrangements are being made to extend contracts over a three-year period. United States institutions would be encouraged to assist foreign institutions in such fields as agriculture, health, education, public administration, and engineering.

Aid, Trade, and U. S. Economic Health

Expanded world trade is of vital importance in the effort to build greater world stability and ultimately remove the requirements for large-scale United States assistance. As the previous Report to Congress on the Mutual Security Program¹ pointed out, the American economy cannot be divorced from the world economy. That report

¹ For the period ended June 30, 1953.

gave specific instances to show that America's great productive capacity could not be long maintained, let alone enlarged, without the vast quantities of basic materials provided by other countries. It also showed that the high level of our prosperity, particularly with regard to the farmer, depends to a great extent upon the amount of goods other countries are able to buy from us, and it brought out the vital importance of two-way international trade to our own continued economic prosperity.

Recent statistics strikingly re-emphasize these same hard facts. United States total agricultural exports for the 1952-53 crop year amounted to \$2.8 billion. Significant though this figure is in showing the magnitude of American farm income derived from abroad, it is, nevertheless, 30 percent below the agricultural export figure for the preceding 12 months of 1951-52, and 20 percent below the 5-year average for the crop years 1947-52. The volume of exports of wheat and wheat flour in crop year 1953 dropped by 33 percent under the previous 12-month period; lard dropped by 33 percent; and cotton and cotton lint, by 50 percent. Though farm exports evidenced an upward trend during the latter half of 1953, they were still substantially under the 1947-52 average.

American industry, too, leans heavily on its foreign markets. As of the third quarter of 1953, our nonagricultural exports, excluding military aid shipments, were running at the rate of about \$9 billion for the year. On the same basis, these are some of the items American industry exported for the full year 1953; over 250,000 automobiles and trucks; almost 500,000 refrigerators and freezers; almost 12 million barrels of lubricating oil; and more than \$1 billion worth of machine tools, agricultural machinery, and tractors.

Our farms and factories could ill afford to lose these enormous sales abroad, but the extent to which the foreign market for American goods contracts or enlarges depends in great measure upon the amount of dollars other countries have available to spend. With economic aid tapering off, a constantly expanding volume of international trade, coupled with increased outflow of private United States investment capital, is the only real, long-term solution to dollar shortages abroad. In this connection, it should be noted that much of the improvement in Western Europe's gold and dollar reserves has been due to the extraordinary United States military expenditures in Europe

and to the fact that the European countries as a whole have been buying less from the hard-currency areas. Other countries of the world, also, have in general been trying to conserve their dollar exchange. As a result, the overall volume of international trade has remained rather constant. This is not the sort of stability we are seeking. Stable economies should not mean static economies. This could lead only to eventual economic stagnation. Rather we look to increase the flow of mutually profitable world-wide trade.

It is an exceedingly difficult and complex task to develop a national trade policy consistent with America's position as the world's greatest creditor and greatest producer, and, at the same time, not place inequitable burdens either upon specific segments of the American economy or upon other nations who must earn their living in the world. Yet, unquestionably, if the nations of the world are to flourish and move on to higher levels of trade, production, and living standards, the formulation and activation of such a policy is of utmost importance.

In this connection, the recommendations recently made by the President's bipartisan Commission on Foreign Economic Policy, headed by Clarence B. Randall, are being carefully considered.

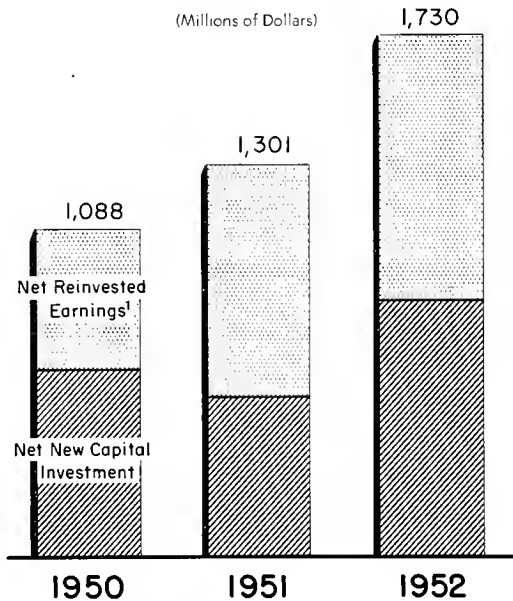
The Need for Private Investment Abroad

Along with other measures, international investment plays an essential part in achieving a larger volume of world trade and production. Private investment abroad brings two-way benefits. It enables the recipient country to make more rapid strides toward development of its own resources, toward greater productivity of its agriculture and industries, and toward better living standards for its people. For the investor, in addition to immediate monetary returns in the form of earnings and reinvestment capital, it brings new markets and a wider demand for his products; in many cases, it provides additional sources of needed supplies. During the 6-month period, discussions were carried on with various governments on ways to utilize United States private investment capital to the greater mutual advantage of the investor and the country involved. These discussions proved particularly fruitful with reference to Turkey. The Turkish Government has passed legislation to remove many of the obstacles which heretofore have retarded the use of private development capital.

Private Investment Abroad Has Risen

Increases in U.S. Direct Private Investment

(Millions of Dollars)



¹Includes other minor changes.
Source: U.S. Department of Commerce

Raising World Living Standards

In any consideration of the various ways by which the United States can assist other countries in their efforts to make better use of their resources and speed their development, we must keep sight of the fact that our primary concern is not with production statistics and index numbers, but with people. The ultimate aim of our technical and economic programs is to advance the well-being and improve the standard of living of the individual farmer and the individual worker.

Western Europe has the world's largest reservoir of skilled manpower and is second only to the United States in industrial capacity. Yet per capita gross national product for Western Europe as a whole—that is, the individual share of the value of total goods and services produced—is less than \$600 a year, compared to over \$2,200 a year in the United States.

The industrial worker in Europe lags far behind his American counterpart in terms of what he can purchase for the work he does. In Great Britain, for example, in 1953, one hour's wages bought about 60 percent of the food that an hour's wages bought in the United States. In France, it bought about 50 percent; in Germany, 40 percent; in Italy, 30 percent. These comparisons include

certain subsidies and allowances which in some instances supplement take-home pay, but even with these added factors the purchasing power of the average European worker remains far below that of his counterpart in this country.

In the less developed areas of the world, the situation is far worse than in Europe. In most of Asia and the Near East, per capita gross national product is less than \$100 a year. In Latin America, although there is wide variation among countries, the average is below the levels required to support an adequate standard of living.

It is essential to any forward economic movement that effective steps be taken to improve world living standards by increasing the real wages of the worker, and by achieving higher productivity and greater output to meet the expanding purchasing power.

The United States has consistently encouraged the efforts of other nations in their work toward these ends. It has actively supported European measures to eliminate restrictive practices, liberalize intra-European trade, and create a single European market based on expanded production and healthy competition. It has attempted, through its productivity programs in various countries of the world to insure that the benefits of increased turnover and greater productive efficiency are shared equitably with workers and consumers. Through pilot projects and person-to-person demonstration methods, our technicians have shown practical means by which the farmer and the worker in the underdeveloped areas can improve their methods of production.

These measures, however, cannot do more than stimulate and reinforce the far greater self-help measures of the other nations of the free world. Theirs is the main task of carrying forward the difficult, but imperative, actions required to satisfy the needs and aspirations of their peoples.

A Period of Positive Actions

The period covered by this report—July 1 through December 31, 1953—was highlighted by a number of noteworthy actions under the mutual security program:

Military Defense

Global Military Shipments.—A growing supply of essential military weapons and equipment continued to flow to our allies in all parts

of the world. Total shipments in 1953 amounted to \$3.8 billion—more than 60 percent higher than in 1952, although shipments during the second half of the year were running at a somewhat lower rate than during the first half-year period. The cumulative value of military grant-aid shipments from the inception of the military assistance program in October 1949 through December 31, 1953, totaled \$7.7 billion. Almost 50 percent of this 4-year total was shipped during 1953.

On a global basis, the major items delivered through December 31, 1953, included:

- 99,444 electronics and signal equipment items.
- 30,792 tanks and combat vehicles.
- 176,343 motor transport vehicles.
- 30,037 artillery pieces.
- 35,372,000 rounds of artillery ammunition.
- 601 Navy vessels.
- 5,340 aircraft.

Almost 2 million small arms and machine guns were shipped, along with about 1,100 million rounds of small-arms and machine gun ammunition.

NATO Buildup.—The NATO force goals for 1954, agreed upon by the 14 member countries at the end of 1953, call for a 5-percent increase in

army divisions, a 15-percent increase in naval vessels, and a 25-percent increase in aircraft. The European NATO countries spent over \$11.5 billion on defense measures in 1953. To meet the force goals, these countries plan a moderate increase in their military expenditures during 1954. This increase follows a more than twofold rise in expenditures since Korea.

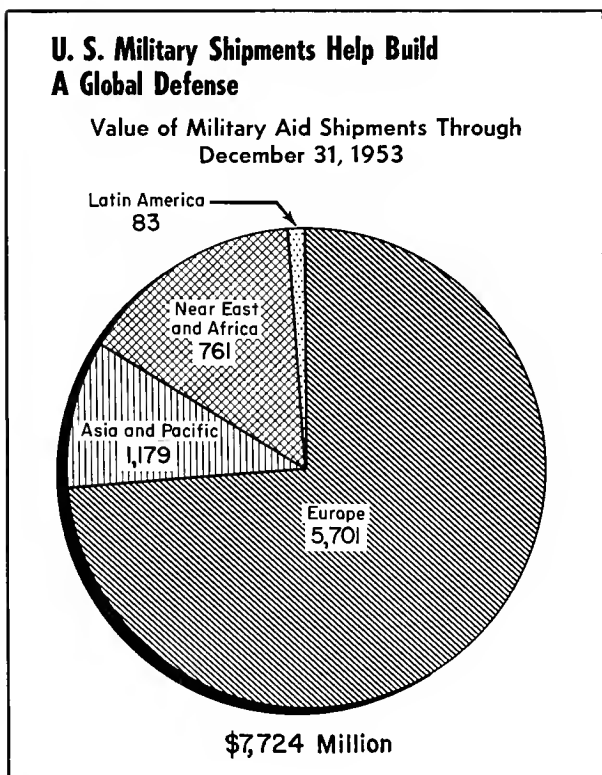
The combined NATO forces had grown considerably by the end of 1953. As compared with January 1951, NATO's active divisions had more than tripled, and naval strength had also been considerably expanded. Plane strength had increased more than 2½ times; old-type piston-driven aircraft had been replaced by modern jets. Airfields had increased from 15 to more than 120; more were planned for the next 2 years.

Reinforcing the Military Effort in Indochina.—The United States made available an additional \$385 million to reinforce the effort of France and the Associated States of Indochina Cambodia, Laos, and Viet-Nam in the 8-year-old war against the Communist-led Viet Minh forces. This amount was in addition to the \$400 million previously appropriated by Congress for special financial aid for fiscal year 1954. During the latter half of 1953, arrangements were made to channel this assistance to the Indochina theater of operations in order to give full support to General Navarre's plan for revitalizing the campaign against the Viet Minh aggressors.

The rate of United States military shipments to Indochina in 1953 was 50 percent higher than in 1952. Deliveries under the mutual security program have included substantial quantities of ammunition, aircraft, transport and combat vehicles, naval vessels, and a wide range of other needed materiel.

A Combined Program for Spain.—After 18 months of negotiation, the United States signed three bilateral agreements with Spain in September 1953 to strengthen the defense capabilities of the West. These agreements covered: construction and joint use of military bases in Spain; military assistance; and economic aid and technical cooperation. For the fiscal year 1954, \$226 million has been programed for military and economic aid to Spain.

By the end of the year, a United States Operations Mission, for economic and technical programs, and a Military Assistance Advisory Group, both under the Ambassador, already were estab-





United States-supplied 155-mm. howitzers in Indochina. Shipments of American military equipment to aid the French and the Viet-Namense in their resistance to Communist aggression were 50 percent higher in 1953.

lished in Madrid and working with the Spanish authorities to carry out the proposed programs.

Economic Strength

Support to Korea.—Within 4 days of congressional approval in August of a \$200 million emergency aid program for Korea, the Foreign Operations Administration had dispatched initial supplies of needed rice, barley, and cotton; later, fertilizer and rubber were added. By the end of 1953, substantial quantities of these commodities had arrived in Pusan harbor.

Over \$400 million has been programed for fiscal year 1954 to be used to assist the courageous Korean people in their effort to rebuild and strengthen their war-torn country. This amount includes activities of the Foreign Operations Administration, the Department of Defense, and

the United Nations Korean Reconstruction Agency. In December 1953, an agreement was signed with representatives of the Republic of Korea, covering necessary arrangements for an integrated program of economic recovery and financial stabilization.²

Bolstering Iran's Economy.—Iran was confronted with financial disaster at the time Prime Minister Zahedi took office in August 1953. To help the new and friendly Iranian Government through its economic crisis, the President made an emergency grant of \$45 million to Iran in September. Substantially all of these funds had been obligated by the end of the year for financing imports of urgently needed commodities

² On January 26, 1953, Congress approved the Mutual Defense Treaty between the United States and the Republic of Korea.

and for temporary budget support. The immediate crisis was successfully met, but Iran continued to face a variety of deep-seated problems. The problem of oil exports, in particular, must be solved if the country is to move toward more durable economic strength.

Aid to Bolivia.—Special programs of emergency economic aid and expanded technical cooperation were initiated for Bolivia to help the country meet a critical situation brought on by the sharp drop in world tin prices. Almost 60 percent of Bolivia's export trade consists of tin. With its foreign exchange seriously depleted by the loss of earnings from its main export item, the Bolivian Government lacked the resources to finance imports of needed food and other commodities in short supply.

In October 1953, \$5 million worth of surplus wheat and wheat flour were programed for shipment to Bolivia. Moreover, up to \$4 million of mutual security funds was programed for further economic aid, including the purchase of additional United States agricultural commodities.

In conjunction with these emergency programs, other measures were taken to provide more basic solutions to Bolivia's food problems. Another \$2 million was added to the technical cooperation funds for the country, and emphasis was placed on those projects which will most rapidly increase Bolivia's food production.

Recovery in Austria.—The determined efforts of the Austrian people, supported by United States assistance during the critical postwar years, have brought the Austrian economy to the point where no direct economic aid funds are required for the fiscal year 1954. Another name was thus added to the list of European countries whose economic progress has enabled them to continue building strength without further economic aid. These countries include Belgium, Denmark, Iceland, Ireland, Luxembourg, the Netherlands, Norway, Portugal, and Sweden.

Austria's economic progress testifies to the success of the joint recovery programs of Austria and the United States. For example, Austrian gold and dollar reserves increased by \$95 million during 1953 to reach a total of \$238 million at the end of the year. This represents a rise of more than 130 percent since 1951. Exports climbed from \$286 million in 1949 to an estimated \$530 million in 1953. Industrial production increased by nearly 40 percent in the same period.

The Austrian Government, in carrying forward its programs to increase industrial and agricultural productivity, will continue to participate in the United States technical cooperation program.

Constructive Use of Farm Surpluses

Agricultural Surpluses for Friendly Countries.—The desire of Congress to reduce surplus farm stocks is being meshed with our foreign economic programs. Under Section 550 of the mutual security legislation, Congress provided that from \$100 million to \$250 million of mutual security funds appropriated for fiscal year 1954 shall be used for the purchase of surplus agricultural commodities to be sold to friendly countries for foreign currencies.

The proceeds from such sales can be used for providing military assistance to our allies, for purchasing goods or services abroad to provide economic assistance, for loans to increase the production of strategic materials, and for similar constructive purposes. By the end of 1953, nearly \$60 million had already been allotted for sales of agricultural surplus commodities. (Total allotments through January 31, 1954, increased to nearly \$90 million. By the end of January, also, about \$80 million of additional sales were under active negotiation with a strong probability of concluding such sales within 60 days. Another \$100 million worth were under consideration, of which it was estimated that \$50-\$60 million worth might materialize.) Special precautions are being taken to safeguard against displacing usual marketings of either the United States or friendly countries.

Food Parcels to East Germany.—In a little over 2 months, nearly 1 million East Germans crossed to the western side of the Iron Curtain to pick up and take home about 5½ million parcels containing 18,000 tons of American food products. The United States, acting in cooperation with the West German Republic, instituted this food program in July 1953 to show by concrete action the concern of the West for the hungry people of East Germany.

Despite various pressure tactics by their Soviet-dominated government, the East Germans swarmed into the Western Zone to get the food they needed. The good will evoked by this humanitarian program, and the better understanding fostered between East Germans and the West, more than repaid the program cost.



Under the East German Food Program, about a million people crossed to the western side of the Iron Curtain. These grandmothers from East Germany later picked up their share of 5½ million parcels distributed in West Berlin over a 10-week period. One-sixth of Germans under Communist domination benefited by this program.

Special Food-Package Program.—The various food programs of the United States serve as a means whereby the people of free world countries share directly in the benefits of our operations abroad. In addition to the “550” agricultural surplus and East German food programs, special food packages were distributed on a world-wide basis during Christmas-time 1953. These packages, holding 12 to 14 pounds of food-stuffs in abundant supply in this country were delivered to needy families in Western Europe, the Near East, and Latin America. With the cooperation of the foreign governments involved, the packages, marked with the clasped-hand emblem symbolic of United States programs abroad, were distributed through local charitable groups and other relief agencies.

Emergency Wheat Shipments.—The Pakistan wheat program was inaugurated in late July 1953 to counter the threat of famine which faced the friendly Pakistani people after two successive years of drought. By the end of December 1953, about 600,000 tons of wheat, programed under special legislation, had been delivered or was en route. The Ambassador of Pakistan stated in November that receipt of the wheat from the United States was helping to save millions of his people from starvation.

During the second part of 1953, food relief programs were also carried out for Bolivia, Jordan, and Libya. Under these programs, 57,200 tons of surplus wheat are being furnished to alleviate serious food shortages in these countries. Bolivia will receive 45,000 tons of wheat under the \$5

million emergency authorization for the country previously mentioned. Jordan received 10,000 tons of wheat; and Libya, 2,200 tons. The total value of the grain shipments to these three countries, programed under Public Law 216, is estimated at \$6.5 million.

Streamlining for Greater Efficiency

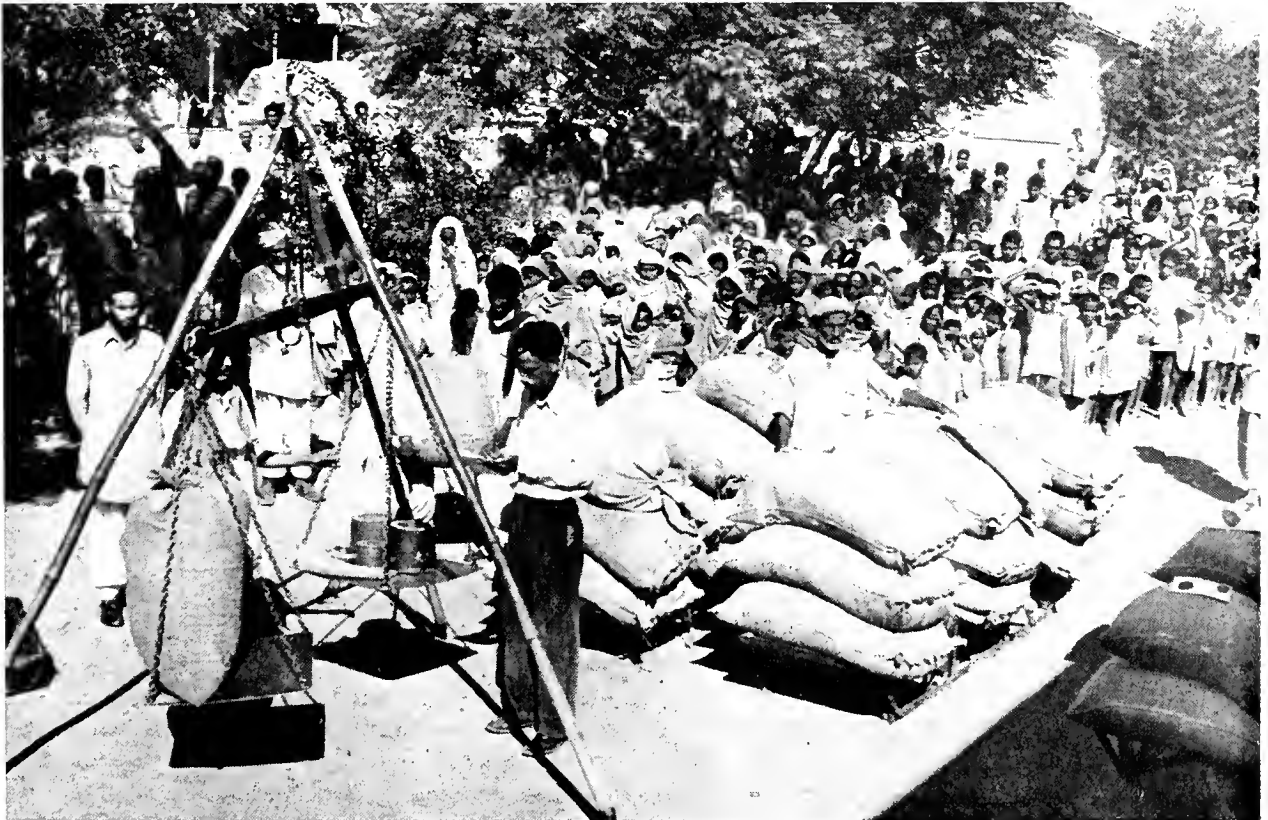
The Presidential reorganization plan creating the Foreign Operations Administration (FOA) became effective on August 1, 1953. By October 1, the necessary reorganization measures were completed. The Mutual Security Agency, the Office of the Director for Mutual Security, the Technical Cooperation Administration, the Institute of Inter-American Affairs, and several other formerly segmented foreign operations were merged into a single unified structure.

In carrying forward its various activities abroad, the FOA receives foreign policy guidance from the Secretary of State and guidance on military policy from the Secretary of Defense. Broad proposals for any major undertaking overseas are passed upon by the National Security Council. On this

Council regularly sit as statutory members the President, the Vice-President, the Secretaries of State and Defense, and the Directors of the Foreign Operations Administration and the Office of Defense Mobilization. Approval by the National Security Council thus insures that the actions carried out under the mutual security program are coordinated with the nation's security interests.

The Public Advisory Board and the International Development Advisory Board, both composed of outstanding private representatives of the American people, also provide valuable advice on basic matters of foreign operations.

This integrated pattern of operation permits a more concentrated and effective approach to the problems of free world security and development. A specific situation of assistance to a given country, for example, may involve not only technical cooperation but also the question of raw materials prices, the relationships to our own stockpiling, the issue of East-West trade controls, the extent of the country's available markets, its economic and defense ties with neighboring countries, and its capacity to absorb



Free distribution of American wheat at the supply point at the Mansur Camp in Punjab, Pakistan.

a certain scale and type of aid. All these complex matters, so closely interwoven, are now being considered in the light of one consistent operational policy so that the greatest possible advance can be made toward the desired goals.

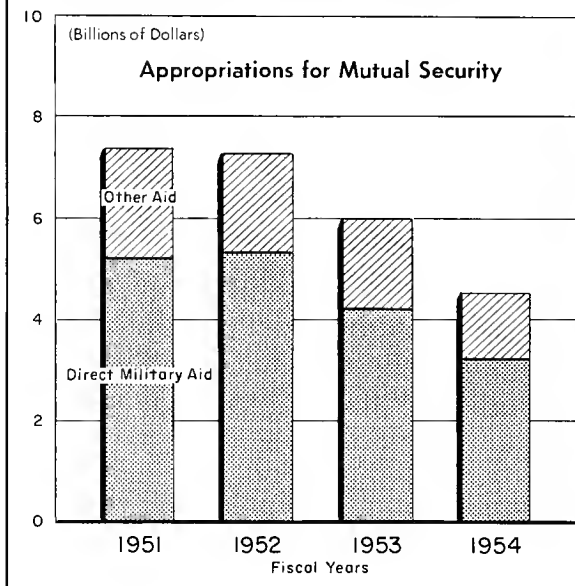
For most rapid and efficient action, the field of FOA operations was organized into four regional divisions—Europe; Near East, South Asia and Africa; Far East; and Latin America. These regions correspond exactly in area coverage to the geographic regions of the Assistant Secretaries of State. This regional breakdown thus insures a direct coordination between program operations and policy formation.

Another component deals with the difficult and far-reaching problem of controls on trade relating to the Soviet Bloc, more familiarly known as East-West trade. In addition, since various problems that arise in different parts of the globe have many similarities in method of treatment, a number of technical activities—for example, food and agriculture, industrial and labor affairs, trade and investment—were grouped to operate on a functional basis.

Along with these fundamental organizational principles, the Director of the Foreign Operations Administration, Mr. Stassen, also introduced a fresh approach to the actual conduct of the various programs and projects. Procedures were worked out to decentralize to a much greater degree than ever before the authority and responsibility for taking the initiative and making decisions. In line with this emphasis on decentralization, increased reliance has been placed on the judgment and effectiveness of the regional directors in the Washington organization and the Mission directors in the field. The overseas Missions, in turn, have decentralized their own operations by working more in the grass roots areas and less in the capital cities.

The consolidation of agencies and functions into the organizational framework of the FOA made it possible to effect a heavy reduction in administrative overhead. Total direct employment in Washington was reduced by 24 percent, or some 450 positions, between January 31 and December 31, 1953. In the same period, the European Regional Office in Paris was cut by 56 percent in personnel strength; also, the three ambassadorial positions in Paris were reduced to one. Direct employment in the European Missions was reduced by about 30 percent. On the other hand, the number of United States techni-

Mutual Security Funds Have Been Gradually Reduced In Recent Years; The Major Share Has Been For Direct Military Purposes



cians in the field in the underdeveloped areas has been increased by 35 percent to accord with the invigorated technical cooperation effort. In summary, Washington overhead has been reduced, and overseas effectiveness has been increased.

These personnel shifts have been carried out in conformance with the expressed wish of Congress to reduce administrative costs by 20 percent. The FOA has been woven into a cohesive, tightly knit organization, working with maximum economy and full efficiency to accomplish the objectives of United States policy.

Mutual Security and the Future

As strength in the free world, particularly in Europe, has grown, total funds appropriated for United States programs overseas have been gradually decreased. The reductions in military and economic aid, in general, have paralleled the growing self-reliance of the nations we are helping. In several countries, the need for United States aid is over; in others, this aid has been considerably reduced in magnitude; in still others, aid will most probably reach an end in the near future as economic strength is built up. On the other hand, a number of new or expanded programs have been initiated—such as the increased effort against Communist aggression in Indochina, the

rebuilding of war-shattered Korea, and the new agreements with Spain. We are also working out methods of using our domestic food surpluses overseas.

To produce truly worthwhile and durable results, United States programs abroad must be planned and carried out in the context of long-range calculations. The development of the NATO alliance, the global buildup of military bases and military forces, the technical cooperation and special economic aid programs in the less developed areas—these programs are being contracted or expanded in accord with plans to attain positions of solid free world economic and military strength to combat a long-term danger and enhance the opportunities for world stability. Such programs cannot be drastically cut without undoing much of the rewarding success that has been so painstakingly and laboriously achieved.

The amounts and types of aid we give must depend, of course, on changing world conditions. As long as the United States maintains its prominent position in world affairs, and as long as the harsh threat to world peace exists, our country will continue to shoulder the heavy obligations of world leadership. The United States cannot properly live up to the unavoidable responsibilities of power and at the same time serve the best interests of the American people without responding in a positive way to the needs of other free peoples who require some measure of outside support in trying to lay the stepping-stones to their own advancement. The long-term goals of the mutual security program are inseparably interwoven with the long-term security of the United States and with world efforts for freedom, progress, and peace. It is on this basis that mutual security program operations are moving forward throughout the free world.



CHAPTER II

Western Europe

IN Western Europe, the North Atlantic Treaty Organization is the foundation rock upon which United States policy is built. A strong and free Europe is vital to our own security, and a powerful NATO partnership is the best way to guarantee that the area's vast resources, skills, and manpower remain firmly on the side of the free world.

To help build up the military forces of NATO and to insure that those forces are maintained in a high state of readiness, the United States has contributed nearly \$6 billion in arms to Western Europe, undertaken extensive military training programs, and actively participated in the Organization itself through its North Atlantic Council, its International Staff and various military commands, and its annual ministerial reviews. This United States contribution has supplemented the efforts of the European nations, who have spent over \$35 billion on NATO defense.

To promote the economic and political strength on which the military forces of NATO must rely, the United States has also vigorously supported efforts to promote greater European unity. The measures which the European nations are taking to create regional organizations, develop a single market, raise living standards, and generally integrate their economic and political activities are of fundamental importance to the preservation of a strong and free Europe.

The second half of 1953 was marked by further progress in the buildup of NATO's military power and by a continued improvement in Western Europe's economic position. On the other hand, the effort to establish the European Defense Community met with further delay. On balance, however, Western Europe at the close of the year showed an encouraging picture of increasing self-reliance.

Military Defense

NATO Grows More Powerful

During the period July–December 1953, the North Atlantic Treaty Organization carried out its annual assessment of NATO forces, military requirements and economic capabilities. At the close of the annual review in December, the Ministers of the 14 NATO countries, at a meeting of the North Atlantic Council in Paris, reaffirmed their conviction that the threat of Soviet aggression to the world must be faced over a long period, and that accordingly the Atlantic Community must be prepared to maintain for a number of years the forces and weapons to deter or repel such aggression. It was agreed that the size of these forces will be so planned that the member countries can make the most effective use of their joint capabilities, meanwhile maintaining at least their present pace of economic and social development. Support was given to the staff of the Supreme Allied Commander, Europe, to aid its current studies of the effect of atomic and other new weapons on NATO military planning and costs.

It also was reported at the December meeting that the 1953 force goals had been met, except for a moderate shortfall in aircraft. This achievement represented a considerable increase in numbers and quality over the forces available in 1952.

The Ministers concluded this important review with the adoption of firm force goals for 1954, provisional goals for 1955, and planning goals for 1956. The targets projected for December 1954 call for an increase of 5 percent in Army divisions. The number of aircraft is scheduled to increase by 25 percent, and naval vessels by 15 percent. The buildup will stress heavily the combat-readiness

and fighting power of active forces and the higher training levels of reserves.

Clearly, NATO has reduced the gap between Soviet Russia's offensive strength and the West's defensive and retaliatory capacity. As late as January 1951, the Supreme Allied Commander, charged with the defense of Europe, had at his disposal only about 14 combat-ready divisions. There were some 1,800 planes, of which half were from Britain's home defense force, and only 15 airfields. This was small strength with which to defend all of Western Europe.

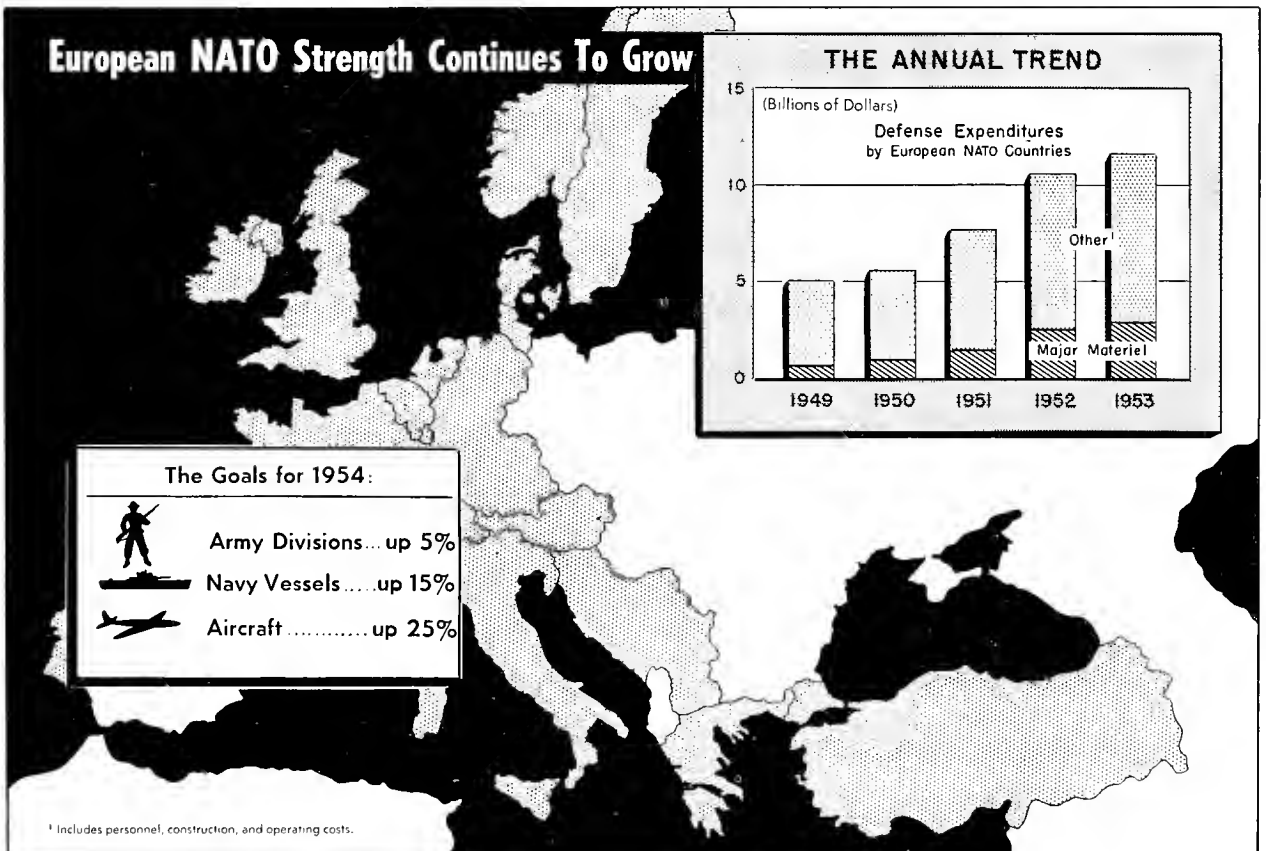
By the end of 1953, NATO had grown considerably more powerful. The number of active divisions had increased threefold, and the number of ships had also increased substantially. Plane strength had increased more than 2½ times. Piston-driven aircraft had been largely replaced by jets. Instead of 15 airfields, there were over 120 which were available for at least limited use; more were planned for the next two years. The Supreme Allied Command, Atlantic, whose primary task is to keep the North Atlantic sea lanes open in the event of conflict, was also fully organized.

To expand this strength and meet projected force goals, the European NATO countries plan to increase their military expenditures in 1954. Although the increase is expected to be moderate, it follows a more than twofold rise in expenditures since Korea. Defense expenditures by these countries were over \$11.5 billion in 1953, compared to \$5.4 billion in 1950. Their expenditures for military hard goods are currently about \$3 billion annually, almost four times as high as the pre-Korea rate.

In NATO, considerable progress has also been made in coordinating national planning for civilian defense, and for wartime control and distribution of commodities and transport facilities. The highly technical work on standardization of weapons and components has produced a number of important results, including a recent agreement on a standardized 30-caliber rifle cartridge.

Infrastructure: Military Facilities for Joint Use

Infrastructure is the term used to identify the basic military installations which are financed



jointly by the NATO nations and are available for the use of the forces under NATO command.

In December 1953, the North Atlantic Council reached agreement on additional military construction totaling \$251 million. This brought the total programs agreed upon to date by all NATO countries to \$1,523 million, to which the United States has contributed \$601 million. The construction will furnish the military facilities necessary for integrated operations of the NATO forces planned for December 1955. Of the \$251 million, approximately 50 percent will be used to build the fuel pipelines and fuel storage systems for the airfields that NATO has been constructing over the past 3 years. Other main categories are: naval facilities—19 percent, signals and communications—14 percent, and airfields—12 percent. The balance will be used for navigational aids and military headquarters.

In addition, \$28 million worth of military construction was agreed upon for Western Germany. These requirements are to be financed under arrangements between the Allied powers and the Federal Republic of Germany.

Noteworthy progress has been made in the actual construction of the projected military facilities. More than 75 percent of all airfields programed were available for at least limited use by the end of 1953. This is twice the number which was available at the end of 1952. Also, more than one-half of the 211 different telecommunication projects were completed last year, and the remainder will be finished during 1954 and 1955.

Construction of the petroleum pipeline system is under way. Under this system, over 3,000 miles of pipelines will be linked up with ports on the Channel and Mediterranean Coasts so that the network can be supplied by the NATO tanker fleet. The system will assure a constant flow of jet fuel to the NATO air forces. Portions of the pipeline system will be available for operation in the summer of 1954, and completion is scheduled for the end of 1955.

During 1953, the NATO system of international competitive bidding showed results when a large number of infrastructure projects were opened to bidding by firms of all the NATO countries. In several instances this step has brought significant cost reductions to NATO. Many United States firms are actively engaged in bidding on NATO-financed facilities, and several have already been successful in obtaining contracts.

Offshore Procurement Strengthens Defense Production Base

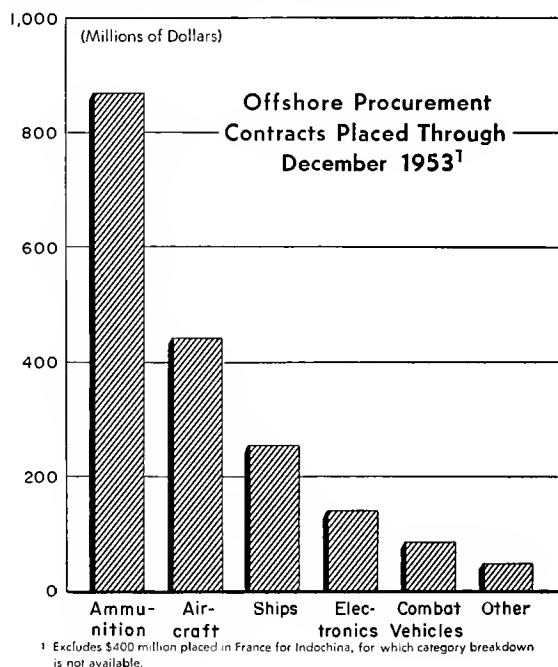
The United States program to purchase in friendly countries abroad a portion of the military items furnished under the military assistance program is now in its third year.

Contracts placed in Europe during fiscal years 1952 and 1953 totaled \$2.2 billion and included the procurement of ammunition, aircraft, naval vessels, radio and radar equipment, tanks, artillery pieces, and numerous spare parts.

The effect of the offshore procurement program is being felt in Europe not only in terms of an expanded mobilization base, but also in the improvement of the foreign exchange positions of the European countries. Payments by the United States for deliveries against offshore contracts are expected to amount to about \$500 million in fiscal year 1954, and will constitute an important source of dollar earnings.

In order to make the maximum contribution toward building a European defense production base, the placement of United States offshore procurement contracts is being more closely coordinated with European-financed production. A series of studies by the International Staff of NATO resulted in such correlated programs for

Military Items Contracted For In Europe Consist Mainly Of Ammunition And Aircraft



the production of ammunition, aircraft, ships, artillery, and other materiel.

NATO recommendations will be considered in placing a large part of the contracts for procurement abroad in fiscal year 1954. In addition to this support from the United States, it is anticipated that the NATO International Staff's recommendations will also be broadly accepted by the other NATO countries. Underlying these correlated production programs is the expectation that they will bring about better productive efficiency, a larger measure of standardization, and a greater degree of European self-sufficiency in defense materiel.

U. S. Support: Military Shipments Up 60 Percent

Nearly \$3 billion worth of military weapons and equipment was shipped to our European allies during 1953. This represented the greatest volume of military supplies shipped abroad to our allies in any 12-month period since the beginning of the military assistance program. In total, 1953 shipments were 60 percent higher than in the previous year.

Through December 31, 1953, the value of materiel shipped as grant aid to European coun-

tries (excluding Greece and Turkey) totaled \$5.7 billion.

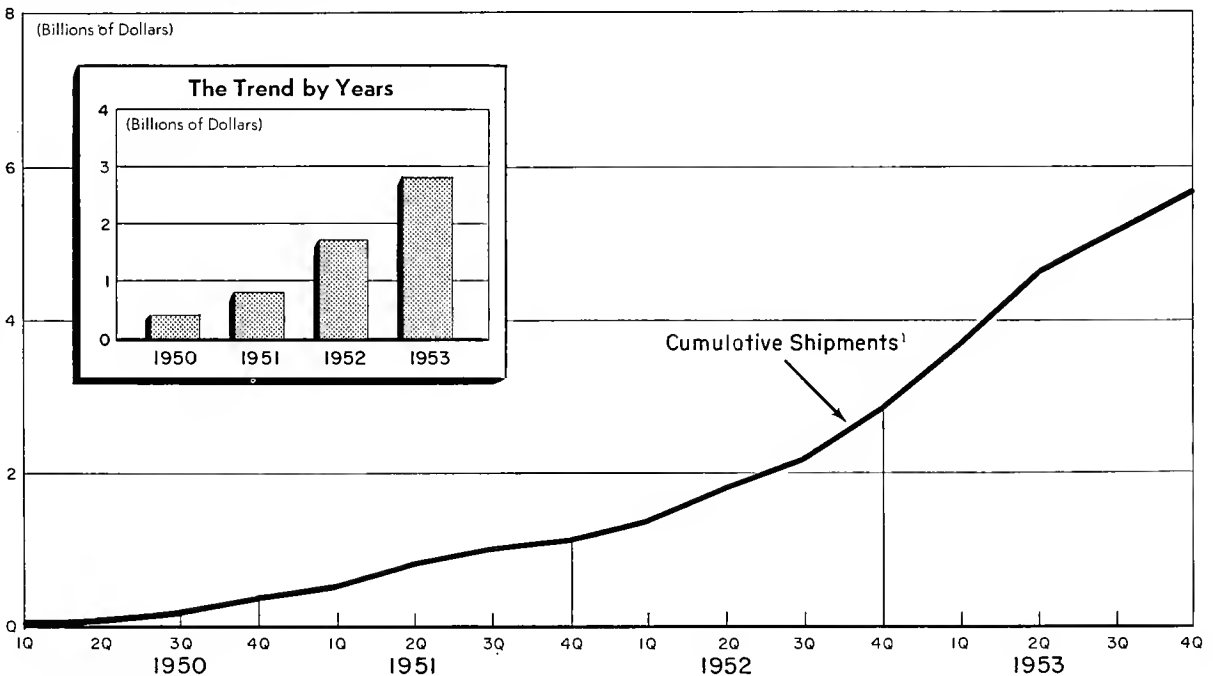
During the second half of 1953, new allotments of funds for other than direct military purposes were made to only 3 countries in Western Europe. A total of \$61 million was allotted as follows: \$35 million for the United Kingdom for needed agricultural commodities, \$15 million for East German Food Relief, and \$11 million for Spain to finance the purchase of raw materials and equipment. Paid shipments totaled \$402 million; the bulk of this amount represented deliveries against authorizations issued during previous fiscal years.

Counterpart Funds Channeled Into Military Programs

Each European country receiving mutual defense-financing or economic assistance deposits in a special account local currency equivalent to the dollar grant aid provided. These deposits are known as counterpart funds. After a portion¹ is transferred exclusively for United States use,

¹ Generally, 5 percent of counterpart funds deposited to match dollar aid obligated prior to June 20, 1952, and 10 percent after that date, pursuant to the provisions of the Mutual Security Act of 1952.

Almost \$6 Billion Worth Of Military Supplies Has Been Shipped To European Countries



¹ Includes value of excess stocks

to cover administrative and other local expenses, the remaining funds are available to the depositing countries to finance country programs approved by the United States.

In accordance with the policy established after the passage of the Mutual Security Act of 1951, the bulk of the European counterpart funds has been channeled into direct military programs. Of a total of \$3,306 million of counterpart funds released from the special accounts from July 1, 1951, through December 31, 1953, 44 percent or the equivalent of \$1,463 million was earmarked for military purposes. These funds have been used for the production and procurement of major materiel such as combat vehicles, ammunition, ships, transport vehicles, and electronics equipment. They also have financed the procurement of military clothing and supplies, and the construction of military bases, airfields, and other defense facilities.

Counterpart funds released for other than military purposes have been used to strengthen the economic base of the participating countries. They have financed the expansion of manufacturing, agriculture, electric-power output and mining; the improvement of transportation facilities; and the construction of housing for workers in essential industries.

Counterpart releases during the second 6 months of 1953 amounted to the equivalent of \$711 million, of which \$471 million, or 66 percent, was for direct military purposes. Productivity projects accounted for counterpart releases totaling \$47 million during this period; the cumulative total of releases for these productivity projects amounted to the equivalent of \$72 million.

The portion of counterpart funds deposited in the 6 months ended December 31, 1953, which was reserved for the exclusive use of the United States, amounted to the equivalent of \$39 million. All of the United States portion of counterpart funds generated after June 30, 1953, and unobligated balances as of July 1, 1953, were deposited in United States Treasury accounts overseas. United States Government agencies, including the Foreign Operations Administration, needing foreign currencies for administrative expenses or other purposes, purchase the required currencies from Treasury Disbursing Officers with appropriated dollar funds.

Economic and Political Developments

European Region Makes Economic Gains

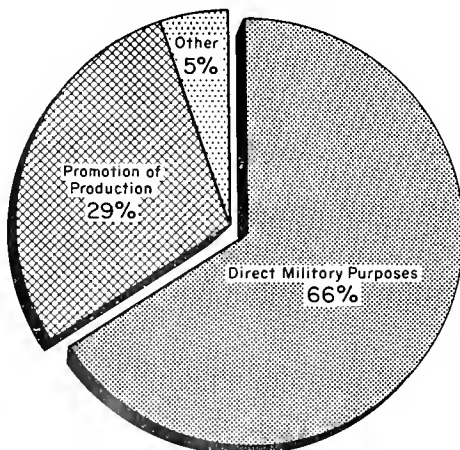
At the close of 1953, the countries of Western Europe, on the whole, were in a stronger economic position than at any time since the end of World War II. Four main developments characterized their economic progress during the year:

1. Industrial production gained nearly 5 percent over the average level of 1952, and reached a new peak.
2. Agricultural output of the OEEC countries for the crop year 1953-54 was estimated at 22 percent above the prewar average.
3. Inflationary pressures were largely eliminated.
4. Western Europe's balance of payments, in total and with the dollar area, was much improved.

The industrial production rise in 1953 followed a year of generally stationary levels of output; on an overall basis, production in 1952 had gained less than 1 percent over 1951. Progress in 1953, however, has not been uniform. Germany, for example, after a slow recovery in the early postwar period, has been able to accelerate output at a

European Counterpart Funds Have Been Released Mainly For Military Purposes In The First Half Of The Fiscal Year

Approvals for Withdrawal
July 1-December 31, 1953



\$711 Million
(In Dollar Equivalents)

much faster rate than most of her European neighbors. In contrast, industrial production levels in France and Belgium at the end of 1953 were under post-Korea peaks.

The considerable improvement in Western Europe's world-wide balance of payments is, to a large extent, the result of a reduced trade deficit. Much of this reduction, however, reflects lower imports rather than increased exports.

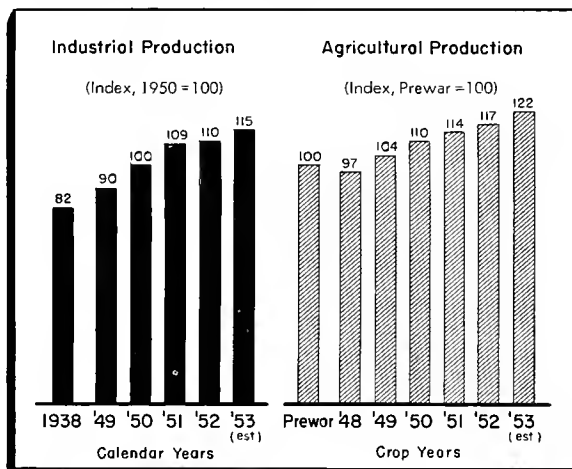
Concurrently with the improvement in Western Europe's payments position, gold and dollar reserves rose more than one-fourth during 1953. Excluding Switzerland, reserve holdings of the OEEC countries increased from \$7.3 billion to \$9.4 billion during this 12-month period.

These developments in balance of payments and reserve positions have served to strengthen European currencies. Black market and free market exchange rates have moved closer to official rates, and the possibilities for achieving free convertibility of European currencies have considerably improved.

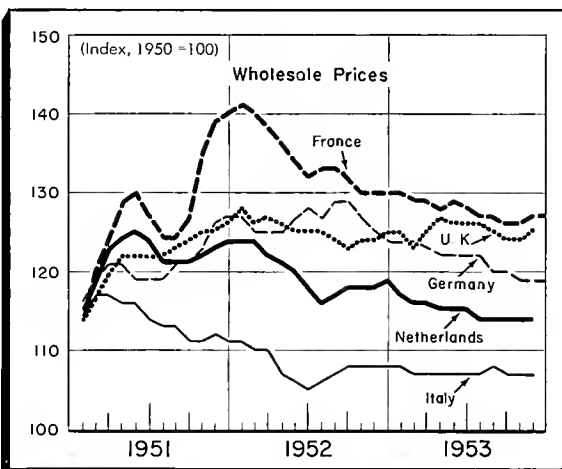
Despite improvements in industrial output and greater internal financial stability, the European nations are not inclined to view their recent accomplishments with complacency. Individually, and collectively through the OEEC, these countries have expressed the view that their production must expand at even a faster rate if Western Europe is to raise its living standards and main-

Western Europe's Economy Has Strengthened

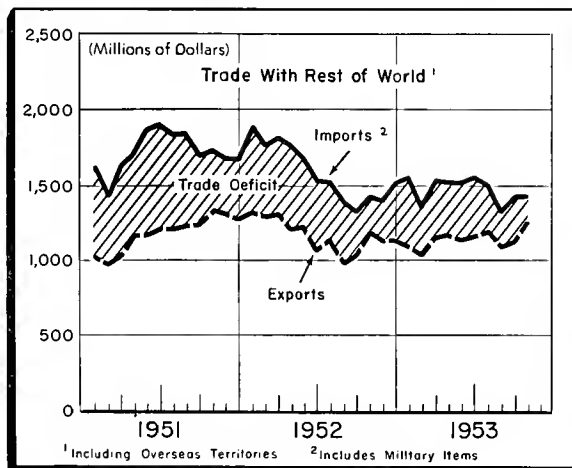
Production Continues to Rise



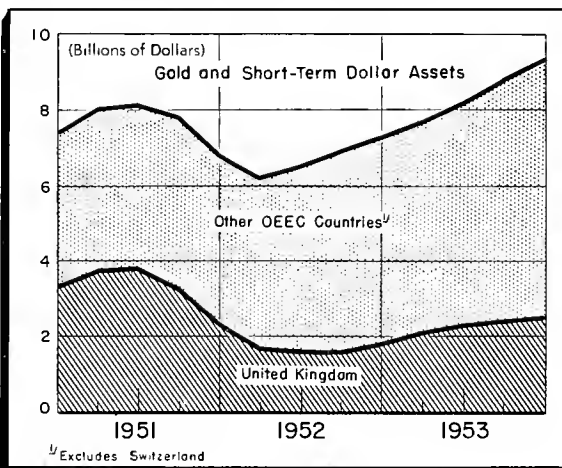
Prices are Generally Stable



The Trade Gap is Smaller



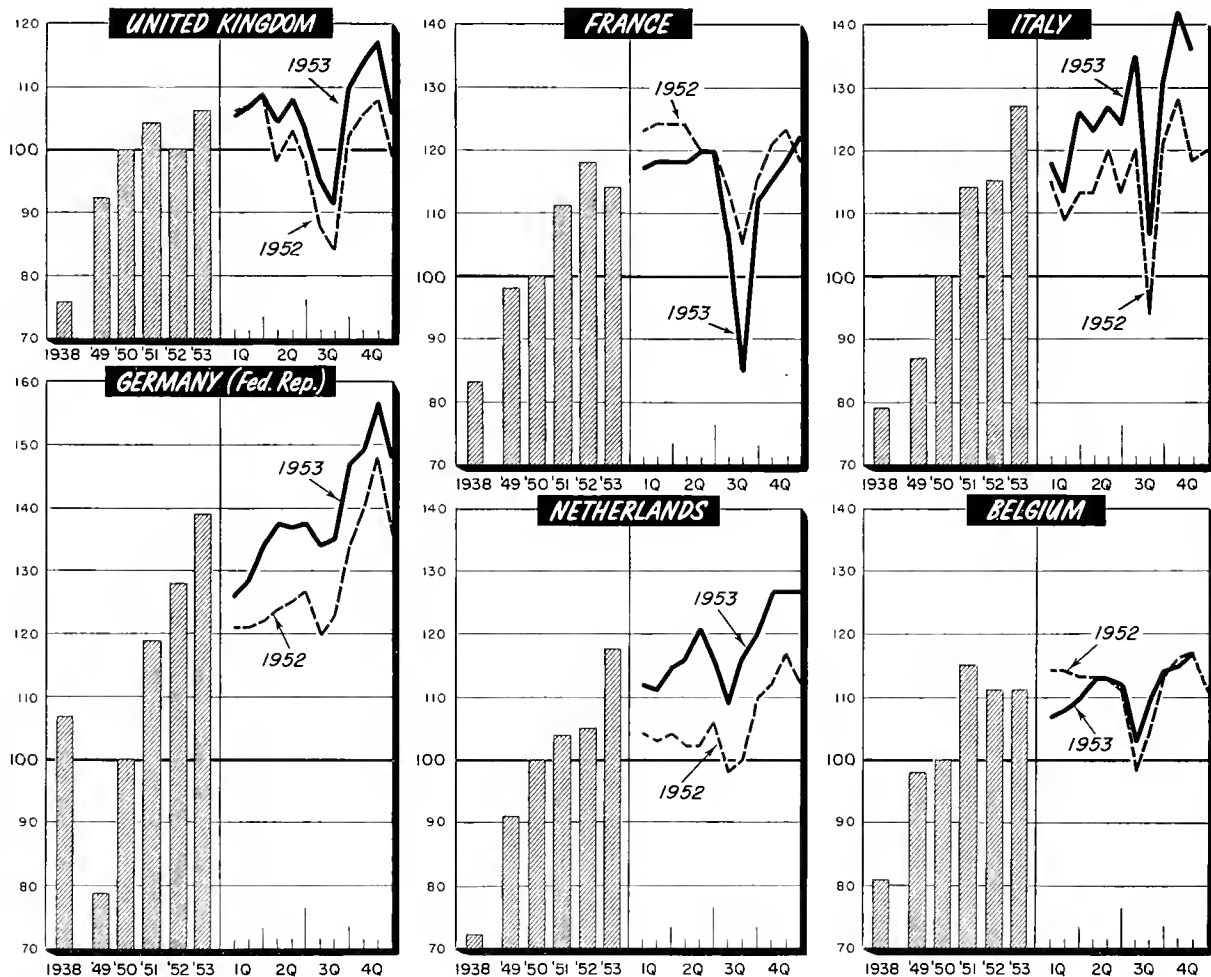
Gold and Dollar Reserves Have Increased



Most European Countries Raised Production To Peak Levels In 1953

Industrial Production of Selected OEEC Countries

(Index, 1950 = 100)¹



¹Not seasonally adjusted.

tain a leading position in the world economy. Production gains have not kept pace with new investment and technical progress. There are, therefore, considerable opportunities for raising output per man.

The European Community

Over the past eight years, the nations of Europe have taken steps toward unity which, when measured against a long history of bitter hostility, represent real and remarkable progress. The first significant developments were in the economic field and were largely outgrowths of the European recovery program. The Organization for European Economic Cooperation and the European Payments Union are the principal organizations

which were developed in this phase of the unity movement. These organizations have given great impetus to actions designed to remove the economic barriers which, for so many years, have held back the growth of the European economy.

The European unity movement has now become concentrated in the development of a six-nation European community, with Belgium, France, Germany, Italy, Luxembourg, and the Netherlands as members. The outline of a truly supranational organization is being shaped. The European Coal and Steel Community moved across national borders to open a common market for the two basic industries of coal and steel. This long step forward was followed by the negotiation and signing of the European Defense Community

Treaty, which is now in process of ratification by the parliaments of the member nations. Yet another step toward building European solidarity is in process. The six nations are actively working on a draft treaty to establish a European Political Community which will round out the measures taken for economic and military cohesion. These developments all have an important bearing on the effort to build strength and security in the NATO area.

European Defense Community Ratification Delayed.—The EDC Treaty, when ratified, will merge French, German, Italian, Dutch, Belgian and Luxembourg armed forces into a single unified European army. These forces will serve under an integrated command and will be under the general direction of supranational institutions.

The EDC Treaty was signed over a year and a half ago on May 27, 1952. In spite of the importance of the EDC, there has been a prolonged delay in the completion of parliamentary approvals. As of the end of 1953, parliamentary bodies in three countries had acted. Last spring, both houses of the German parliament voted to ratify with votes of 222 to 165 in the Bundestag, and 23 to 15 in the Bundesrat. During the six months period covered by this report, the lower houses in both the Netherlands and Belgium approved the Treaty. The Netherlands Second Chamber voted approval by a 75 to 11 vote on July 23,² and the Belgian Chamber of Deputies approved on November 26 by a vote of 148 to 49. These votes reveal a strong margin of support for the EDC.

To date, the principal delays have been encountered in France and Italy. Although the French Assembly held a general debate on the EDC in November, no final measures were taken. Action on this critical issue has been delayed further by the presidential elections which took place in December. In Italy, the situation has been affected by the difficulty in forming a stable Government.

It is true that progress toward ratification has been made, but continuing delay in the entry into force of the Treaty is a matter of serious concern. There continues to be an urgent need for Germany to do its part in the common defense effort. The EDC provides the only good means for making possible the German defense contribution in a form which is acceptable to those nations in

Europe which have suffered from German aggression, since Germany will contribute its forces to a unified European army under an integrated command.

In addition to its military importance, EDC ratification has become an essential next step forward in the movement to eliminate once and for all the conflicts which have so long afflicted the continent of Europe. It thus provides a sure basis on which to build greater strength in the NATO area.

Coal and Steel Community.—The European Coal and Steel Community continued its efforts to build a common, competitive market in coal and steel for its six member countries. The Community, through its supranational institutions, moved forward with additional measures to remove national barriers to trade and to eliminate private agreements which limit the production and marketing of basic commodities.

The Community has been giving special attention to an investment program designed to lower production costs and raise productivity. Several members of the High Authority held preliminary discussions in the United States with the President and members of Congress on the possibilities of obtaining loan capital which would be repaid from Community earnings. As a result of these discussions, concrete investment loan proposals are expected to be presented to the United States early in 1954.

During the last half of 1953, the Community's commercial policies were favorably reviewed by the members of the General Agreement on Trade and Tariffs. Also, an agreement was signed with the International Labor Organization which provided for closer collaboration in the field of labor and social matters.

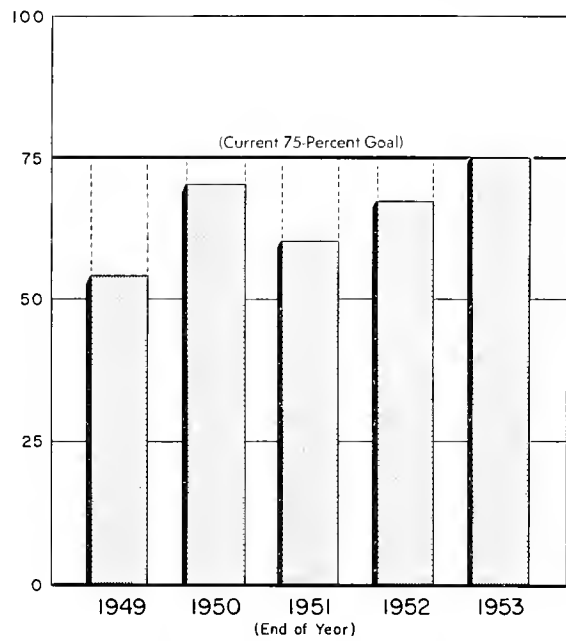
Trade Liberalization.—At the ministerial meeting of the Organization of European Economic Cooperation held in Paris during October 1953, the OEEC Council reaffirmed the objective of proceeding toward the complete abolition of quantitative restrictions on imports—that is, restrictions placed on the amounts of certain commodities that may be imported into a particular country. It also noted that this objective was part of the general process of freeing trade on a world-wide basis.

Under the European Code of Liberalization, the standard level of liberalized trade—in other words, the level to which import quotas are removed—is fixed at 75 percent of commercial imports in 1948. At present, many countries have freed

² The Netherlands First Chamber also ratified the EDC Treaty on January 20, 1954.

The OEEC Countries, As A Whole, Have Reached The Current Trade Liberalization Goal

(Percent of Private Intra-European Trade Liberalized)



their imports well beyond that percentage. For example, Italy and all creditors in the European Payments Union except Austria (Belgium, Luxembourg, Germany, the Netherlands, Portugal, Sweden, Switzerland) have lifted restrictive quantity quotas on 85 percent or more of their commercial imports. These 8 countries account for half of all intra-European trade.

During the latter part of 1953, 3 member countries—the United Kingdom, France, and Austria—again progressed toward fulfilling their obligations under the Code. These countries had been permitted by the OEEC to suspend or limit temporarily their liberalization measures for balance of payments reasons. The United Kingdom has now re-liberalized to 80 percent. Austria has liberalized to 50 percent, and France, who had been forced to reimpose quotas on all its imports, re-liberalized to the extent of 20 percent.

Of the other OEEC countries, Denmark, Ireland, and Norway have reached the 75-percent stage. Turkey, for balance-of-payments reasons, does not apply liberalization measures; Greece, on an unofficial basis, has adopted a system of almost complete liberalization.

Another important recent development in the field of trade liberalization has been the new interest displayed in freeing restrictions on imports

from the United States. At its October meeting, the OEEC Council decided that member countries should report on the nature of the restrictions which they have been unable to remove. This information should form the basis for a coordinated policy to promote liberalization toward the dollar area.

Western Europe has also taken an important step toward achieving a greater mobility of manpower across national borders. It has been agreed by the OEEC countries that if a job in one country remains unfilled and listed with the employment service for 30 days, the employer may bring in a qualified workman from another Western European country.

Other Programs in Europe

5½ Million Food Parcels to East Germany.—

On July 4, 1953, Chancellor Adenauer, in a letter to the President of the United States, described the concern of the Federal Republic of Germany over the steadily worsening food situation of the German people in the Soviet Zone and East Berlin. The Chancellor expressed the hope that the United States would participate with the Federal Republic in making funds available for food supplies to be sent to the Soviet-occupied areas to protect the population from hunger to the extent possible.

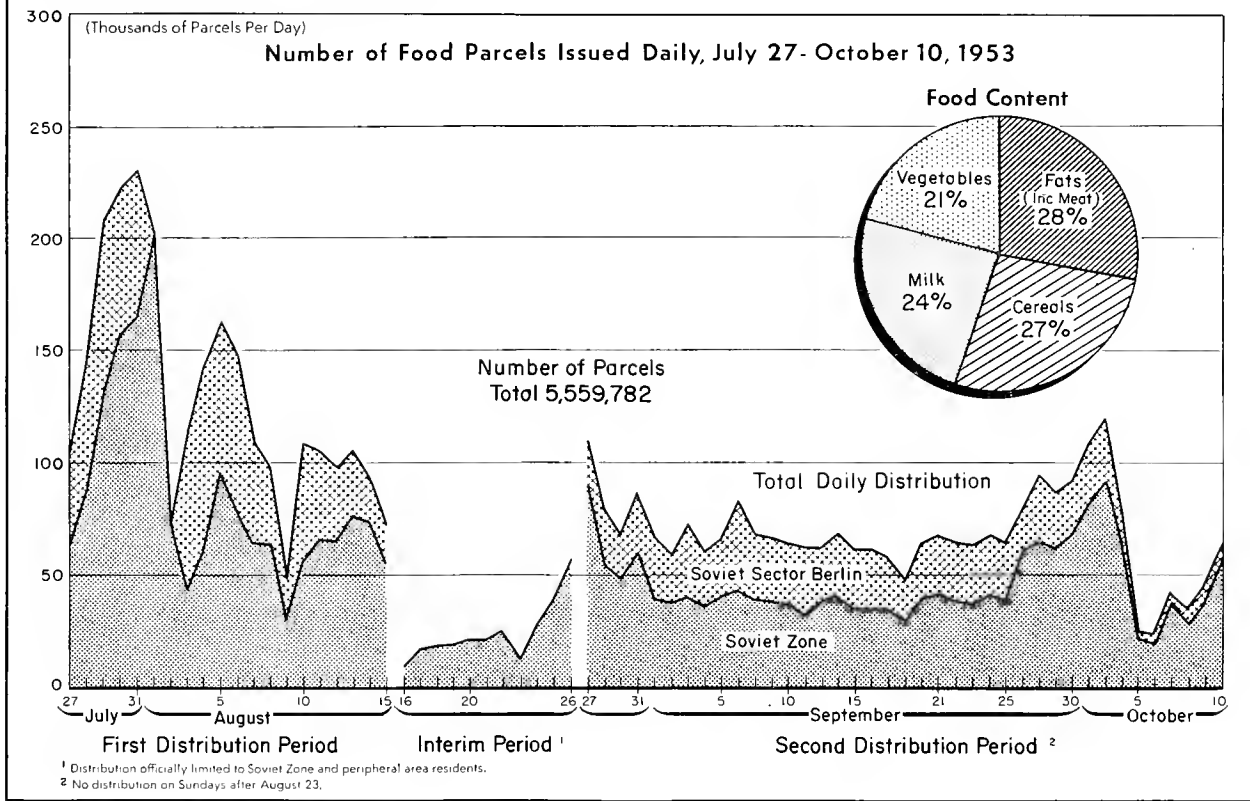
On July 10, the President replied that this Government would join immediately in furnishing needed food to the hungry people of East Germany. At the same time, he offered to the Soviet Union, as the occupying power for distribution, food shipments valued at about \$15 million and made up of items of high nutritional value.

On July 11, the Soviet Government rejected this proposal. On the same day, the President announced that the offer of food to the German people, in their distressed situation, would stand. The Director of the Foreign Operations Administration was given the operating responsibility for carrying the program through.

FOA initiated procurement of food at once, and late in July the first consignment of American lard, flour, and dry milk arrived in Germany. Other shipments quickly followed, and included canned milk, dry beans, canned meat, and cottonseed oil. The Federal Government of Germany accepted responsibility for distributing the food and carried the domestic costs of handling.

On July 27, the distribution of food parcels started in West Berlin. Parcels were given to

East German Food Program



the German residents of the Soviet Zone and East Berlin who came personally or through their representatives to collect it. Some of the food came from supplies in Berlin, to be replaced later by United States shipments. To the unskilled East Zone worker, parcels for a family of 4 represented about 40 percent of a month's wages. The nutritional value of the packages, far outweighing their monetary worth, provided the equivalent of a family's ration of fat and protein for one month.

The Soviet and East German authorities attempted to hinder distribution by resorting to propaganda, confiscations, arrests, and restrictions on travel. In defiance of these pressure tactics, however, the people of East Germany swarmed over the borders to the West Berlin food distribution centers. In a little over two months, over 5½ million parcels containing nearly 18,000 tons of food had been distributed, and it was estimated that nearly one-sixth of all Germans under Soviet domination had directly benefited. The first two phases of the program ended on October 10, and buildings and facilities used as distribution centers were released for the reopen-

ing of schools. A third phase of distribution was then initiated.

The distribution program has been successful beyond all expectation not only from a humanitarian standpoint but because it gave the people on the other side of the iron curtain tangible and undeniable evidence that the West stood with them in a time of crisis.

Spanish Program Begins.—On September 26, 1953, the long negotiations with Spain for overseas military bases were successfully concluded with the signature of three basic agreements. These agreements, designed to strengthen the capabilities of the West for the maintenance of peace and security, cover: (1) development and use of Spanish air and naval bases jointly by the United States and Spain; (2) military end-item assistance to Spanish armed forces; and (3) economic and technical aid. For the fiscal year 1954, assistance earmarked for Spain totals \$226 million—\$141 million for military aid, and \$85 million for economic aid.

The agreements provide that, in addition to setting aside 10 percent of counterpart funds for

exclusive United States use, Spain will contribute a portion of the counterpart to finance local currency costs of the base construction program.

To facilitate carrying out the terms of the agreements, a United States Operations Mission and a Military Assistance Advisory Group, both under the general direction of the Ambassador, have been established in Spain. The Mission will be responsible for economic aid and technical cooperation, while the Military Assistance Advisory Group will coordinate the military program with the Spanish authorities.

The Navy Department's Bureau of Yards and Docks will administer the program to develop air and naval facilities which will be used jointly by American and Spanish forces. The Bureau has appointed representatives of four firms to carry out the overall architectural-engineering phases of the program. In addition, a United States contractor has been appointed to act as prime contractor on a cost-plus-fixed-fee basis.

Work on programing the \$85 million in economic aid is now going forward. First priority is being given to economic projects which support the joint military programs in Spain. In addition, selected raw materials and equipment for consumer-goods industries will be furnished to counteract as much as possible the inflationary effects of the base construction program. Some United States surplus agricultural commodities will also be useful for this purpose.

As of December 31, 1953, \$11 million of economic aid had been allotted Spain under the current program. Procurement authorizations totaling \$4.5 million had been issued against this allotment for the purchase and shipment of crude rubber, steel plates and structural shapes, tinplate, hot-rolled strip iron, copper and aluminum.

Productivity Program: Expanded Effort by Europe.—Special local currency productivity accounts have been established in Western Europe as provided for in special agreements concluded in fiscal year 1953. Establishment of these special funds for the first time insures the availability of substantial European financing for purposes which are directly related to increasing productivity throughout European industry and agriculture. These agreements specify that as output rises, wages are to be increased and prices lowered.

As of December 31, 1953, \$94 million in dollar aid was allotted under agreements with 11 countries which required counterpart financing of productivity programs. Ten percent or the

equivalent of \$9.4 million, was reserved for use by the United States. Of the remaining \$84.6 million in counterpart funds, \$77.1 million was allotted for individual country programs, and \$7.5 million for an OEEC European Productivity Agency. An amount of \$2.5 million in dollar funds was also allotted for the Productivity Agency.

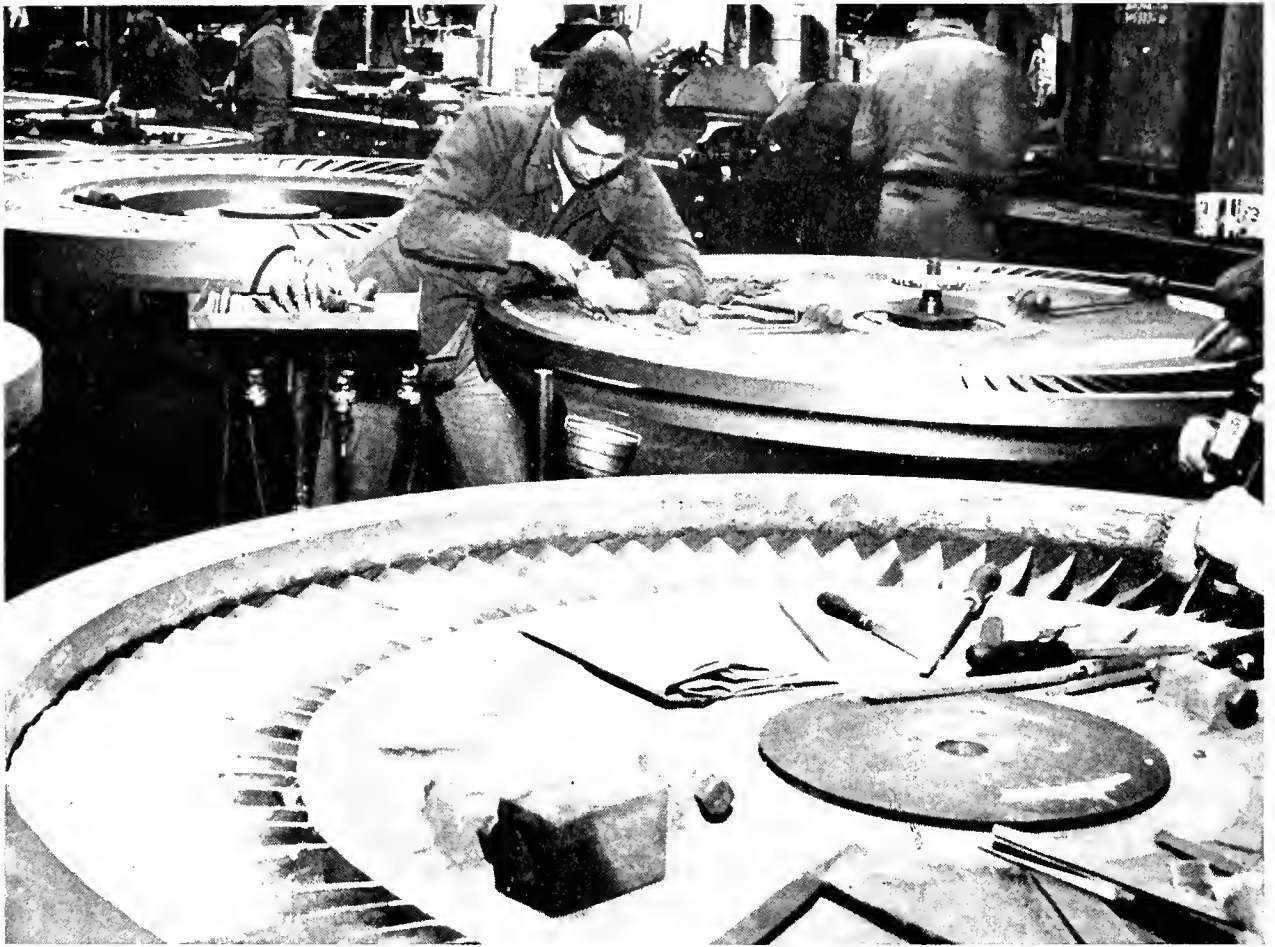
Moreover, the 11 countries have contributed an additional \$28.7 million in their local currencies for productivity programs. Thus, a total of \$115.8 million in local currency and dollar funds is now available for specific productivity projects carried on by the Europeans themselves.

Broad plans for the individual country programs have already been mapped out. The equivalent of about \$65 million will be used to provide medium-term, low-interest loans principally to small and medium-sized business enterprises in connection with efforts to raise their productivity. The equivalent of another \$45 million will finance productivity projects on a nonrepayable basis. Blueprints for these projects include training programs for management and labor, expert management engineering services, support for productivity centers, marketing and distribution improvement, and better processing techniques.

The establishment of local currency productivity funds under the European Productivity Agency and in the various countries insures the continued growth of local self-help programs in Europe. Some United States assistance in giving direction to the programs will, however, still be needed. This assistance will give particular emphasis to the fields of management development and marketing and distribution, since they are the areas where our contribution to the European productivity effort can be most effective.

87,000 More Emigrants and Refugees Moved Out of Europe.—The United States took the initiative in establishing the Intergovernmental Committee for European Migration (ICEM) at Brussels in 1951, to facilitate the movement of emigrants and refugees out of the overpopulated areas of Europe. With the addition of Colombia and Uruguay, who joined in November 1953, the membership of ICEM was brought to 24 governments. An estimated 3 million persons, who are unlikely to be absorbed in the economies of Germany, Austria, Italy, the Netherlands, and Greece, face the need of emigrating from the continent during the next five years.

In 1952, ICEM moved 77,626 persons from



French workers building giant 100-ton dynamos in France's largest electrical construction plant at Belfort. Greater efficiency of production has been achieved at this plant, due to the joint productivity programs of France and the United States.

Europe to Australia, Canada, Latin America, and the United States. In 1953, the Committee moved 87,000 persons, 55,000 of whom were processed and transported in the last six months of the year. This 85-percent increase in movement over the first part of the year encouraged ICEM, at its sixth session in Venice during November, to raise the 1954 quota of movement to 117,600 persons.

The higher quota for 1954 was also justified by the improvement in the selection and processing procedures in Europe and by the greater opportunities for placement in many of the receiving countries. The Latin American countries, for example, are interested in limited numbers of urban workers and larger numbers of agricultural workers. They are also anxious to take in the families of earlier migrants who are already established and employed. Over 20,000 wives and children have been nominated for immediate

movement to Argentina. Others are listed for transportation to Brazil, Chile, and Venezuela.

Australia has increased its quota of immigrants for 1954; Canada is expected to maintain its current rate of intake. In addition, an estimated 30,000 refugees who will receive visas to the United States under the Refugee Relief Act of 1953 will move under ICEM auspices in 1954. For the calendar year 1953, the United States has contributed \$6.1 million from fiscal year 1953 funds to ICEM's operational budget of \$24.3 million, and \$716,000 to its administrative budget of \$2.3 million.

At its November meeting in Venice, the Committee approved the final text of a draft constitution which was later presented to the member governments for acceptance. The constitution, if adopted, will give the committee a more formal status and establish it as a temporary organization with an anticipated life of 3 to 5 years.

CHAPTER III

Near East, Africa, and South Asia

THE countries and territories of the Near East, Africa, and South Asia lack, in varying degrees, the skills, techniques, and institutions that are essential if the 700 million people of the area are, through utilization of their human and natural resources, to eliminate widespread poverty and to create stable governments and sound economies. In few parts of the world are there more pressing needs or greater opportunities for progress toward a society where the people can increase their personal freedom.

The United States is eager to help promote such progress, and under the mutual security program is providing assistance to the following countries:

In the Near East: Egypt, Greece, Iran, Israel, Iraq, Jordan, Lebanon, Turkey, and Saudi Arabia.

In Africa: Ethiopia, Liberia, Libya, and the overseas territories of certain Western European countries.

In South Asia: Afghanistan, India, Nepal, and Pakistan.

The primary objective of United States programs in these countries is to aid the various governments and peoples in their efforts to develop their own resources and build up their economic and social structures. In some countries, we are furnishing military supplies and training assistance to help the governments increase their defense capabilities.

United States technicians work with the nationals of the various countries to develop and spread locally the knowledge and techniques which can be profitably applied in agriculture, health and sanitation, industry, education, transportation, communications, and government administration. Technical cooperation efforts are supplemented, in certain countries, by special economic aid

to provide needed supplies and equipment in order to strengthen the economy and enable the people to make the best use of their new and growing skills.

In this far-spread area, with its many newly independent governments and its diverse racial, cultural and economic backgrounds, there is fertile ground for friction and conflict. The tensions between Arab and Israeli have not abated, and only a precarious truce is maintained. Boycott of Israeli goods and firms has been extended; the Arab refugee problem remains as a tragic barrier to regional harmony.

Control of the Suez Canal is still unsettled, and difficulties beset consideration of integrated development and use of the waters of the Nile watershed. Dispute over the Jordan waters has stirred hatred and bitterness and has aggravated nationalism to a degree which threatens the possibility of cooperative development of this vital resource.

In late summer of 1953, the smoldering unrest in Iran flared into rioting and revolt. Prime Minister Mossadeq was removed from office, and the Shah resumed leadership of his country. With the Anglo-Iranian oil controversy unsettled, the new Iranian Government found itself perilously near economic collapse.

All these factors have made it essential that United States policies in the area be made clear and impartial. The success of working relationships between representatives of our Government and those of the countries participating in mutual security arrangements depends upon patience, mutual understanding, and common objectives.

Programing of Funds.—Under the mutual security program for fiscal year 1954 in the Near

East, South Asia, and Africa, \$574 million was made available for military aid, and \$424 million for economic assistance and technical cooperation. The bulk of the military-aid funds has been programmed for Greece, Turkey, and Iran. Through December 31, 1953, special economic aid in the amount of \$57.5 million has been announced for India; \$56 million for Iran; \$26 million for Israel; and \$11.3 million for Pakistan. The balance of the \$424 million had been programmed for other economic aid and for technical cooperation for countries in the area. A relatively small part of these funds—\$320,000—was obligated to pay for freight costs of emergency wheat shipments to Jordan and Libya.

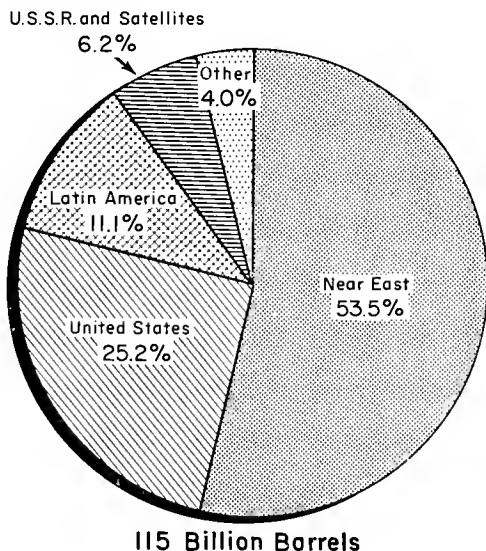
Military Aid to the Near East

From a military standpoint, it is vital that the Near East remain safe from external aggression. The region's enormous oil reserves—almost half of the world total—its key land and water approaches, and its vast human resources constitute indispensable assets to free world security.

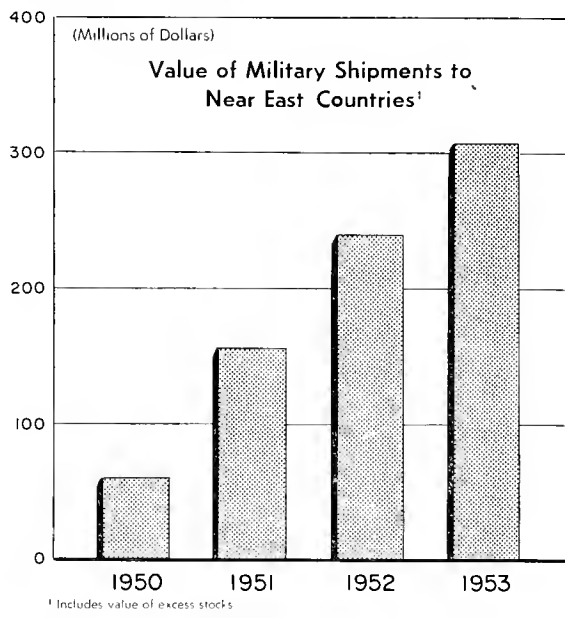
A program of military assistance to Greece and Turkey was initiated by the United States in 1947. Military aid to Iran was begun in 1950. The importance to the free world of sovereign and independent governments in the three countries

The Near East Holds More Than Half Of World Oil Reserves

World Crude Oil Reserves as of January 1, 1953



More Military Supplies Are Being Sent To Build Near East Defense



was emphasized by these actions. In February 1952, Greece and Turkey were admitted to full membership in the North Atlantic Treaty Organization. Ethiopia has been declared eligible for military assistance, and a small grant aid program was inaugurated with the first shipment of military equipment in mid-1953.

Military aid shipments to the Near East as of December 31, 1953, amounted to \$761 million; 59 percent of the total was directed to the Army establishments, 19 percent to the Navy, and 22 percent to the Air Force.

In addition to the military equipment and supplies provided under the military assistance programs, the armed forces of the three Near East countries have been strengthened through coordinated training activities. Instruction has been provided in service schools and by mobile training teams. American technical specialists have engaged in on-the-spot instruction of country nationals in the maintenance and operation of the specialized or complex equipment furnished under the mutual security program. Nationals of the countries have visited installations of the United States armed forces to familiarize themselves with the methods and procedures used in our military establishments.

Since the beginning of the military assistance program, the Greek Army has changed from a

loosely knit organization, designed to cope with guerrilla activity, into a strong force with well-trained units that are familiar with the tactical use and technical aspects of their equipment. Supporting weapons provided through the aid program have included armor and anti-tank weapons, as well as light and medium artillery. Major items of equipment have been integrated within the active army upon arrival in Greece.

The Royal Hellenic Air Force, in addition to its functions of defending Greece against air attack and furnishing tactical air support to the Greek National Army, has also had the responsibility, since the admission of Greece to NATO, of executing missions assigned by headquarters of Allied Air Forces, Southern Europe, a NATO command.

In spite of its extremely limited resources and the precarious state of its economy, Greece has been spending relatively large amounts on its defense program. Total defense expenditures for the past 4 years have amounted to the equivalent of \$331 million, or 7.5 percent of the country's gross national product for the period. This ratio has been exceeded only by the United Kingdom

and France, among the European NATO countries.

Turkey also has been steadily expanding its rate of spending for defense. The Turkish Government's military expenditures in the past 4 years have amounted to over \$1 billion. This was equivalent to 6.6 percent of Turkey's gross national product.

When the military aid program began, the Turkish defense establishment consisted of well-disciplined personnel with a will to fight but with little modern equipment, training, or logistic support. In recent years, Turkey has been transforming its armed forces into one of the most powerful and dependable military organizations in the Near East region. The strategic location of the country makes it desirable for Turkey to maintain a large standing army, quickly expandable on mobilization to receive the initial impact of an overland, amphibian, or airborne invasion. The Turkish army is therefore being organized into a hard-hitting, compact, and relatively mobile force which can be quickly deployed. The air and naval forces are being trained and equipped for important supporting roles.



A Turkish armored unit passing in review at Ankara, Turkey. The tanks were furnished by the United States under the mutual security program.

The military assistance supply program for Iran is in the form of items which will increase the strength and efficiency of the Iranian army and gendarmerie, so that the country can guard itself against internal subversion or external aggression.

The economies of the countries, as well as their defense capabilities, have been aided by the United States program to finance the production of military supplies in friendly countries. We have entered into contracts with Greece, for example, totaling \$35 million for military procurement in that country. Such procurement was made possible by development of a new ammunition plant. Our contracts with Turkey for procurement in that country amount to \$8.5 million.

Special Economic Aid

India's Development Plan Aided by U. S.

Supplementing the technical cooperation program in India, the United States has furnished critically needed supplies and equipment to reinforce the efforts of the Indian Government to reach the development goals set forth in its first

5-year plan. This plan, projected through mid-1956, is aimed at improving the living conditions of India's 363 million people and calls for substantial increases in agricultural production, along with a general development of basic resources, and industrial and transportation facilities.

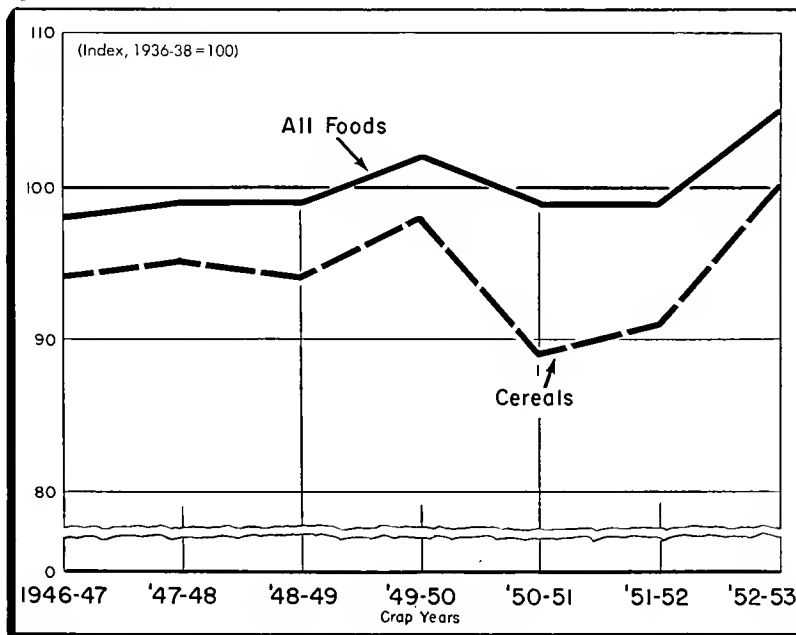
The primary emphasis of the development plan has been on agriculture, and accordingly the United States programs in India for the past 2 years have concentrated on measures which would increase agricultural production. These measures have included the financing of fertilizer imports, as well as technical cooperation for expanding India's Sindri fertilizer plant, the largest in Asia. Materials have also been supplied for the production of agricultural implements and for the drilling of irrigation wells.

For fiscal year 1954, \$57.5 million was programmed for India for special economic aid which will further assist the country's development programs. The bulk of these funds has been allocated for the supply of steel and for rehabilitation of India's railroad system.

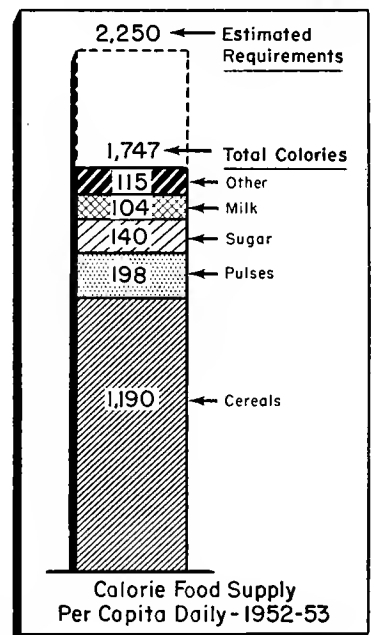
India's requirements for certain types of steel for the fiscal year 1954 have been estimated at 725,000 tons; domestic production for the period

India's Food Situation

Production of Food has Increased . . .



. . . But Supplies are Below Population Requirements



will not exceed 340,000 tons. Without the needed steel, India's development progress would be greatly retarded. To help make up the deficiency in domestic production, the United States has agreed to finance the purchase of 200,000 tons of steel at a cost of \$25.5 million. The equivalent of \$25.5 million in local currency proceeds from domestic sale of the steel will be used for economic development projects mutually approved by the United States and India. The steel shipped under the mutual security program will be used for development projects in agriculture and industry, and for major river-valley projects.

The rehabilitation and maintenance of India's railroad rolling-stock, which had badly deteriorated during World War II, is essential to the development and expansion of all sectors of its economy. India's railway system is the fourth largest in the world. Each day, some 3,800 trains carry more than 3 million passengers over 34,000 miles of track. In December 1953, the United States agreed to use \$20 million of special economic-aid

funds to help finance the purchase of 100 new locomotives and 5,000 new freight cars. India will deposit the equivalent of this amount in a fund to be used for additional development projects jointly agreed upon by the Governments of India and the United States.

During the latter part of 1953, discussions were carried on between the Foreign Operations Administration and the International Bank for Reconstruction and Development to explore the possibilities of establishing a private financial institution to promote industrial expansion in India. As the year ended, the International Bank was planning to send representatives to discuss the matter with potential private investors and the Indian Government.

Iran Gets Aid To Meet a Crisis

In August 1953, the Government of Iran faced economic catastrophe. The Iranian treasury was virtually empty, the Government was deeply in debt, consumer goods were in short supply, and



Construction of the Hirakud River dam in India. This multipurpose dam will eventually irrigate almost 2 million acres. The dam is 3 miles wide, with the dykes extending 11 miles. The Indian Government is spending the equivalent of \$175 million for this project, and the United States has contributed technical knowledge and earth-moving equipment.

prices were rising rapidly. The United States acted quickly to help improve this critical situation in an important and friendly country of the free world. On September 5, the President approved \$45 million of emergency aid to supplement the \$23 million previously programed for economic assistance and technical cooperation.

The Foreign Operations Administration took immediate steps to make \$10 million of the \$45 million grant available to finance Iranian imports of certain needed essentials such as foodstuffs, drugs, cement, iron and steel products, and repair parts. An additional \$12 million was used to buy 100,000 tons of sugar, since Iran's annual sugar output is nearly 130,000 tons below its needs. These commodities have been programed and shipped as fast as possible. The first shipment of sugar, for example, arrived in Iran on November 1, three weeks ahead of schedule.

The remainder of the \$45 million has been programed for additional needed commodities and temporary budget support. The local currency obtained through the sale of the imported supplies will be used in part for government operating expenses, and in part for needed projects in housing, road improvement, and health.

These emergency aid actions have been effective in remedying a number of the immediate difficulties faced by the Iranian Government, but long-term improvements in Iran's economy depend, of course, upon settlement of the oil dispute.

Israel Is Helped To Stabilize Its Economy

In addition to providing the services of American technicians and to training Israeli nationals under the technical cooperation program, the United States has provided Israel with special economic assistance.

The \$70 million of economic assistance funds which had been appropriated for the fiscal year 1953 was a major factor in helping the Israeli Government to stabilize its economy. The bulk of these funds—roughly \$45 million—was used for items such as foodstuffs, fuel, fertilizer, raw materials, and medical supplies. The remainder was used principally for resettlement, housing construction, and for capital development items, mainly in the field of irrigation.

In November 1953, an additional \$26 million was made available. These funds have been used to finance imports of consumer and industrial

goods necessary for the stabilization and increased productivity of Israel's economy. Within 2 months, \$20.5 million worth of procurement authorizations had been issued.

Operations under the grant aid program have resulted in the deposit of Israeli currency in a special counterpart account. Use of these counterpart funds has been closely coordinated with the release of dollars under the grant-aid program, and with technical cooperation. In rangeland development, for example, purchase of equipment and livestock was financed from grant-aid funds, essential relocation costs were covered in part by counterpart funds, and specialists working under the technical cooperation program helped to draw up the plans and put them into effect.

Pakistan Program Stresses Food Output

In the latter half of 1953, \$11.3 million was made available for the special economic aid program to Pakistan.

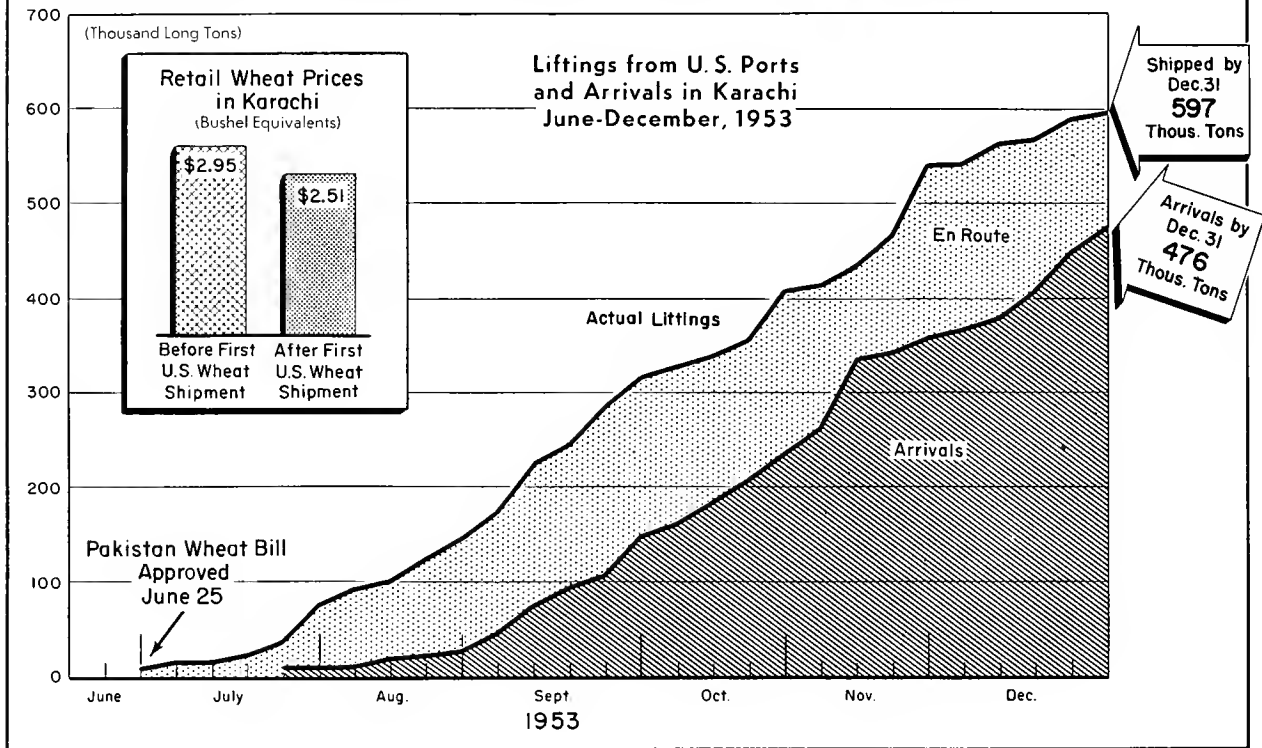
Under this program, project agreements have been signed for importing and producing needed fertilizer to raise food output. The sum of \$3.5 million has been earmarked to assist in the construction of a fertilizer factory; another \$3.1 million has been used to finance fertilizer imports into the country.

Food Program.—To aid the people of Pakistan in a time of threatened famine, an Act was passed authorizing the President to make available up to 1 million tons of excess reserve stocks of Commodity Credit Corporation wheat. Operating under Executive Order, the Foreign Operations Administration immediately made available up to 700,000 long tons on a grant basis. The law making it possible to transfer the wheat was passed by the Congress and approved by the President on June 25, 1953. The first shipload of wheat left the port of Baltimore the next day.

By the end of December, about 600,000 tons were already shipped; over 475,000 tons of wheat, requiring 71 voyages, had arrived at Karachi.

The main objective of the emergency wheat program was to alleviate Pakistan's food crisis after 2 successive years of drought. The program was also aimed to prevent large-scale hoarding and speculation which would boost basic food prices and start an inflationary spiral in Pakistan's already precarious economy.

U. S. Surplus Wheat Is Sent To Relieve Pakistan's Food Shortage



Both objectives were accomplished. The Ambassador of Pakistan has stated that millions of his people were saved from starvation by American wheat. In addition, simultaneously with the arrival of the first relief shipment in late July, the official price of wheat in Pakistan was lowered. Quantities of local wheat, probably being hoarded after two consecutive drought seasons, found their way into the nation's food markets.

The wheat is being shipped from the United States in bulk and bagged in the hold of the ship upon arrival in Karachi. The bagged wheat then travels by rail, truck, and even by camel to the villages in west Pakistan. The Food Minister of Pakistan has said, "We can account for every grain of wheat that we have received. There is nothing we have lost, there is nothing that has been pilfered, there is nothing that we have squandered."

The legislation provided that the American wheat was to be distributed without cost to those who through no fault of their own were unable to pay for it. A system of free distribution to the needy has been put into effect. Work relief projects, which include a 25-percent bonus in wheat to the workers, have also been initiated.

In addition, wheat has been issued to charitable organizations, such as the Red Cross and the Memon Relief Society, to assist in the care of the aged, orphans, and refugees.

From the outset, the Pakistan Government has given favorable publicity to the gift of wheat through newspaper coverage, radio broadcasts, and speeches by Government and local officials. It has produced and issued a documentary film in English, Bengali, and Urdu on the subject. The proceeds derived from that portion of the wheat sold provide funds to support new projects to expand food production and guard against future shortages. The expenditure of the counterpart funds is jointly approved and administered by representatives of the United States Government and the Government of Pakistan.

There is no doubt that the expeditious action by the Congress and the prompt implementation of the Pakistan wheat program prevented a calamity in that country. The American people's gift of wheat has served to strengthen a young, but large and important, nation during a trying period of its early existence.

Emergency Food Programs to Jordan and Libya.—The Jordan Government in early August

requested aid from the United States in the form of a wheat grant. It had become apparent that the 1953 wheat crop in a large area was almost a complete failure. Moreover, the country was still suffering from the effect of the 1951 drought. The aid was approved by the President on September 2, 1953, and an agreement between the United States and Jordan was signed on October 20. In early November, 10,000 tons of hard spring wheat were shipped.

This aid was extended under provisions of Public Law 216, approved in 1953, which authorizes the President to use stocks of agricultural commodities held by the Commodity Credit Corporation to assist friendly peoples in meeting famine or other urgent requirements. Some of the wheat was sold at prevailing prices to obtain funds for defraying costs of distribution; the balance was being distributed free to destitute and unemployed persons.

A serious food shortage also developed in Libya following a severe drought. In December 1953, Libya was declared eligible for assistance under Public Law 216, and shipment of 2,200 tons of wheat was made in December to relieve suffering in the famine-stricken areas.

Palestine Refugee Program: Jordan Valley Development

As a result of hostilities between the Arab States and the State of Israel, hundreds of thousands of Arabs fled from Palestine into neighboring Arab countries. These refugees—destitute, homeless, and almost totally dependent on outside assistance—constitute a serious problem which is woven inextricably into the economic, social and, political frictions that afflict the Near East. The refugee problem remains as one of the principal unresolved issues between Israel and the Arabs. The Arab refugee population totals some 850,000 persons and is growing at the rate of 20,000–25,000 annually.

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) gave increased attention during the latter half of 1953 to ways and means whereby the Arab refugees may become self-supporting. The most significant development during the period was the preparation of a plan for unified development of the Jordan Valley. The plan, prepared at the request of UNRWA by an American engineering firm under the supervision of the Tennessee Valley Authority, was deliberately developed without re-

gard to political factors or present national boundaries. It was designed to show how the waters of the Jordan may be efficiently stored and controlled for irrigation and hydroelectric power for the benefit of all of the peoples of the Jordan watershed, including the refugees.

In view of the economic and political importance of such development, the President, in October 1953, sent Mr. Eric Johnston as his Special Representative, with the rank of Ambassador, to explain the significance and benefits of the plan to the governments of the countries concerned. Mr. Johnston discussed the proposal for the coordinated development of the Jordan River watershed with the leaders of Jordan, Syria, Lebanon, and Israel. The statesmen of all four countries have been studying the proposal, and the President has asked Mr. Johnston to return to the area for further discussions as soon as the governments complete their review.

It is estimated that 240,000 acres of land, now idle and unproductive, can be put into production if the proposed development plan is accepted. Most of this land would yield three crops a year. In addition, more than 65,000 kilowatts of power could be made available to aid the industrial development of the area.

In October 1953, UNRWA concluded an agreement with the Egyptian Government for extensive technical surveys in connection with a proposal to reclaim land in the Sinai Peninsula for refugee use by siphoning water under the Suez Canal from a fresh-water canal fed by the Nile. These surveys, expected to be completed in mid-1954, are being made under a general program agreement between the Egyptian Government and UNRWA, for which \$30 million has been reserved by UNRWA.

The General Assembly of the United Nations, after reviewing the UNRWA program, adopted in November a resolution extending the life of UNRWA through June 30, 1955, and authorized a budget of \$24.8 million for continued relief of the refugees during the fiscal year 1954.

Pursuant to section 549 (a) of the Mutual Security Act of 1953, the Director of the Foreign Operations Administration appointed a special 3-man commission to survey the refugee situation in the Near East and to recommend means of seeking a solution of the refugee problem. This commission had not yet been able to make a survey in the field, and consequently filed on December 14, 1953, an interim report which was transmitted to the Congress. The report recommended that

the United States support the decision of the United Nations General Assembly to continue UNRWA, and endorsed the plan for the unified development of the Jordan River as the best forward step in a practical program for putting the refugees on a self-supporting basis.

Technical Cooperation

United States technical cooperation programs have matched the particular needs of the area. A fisheries adviser for Liberia; an engineering survey for Saudi Arabia; a fertilizer expert for India; a team to establish an agricultural school in Ethiopia; a tax consultant for Iran; a wool-grading expert for Libya; teacher training specialists for Jordan—these are representative of the variety of technical skills needed to carry forward our technical cooperation projects. Within each country, however, the various projects are being integrated into a planned development program in order to produce results which will fit in with the country's overall needs.

The successful impact of the technical cooperation programs is evident in the numbers and types of activities in which the United States has been asked to participate. Almost 800 American technicians are working with nationals of the host countries in the area, imparting needed skills and teaching them how to teach others in order to spread the knowledge among their countrymen. In addition to augmenting a country's own efforts, this work is paving the way for greater interest in private investment, both local and foreign. The increasing participation, not only in money but in the provision by the host governments of land, buildings, equipment and labor, is a healthy sign of growing awareness that these activities are for the benefit of the participating countries, and that United States objectives are simply to assist them in accelerating their development and combatting the ravages of hunger, poverty, and disease.

Land Projects Bring Striking Results

The water-spreading project in Jordan is a dramatic demonstration of what American experience and know-how can accomplish in helping the people of a less developed country. As a direct result of the construction of a system of simple earthen dikes by our technicians working with the Jordanians, lush grass grew in a 200-acre area where there was no record of grass ever growing before. A hay crop, equivalent in volume and

nutritive value to a crop grown in the United States, was harvested and distributed to the desert tribes. It is now planned to grow grains in the reclaimed area.

Word of the success of this project has spread throughout the Near East. A similar project has been started in Egypt. A group of 23 agricultural leaders from 9 countries was brought to the United States to observe various water-spreading and irrigation techniques, and to take intensive training courses in planned water-spreading and related range and forage management. These men, officials of their governments, have returned to their home countries to work there with United States technicians in making use of the methods learned in this country. In addition, plans have been made for a water-spreading training program in Jordan. Each country in the Near East will be asked to send an official and two technicians to participate in the course.

The Government of Iraq has requested assistance in making a scientific and practical attack on the problem of land reclamation. Proposals have been made to establish a Grazing Division in the government and to develop a broad program of testing forage and range plants. Information on techniques and local adaptations will be supplied to other countries.

A comprehensive land-reclamation program is under way in Israel as part of a long-range project for the development of at least half a million acres of range grazing land which have been badly damaged by centuries of overgrazing. The land-reclamation program is aimed at reclaiming 25,000 to 40,000 acres each year and is expected to revolutionize Israel's cattle industry. When the projected program is completed, about 10,000 tons of dressed beef will be produced annually, and Israel will be able to cut down its heavy expenditures for meat imports. American experts in range management and cattle production are providing technical guidance.

Programs of community development or village improvement—some of which include land reclamation, land tenure, and better utilization of land resources—are also under way in a number of countries. Egypt is undertaking a demonstration community development program in two provinces where landless farmers will be resettled on land which is being reclaimed. In Iran, the Shah's land reform program is being given fresh impetus by United States technical cooperation in farm management, rural credit, sanitation and

supervised farming methods. In Lebanon, a project to irrigate lands in the Kasmie Valley includes technical cooperation in agricultural extension, education, and public health.

Water utilization programs are also being carried on in the African territories. In the Belgian Congo, a technical cooperation project is now under way for the better control and use of the area's water facilities. In Italian Somaliland, FOA has completed a ground-water survey, and an American expert is teaching well-digging techniques to the natives.

In Angola, a contract has been signed with an American firm to carry out a program of exploration and development of underground water supplies. Another contract has been approved for a survey to select the best possibilities for water-power development.

Agricultural Gains and New Techniques

The obstacles to progress in agriculture, imposed by outmoded methods and untrained workers, gradually are being overcome. Production of foodstuffs and fibers is beginning to reflect the improved techniques introduced under the technical cooperation program.

In Greece, for example, agricultural production reached an all-time high in 1953. For the first time in many years, self-sufficiency was achieved in the production of such items as rice, beans, and peas. There was more than enough olive oil for domestic requirements, almost enough fresh vegetables, and nearly enough fish. Gross agricultural output for the crop year beginning in 1953 was 28 percent higher than the prewar average.

These increases are, in large part, due to the continuing technical and economic programs which began in 1947. American specialists in various branches of agriculture have worked with Greek officials in the program to increase production. They helped to establish the first agricultural extension service in the country; 400 trained experts are now working directly with farmers and farm families. Land has been reclaimed, wells drilled, and irrigation facilities extended. Improved seeds, farm equipment, fertilizers, and pesticides have been provided. Aid in the form of fishing vessels and equipment, and technical advice by American fisheries specialists, have enabled the Greek people to raise their supply of fish about 20,000 metric tons above prewar levels. The annual increase is worth about \$6 million; new equipment for fisheries costs about \$2 million.

A permanent agricultural extension service is now being inaugurated in Iraq. The Iraqi Government last fall adopted a plan, prepared jointly by United States and Iraqi technicians, which included not only provision for annual budgeting and legislative action, but specific proposals for numbers and types of workers through 1957, location and operation of demonstration farms, orderly expansion to insure complete coverage of all areas of the country, and training courses in specialized fields. Through coordinated programs, trained workers will be provided from the Iraq Agriculture College, and technical support will be furnished by the University of Arizona.

Liberia's new Research Center at Suakoko was dedicated in October 1953. The Center is disseminating, through extension work and training courses, information on improved varieties of crops for local consumption and for export. Liberia's annual food shortage is reportedly less severe this year because of the country's increased agricultural production. More fish are now on the market, at lower prices, because of more effective marine fishing techniques brought about through the work of an American fisheries expert.

Sixty thousand chicks donated by American farmers have been distributed to villages in Iran to bring up the standard of farm flocks; 5 million head of livestock have been vaccinated or treated by mobile veterinary teams; 50 pure-bred cattle have been distributed for breeding purposes. An improved native variety of wheat, which showed an average increase in yield of 25 percent in test plantings, has been developed, and 100 tons of this variety were distributed for seed in 1953.

Three forest nurseries have been completed in Libya, and 160,000 seedlings are being planted by farmers and government workers on the sand dune stabilization project. Over 500 varieties of grains, grasses, legumes, and vegetables from 33 different countries have been brought into Nepal. It is estimated that crop production in Nepal can be increased by 20 percent through higher-yielding and disease-resistant plants. Mechanical grading machines, bought on the advice of American technicians, have increased the sale of Lebanon's potatoes and onions in the Persian Gulf area.

Negotiations have been started for programs of technical cooperation in Kenya, Uganda, and Tanganyika in vocational training, agricultural extension work, and hydrology. In Madagascar, an American rice specialist is helping to develop a program for increasing the island's rice production.



Auger supplied by FOA drills holes for tree plantation in Libya. Up to 1,000 holes per day can be bored with this rig in soil so hard that output per man with pick and shovel is only 6 to 8 holes. Planting of 90,000 trees is scheduled.

Health Conditions Block Economic Development

A major obstacle to the economic development of the countries in the area is the low productivity caused by debilitating diseases and the relatively short life span. Health facilities and trained personnel are inadequate in most countries. In India, for instance, there is only 1 physician for 6,300 persons and only 32 hospital beds for 100,000 persons. The infant mortality rate is 116 per 1,000 births; the average life expectancy is 27 years. Comparable figures for Egypt are 1 physician for 5,000 persons, 110 hospital beds for 100,000 persons, an infant mortality rate of 130, and an average life expectancy of 39 years. In the United States, by contrast, we have one physician for 750 people and 900 hospital beds for 100,000 persons. The infant mortality rate is 29 per 1,000 births, and our life expectancy is 68 years.

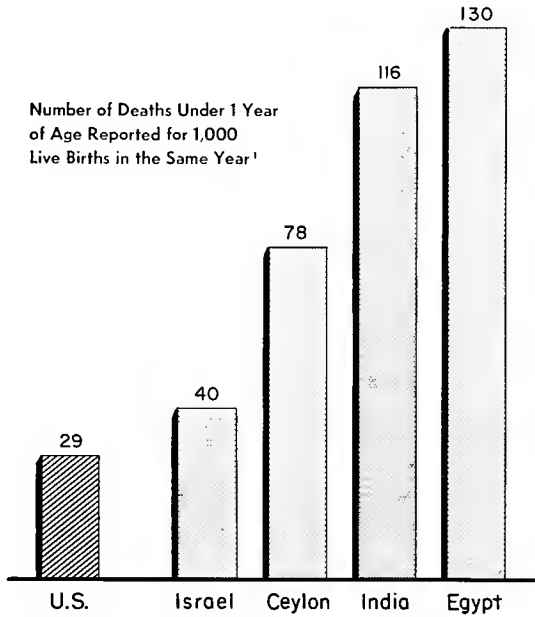
Health and sanitation activities carried on under the technical cooperation program are designed to provide better health facilities, reduce the incidence of preventable diseases, and improve environmental sanitation. About 125 American public health specialists, including physicians, public health nurses, and sanitary engineers, are working in 14 countries of the region to foster better health practices.

The annual pilgrimage to Mecca gathers together Moslems from all over the world. To reduce the threat of epidemic outbreaks caused by overcrowding and insufficient housing and sanitary facilities, assistance is being given to the Government of Saudi Arabia, in cooperation with the World Health Organization, to complete a quarantine station at Jidda.

A maternal and child-health demonstration and training center has been established at Samawa, a city in southern Iraq. This center is organized

Infant Mortality Rates

Number of Deaths Under 1 Year of Age Reported for 1,000 Live Births in the Same Year¹



¹ Based on latest available data

and equipped to train midwives and nurses. A continuous training course is in progress and serves as a model for the extension of similar services throughout Iraq. A new Division of Environmental Sanitation in the Iraq Ministry of Health has also been organized, and health technicians are advising on sanitary engineering and sanitation activities.

Forty practical nurses and midwives are ready for work after attending Jordan's first nurses' training school, which opened in 1953. Classes have begun for a small group of women whose educational background qualified them for careers as professional nurses.

Some villages of the Bekaa Valley of Lebanon are now served, for the first time, by a health center. Medical teams are attacking trachoma in Libya, principally among the school children and their teachers. In Iran, the Ministry of Health and the United States Operations Mission have entered into a cooperative health program operating under a joint fund arrangement. The emphasis is on a program of training and demonstration, principally in disease prevention.

Education

Schools beyond the secondary level are rare in most of the countries in this area, and consequently the facilities for the training of teachers have been extremely limited. The technical cooperation

program, therefore, has placed considerable emphasis on the development of teacher training schools. Training of teachers creates a fast "multiplying factor" to accelerate the spread of knowledge.

Another educational area in which the countries are particularly deficient is professional and vocational training. It is not practicable, of course, to develop professional colleges in all fields in each country, but technical and vocational schools are established where there is an active demand for trained personnel. A commercial school in Saudi Arabia, for example, was started with the support of local businessmen.

Jordan now has a teacher training college for women, and another for men. These are the first institutions beyond the secondary school level that Jordan has ever had. New buildings for both colleges are now under construction to replace the present makeshift quarters. Training courses for nurses, nurses' aides, and midwives have also been started. Teacher training also is being expanded in Liberia and Libya.

The enthusiastic cooperation of Oklahoma A. & M. College, in little more than a year, has given a great boost to the educational level and school facilities of Ethiopia. Its assistance has enabled an agricultural secondary school in Jimma to begin its second year with the enrollment, in addition to the high school group, of 17 students qualified for first-year college work. The college is also operating the technical education high school in Addis Ababa and assisting in the technical school at Asmara. Moreover, it is providing the college staff for the Agricultural and Mechanical College at Harar. The activities of Oklahoma A. & M. College, under an extended contract, are to be expanded not only in agriculture but also in vocational education.

Public Administration and Government Services

As experience has been gained in technical cooperation programs, one problem common to all the underdeveloped countries emerges. There is a great lack of managerial skills. Many of the programs undertaken in technical cooperation must be operated as public services. The underlying purpose of United States programs is to enable the host governments independently to carry on the work once it has been started with our help, but American technicians in the field have found few established mechanisms for carry-



Today he gets well, despite "red spots" and "choking." This combination—measles followed by pneumonia—was certain death before local nurses, trained under the United States-Iranian health program, set up village health clinics and made penicillin available. Nurse, on left, and mother watch a life saved through shared knowledge.

ing out the normal functions of government. Most of the governments in the area are in transition from dependency or highly centralized power to a broader base where responsibility is delegated to elected or appointed representatives. Good intentions alone cannot bring a public health program or an agricultural extension service into being. Planning and administering national programs require management ability and empirical knowledge of how to get things done.

Our representatives are advising the host governments on methods of organization, and selection and training of their people. Practical application of that advice is woven into the work itself. A step is taken toward annual budgeting when the program and project agreements commit

each government to provide specified sums at specified dates. Provision for continuity leads to legislative action. In Jordan, for instance, cooperative service agencies, jointly staffed and administered by United States and local technicians, are set up as bureaus within the Ministries of the host government. In other countries, a joint fund serves not only as a financing and management function but also as a means to prepare nationals for their orderly assumption of complete responsibility when American assistance is withdrawn.

The success of our technical cooperation programs must ultimately be measured against the principle of continuity and the preparation of nationals to carry on the programs.

CHAPTER IV

Far East

THE mutual security program in the Far East is designed to help the nations of the area develop the economic and military strength they need to achieve and maintain political and social stability. This stability is essential if the Asian governments are to preserve their independence and continue to work toward improving the living conditions of their masses of people. In 1953, the Far East region was given greater emphasis in the mutual security program in terms of both funds and activities. In the last half of the year, for example, an expanded program of economic aid and technical cooperation was initiated for the rebuilding of Korea; over three-quarters of a billion dollars of special financial assistance was earmarked to strengthen the military effort in Indochina.

The nations in the Far East area which participated in the mutual security program during the second half of 1953, were: the three Associated States of Indochina, Burma¹, the Republic of China on Formosa, Indonesia, the Republic of Korea, the Philippines, and Thailand. Negotiations for a Mutual Defense Assistance Agreement were under way with Japan. Together, these nations comprise the front line of free world defense against Communist aggression in the Far East. The fall of any one would menace the security of all.

The amounts and types of aid provided vary greatly, depending upon the nature and extent of the problems individual countries face. To increase their armed strength, the nations of the Far East require certain weapons and materiel to equip their forces. They also require outside help in building up military production capacity and in constructing and modernizing transportation

¹ Although Burma has received no new aid funds since June 30, 1953, activities already in process are being completed.

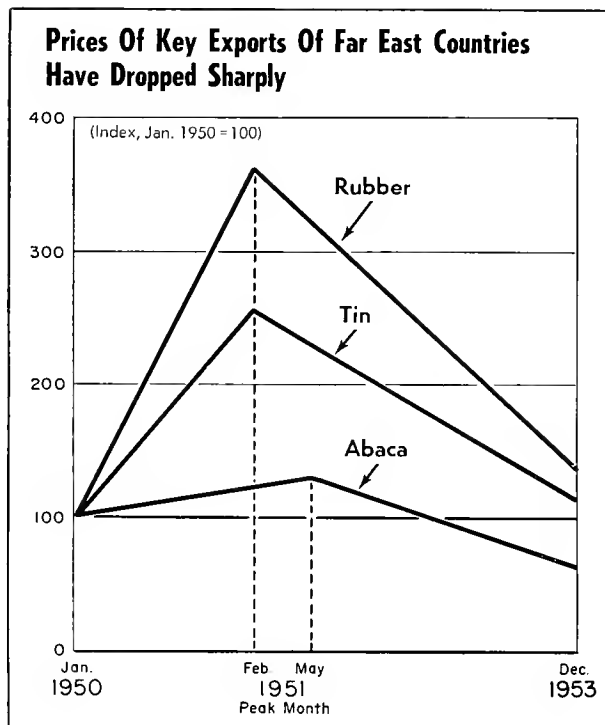
facilities and other installations necessary to military operations.

For greater economic strength, some countries need special support in financing their defense efforts; others need guidance in improving monetary and fiscal management policies. All must expand total and per capita industrial and agricultural production. For such expansion, technical cooperation is urgently needed to introduce modern technology, to train technical and governmental administrative personnel, to improve the utilization of power, and to help design broad policies favorable to increased economic activity.

By meshing United States efforts with the efforts of the individual countries, the mutual security program has helped strengthen the military defenses of the Far East against armed aggression; equally significant, it has made important contributions to the building of sound economic and social structures. Our technical and economic programs in the area have been designed not only to strengthen weak spots, but to help lay firm foundations for further economic and social advancement. Some countries are moving forward more rapidly than others, but most have made a good start toward identifying the problems obstructing development, toward remedying their more critical structural weaknesses, and toward formulating programs for further positive action. In the main, our assistance has served as a catalyst, helping the countries to solve their multiple problems through more effective use of their own resources.

The building of internal strength in each country, however, is only an intermediate step. To achieve mutual security, it is necessary to obtain a greater degree of regional cooperation among the free Asian nations as a whole. Thus far, pressing domestic problems, general inexperience with economic planning, and unstable intra-area economic

relationships have combined to retard a coordinated regional effort. In fact, growing competition for markets for the same products, such as rice, rubber and tin, has recently become a complicating, divisive force. The decline during the past year in world market prices of these basic commodities has reduced the foreign exchange earnings of some of the Southeast Asian nations—notably Indonesia, Malaya, Burma, and Thailand—and made increasingly difficult the mobilization of additional resources for further economic development or for adequate employment of their expanding populations.



Japan, on the other hand, a large importer of rice and raw materials, has been running a huge commercial trade deficit. In recent years, this deficit has been largely covered by extraordinary United States military expenditures in the country. The temporary nature of these expenditures, however, dictates the urgent need for Japan to expand its exports of manufactured goods. By mutually beneficial regional arrangements and by increasing trade both among themselves and with the rest of the free world, the countries of the Far East area could greatly contribute to one another's development.

The disruptive economic effects of the continued dependence of the Asian nations on agriculture

and the export of raw materials is creating another dilemma for the area. In many cases diversification, with more emphasis on industrial development, is essential to a satisfactorily balanced economy, to efficient use of resources, and to the maintenance of satisfactory levels of employment.

The forward progress of currently underdeveloped areas is not merely an end to be sought for its own sake, but is a necessary means to the achievement of economic stability throughout the free world. To bring the nations of Asia into closer partnership requires continued effort by both the Far East nations and the United States to develop long-term national and regional strength in the Far East area.

Security Buildup

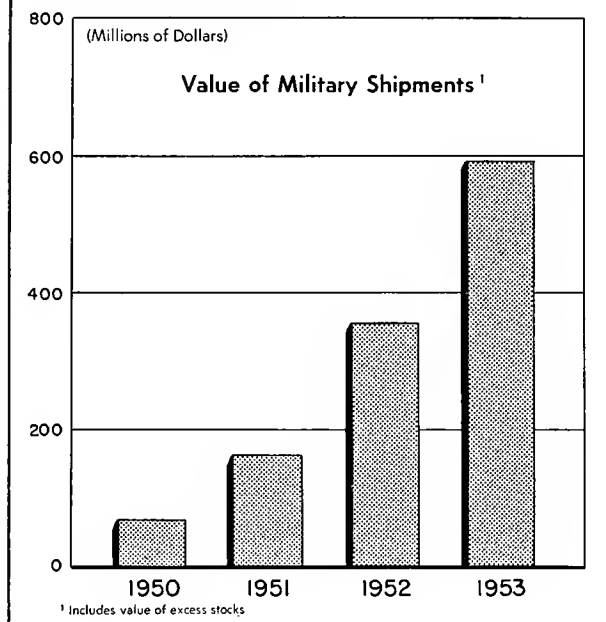
While the recent cease-fire agreement stopped the fighting in Korea, the Communist-backed Viet Minh warfare in the Indochina region continues to threaten the security of the Far East. At the end of 1953, a rebel Viet Minh drive was launched in central Laos. The stability of the Southeast Asian region was further threatened by increased signs of intensified Communist agitation in north-east Thailand and in Indonesia.

Unaided, the free countries of Asia cannot establish or maintain the military forces and the expensive weapons of modern war that they must have for their own defense. Their resources must be supplemented if the military buildup necessary to ward off the aggressive threats of Communism is to be attained.

In the last six months of 1953, the United States military programs in the Far East have resulted in the shipment of weapons and equipment valued at \$205 million to the Associated States of Indochina, the Republic of China on Formosa, the Philippines, and Thailand. From the beginning of the military assistance programs in 1949 to the end of December 1953, a total of \$2,393 million worth of materiel had been programmed, of which \$1,179 million worth had been shipped to the Far East.

In addition to these end-item shipments, deliveries to Indochina and Formosa of "common-use items"—that is, items such as petroleum, textiles, construction materials, and hospital equipment which can be used for both military and civilian purposes—have been accelerated. For both countries also, there has been an increase in military appropriations for the fiscal year 1954.

Military Aid Shipments To The Far East Have Increased Rapidly



Indochina: French—Viet-Nam Effort Reinforced

December of 1953 marked the beginning of the eighth year of Communist-led Viet Minh aggression against the State of Viet-Nam. In the same month, the rebel Viet Minh made a thrust into the neighboring state of Laos, moving across the waist of Laos to the Mekong River. This attack on Laos gave further proof that Viet Minh activities are motivated by a drive for expanded Communist power outside Viet-Nam.

For the past seven years, the military contest in Indochina has been virtually stalemated. Control over the battle areas has seesawed back and forth, and net gains or losses in territory have been small. The protracted military operations, however, have put a continuous and serious strain on France's financial and military resources, draining off the equivalent of about \$1 billion a year and thousands of French officers and men. The fighting has also strained the already hard-pressed economies of the three States of Viet-Nam, Laos, and Cambodia and brought acute privation and hardship to thousands of war refugees. The rate of losses incurred by the French Union forces and the national armies of the Associated States have been comparable to United States losses in Korea.

The military assistance we provide to support

the efforts of the French Union and Associated States forces in Indochina receives the highest priority. The monthly rate of military shipments in 1953 was 50 percent higher than in 1952. By the end of 1953, almost 400 ships bearing arms for Indochina had arrived in Viet-Nam ports and had delivered to the French and Associated States forces significant quantities of military supplies, including small-arms ammunition; transport vehicles and trailers; combat vehicles; military aircraft; naval vessels and small craft; radio sets; and a wide range of other essential materiel. These supplies were vital to the efforts of French Union and national forces. Without the military aid furnished through the mutual security program, the hope of Indochina's people for freedom could be quickly smothered under Communist domination.

During the latter half of 1953, France intensified her efforts in Indochina. General Henri Navarre, who took command of the campaign in late spring, formulated a comprehensive plan to retake the offensive in the Indochina area by building up native units into mobile, hard-hitting combat forces. The Navarre Plan was accepted by the French Government, and in September, French Union forces in Indochina were strengthened by 9 infantry battalions, including the French battalion from Korea, as well as by additional naval and air forces.

Concurrently with the intensified French effort, steps were taken to build up the national armies of the Associated States. The Joint French-Viet-Nam High Military Committee has decided to create additional "Kinh Quan" (light) battalions and heavy companies, all manned and staffed by Viet-Nameese. The new "Kinh Quan" battalions are expected to match the Viet Minh guerrillas' own tactics, to safeguard newly liberated areas, and to increase the total number of effectives in the field.

To support this augmented effort, the United States in September 1953 approved up to \$385 million in addition to the \$400 million of financial aid initially made available for fiscal year 1954. These amounts were exclusive of the cost of military materiel and direct economic aid to the Associated States. The increased buildup of French Union and Associated States' forces, together with the financial aid and military equipment supplied by the United States, should permit an intensified effort in Indochina without entailing any basic alterations of the French Government's



A new commando-type light battalion of the Viet-Nameese national army. These units, strengthened with United States equipment, are especially trained to combat the Communist guerrillas.

military commitments to the North Atlantic Treaty Organization.

Formosa's Military Capabilities Strengthened

United States support to the Government of the Republic of China on Formosa is helping to reinforce the military capabilities of that Government. Our Military Assistance Advisory Group is aiding the Chinese military establishment in the organization and training of its armed forces and in the utilization of the military weapons and equipment provided under the mutual security program.

During the latter half of 1953, particular emphasis was placed on the delivery of jet planes for use of the Chinese air forces. Four major airfields have been rehabilitated and expanded to accommodate the modern aircraft which are being incorporated into the Chinese military buildup.

In addition to military end-item aid, the United States has provided defense-supporting economic assistance. Funds have also been provided to finance the import of "common-use" items which are delivered to the military, such as soybeans for rations, raw cotton for uniforms, petroleum

products, medical supplies, and construction materials. These "common-use" items have helped to build the Chinese soldier, once poorly clothed and undernourished, into a stronger, better-fed, better-housed fighting man.

A barracks construction program, carried out with United States assistance, has provided proper quarters for thousands of troops who were formerly housed in civilian homes, warehouses, schools, and office buildings. The program to rehabilitate and expand transportation facilities is not only promoting the economic progress of Formosa but is also assisting in meeting military needs. For example, the Island's principal north-south highway is being hard-surfaced to provide better mobility of troops and supplies.

Domestic output of ammunition for small arms is being increased by providing existing munition plants with modern equipment and technical guidance. The improved efficiency of the local munitions industry has led to awards of offshore procurement contracts totaling nearly \$6 million. Proceeds from these contracts are being used to finance additional supplies of raw materials needed for further production.



Chinese air force mechanics overhauling a Continental aircraft engine at the Cadet Flying School in Formosa. A United States Military Advisory Group is helping to train the armed forces of the Republic of China.

The security buildup is also proceeding in other friendly countries of the Far East. The Philippines, assisted under the mutual security program, has been enabled to maintain a battalion combat team in Korea and to strengthen further its security forces in the home islands. Military grant assistance is also helping to modernize the armed forces of Thailand, which shares its long border with the Associated States of Indochina. Under the mutual security program, the Thai Government is being aided in the modernization and equipment of its ground forces and the strengthening of its small, but efficient, air force. In 1953, Thailand devoted 36 percent of its total national budget expenditure to improving the combat efficiency of its armed services.

Counterpart Funds

Through December 31, 1953, the foregoing four countries deposited the equivalent of \$282 million in their local currency counterpart special accounts. Of this total, the equivalent of about \$8 million was transferred to the account of the United States to meet certain overseas costs incurred in administering the aid program.

Withdrawals from the countries' share of these counterpart funds accounts are made for purposes mutually agreed upon by the United States and the depositing country. By the end of December 1953, the FOA had approved for withdrawal almost 80 percent of the \$274 million of counterpart funds available for country use. Actual withdrawals from the accounts totaled the equivalent of \$210 million.

In Formosa, FOA had approved the withdrawal of the equivalent of \$154 million through December 31, 1953. About 45 percent of the total approvals was earmarked for military purposes. Approvals for nonmilitary uses included: \$23 million for operations of the Joint Commission on Rural Reconstruction, \$19 million for agricultural development, \$10 million for power facilities, \$8 million for highways, and \$6 million for development of manufacturing and mining.

Counterpart releases in the Associated States of Indochina totaled the equivalent of \$29 million through December 31, 1953. Over 40 percent of this amount was used for public administration and highway construction and development. Projects to improve the highway system, which called for some \$7 million in local currency, were of particular importance to the conduct of military operations. Counterpart funds were also released for agricultural development, public health services, and low-cost housing.

Philippine counterpart funds amounting to \$12 million, or 41 percent of the \$30 million approved for release, have been channeled into agricultural development projects. Other important projects for which counterpart funds were used included industrial development, highway construction, improvement of government services, low-cost housing, and the development of public health services.

In Thailand, counterpart funds have been used mainly for agricultural development and public health programs. Counterpart funds released for these two categories amounted to the equivalent of \$4 million out of the total of \$7 million approved for country use by the end of December 1953. Other significant approvals for withdrawal were for the development of mining and for the improvement of educational facilities.

Special Aid to Korea

Three years of bitter warfare have inflicted enormous damage on the Korean economy and brought intense suffering to the Korean people. Some 1 million South Koreans have been killed. Five million people depend on some measure of relief to stay alive; over 2½ million have been made homeless.

Immediately after the suspension of hostilities in mid-1953, the United States took the lead in assisting the valiant Korean people to rebuild their devastated country. On July 27, the Presi-

dent asked Congress for \$200 million for interim emergency aid to be used for the rehabilitation and economic support of the Republic of Korea. On August 7, the Congress approved the transfer of this amount from the Department of Defense to the Foreign Operations Administration. Four days later, rice, barley, and cotton left the ports of Houston and San Francisco, bound for Pusan Harbor. In the next 15 days, 5 more ships left with aid supplies. By the end of the year, substantial amounts of United States-financed food supplies, cotton, rubber, and fertilizer had arrived to aid the Korean people in their reconstruction efforts. Through December 31, 1953, about \$50 million had been allotted from the \$200 million authorization.

Economic Aid Has a Twofold Objective

The basic objective of an economic program for South Korea is to develop an economy which can meet the needs of the Korean people and, at the same time, support the military forces required to deter external armed aggression.

The Korean Government faces a number of immediate and multi-faceted problems. Urgent relief measures must be carried out. Inflationary pressures must be curbed. A greater measure of governmental financial stability has to be achieved. To strengthen the economy, there is a growing need for more of almost everything—food, coal, fertilizers, textiles, power, transportation and communication facilities. Skilled manpower, trained technicians and managerial personnel are in short supply in almost all fields of endeavor.

Over \$400 million has been programmed for fiscal year 1954 to be used for economic support to Korea. These programs are being administered by the Foreign Operations Administration, the Department of Defense, and the United Nations Korean Reconstruction Agency. Since the economic aid program represents a joint undertaking on the part of the Government of Korea, the United States, and the United Nations, the President on August 18, 1953, appointed Mr. C. Tyler Wood to serve on the staff of the United Nations Command as Economic Coordinator to coordinate the various programs in order to avoid duplication of effort. Mr. Wood also was given the task of working out the necessary arrangements with representatives of the Korean Government by which the economic program could move forward most effectively.

On December 14, an agreement was signed under which the Combined Economic Board—a joint agency of the United Nations Command and of the Republic of Korea—would insure that the funds programed for economic assistance will be used to produce the greatest possible benefits for the Korean people.

The signing of the agreement and the establishment of coordination procedures will permit the current assistance effort to move ahead on a greatly expanded scale. Much progress has already been made. For example, in the first 10 months of 1953, electric power production was 21 percent above the corresponding period of 1952. Cotton cloth production was up 84 percent, and coal production was up 64 percent. Rice output in 1953 was 7 percent over the previous year.

The programs of the United Nations Korean Reconstruction Agency (UNKRA), and the Department of the Army have been responsible for a large part of this progress.

In 1953, UNKRA delivered \$30 million worth of supplies and equipment to Korea. The bulk of the deliveries—about \$22 million worth—consisted of agricultural items such as grain, fertilizer, irrigation equipment, farm implements, and livestock. School books and school equipment were also provided, as well as transportation vehicles, a harbor dredge, and hospital supplies. The Department of the Army has provided subsistence for 2 million persons, and partial relief for an additional million. It has helped to keep in operation vital highways and railways. The Army-operated health programs have been largely responsible for the pronounced reduction in epidemic deaths; for example, deaths due to typhoid were reduced from 2,500 in 1951 to 30, in 1953.

Negotiations With Japan

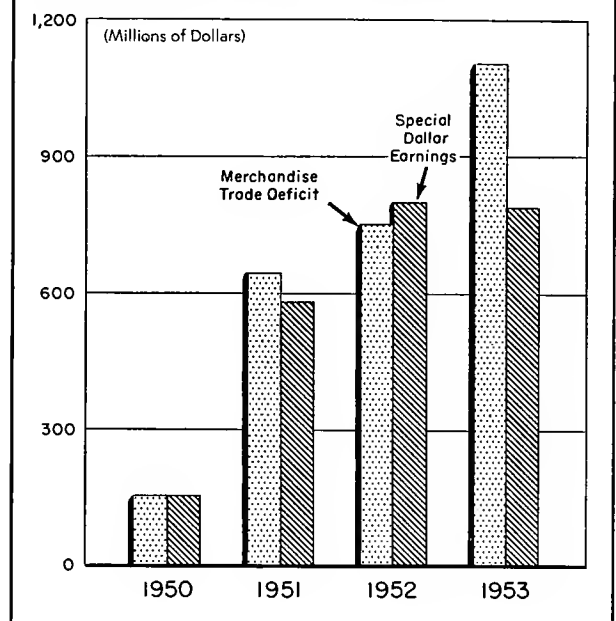
The proposed inclusion of Japan in the mutual security program resulted in the initiation of negotiations in July 1953 for a Mutual Defense Assistance Agreement between the United States and the Japanese Governments. These negotiations have been proceeding satisfactorily and are nearing conclusion.

During October 1953, a series of conferences was held in Washington which covered a variety of problems of common concern, such as the application of the mutual security program to Japan, Japan's defense program, and its general economic situation. These conferences laid the groundwork

for continued cooperation between the two Governments.

Although Japan experienced a consumption boom in 1953, it currently faces extremely serious economic problems. The lagging export trade and increasing requirements for imports have progressively widened the trade gap over the past 3 years. In 1950, Japan's merchandise trade was out of balance by about \$150 million. The gap between imports and exports increased more than threefold during the following year, and in 1952, it exceeded \$750 million. Although final trade data are not yet available for all of the year 1953, the imbalance in Japan's merchandise, or

Special U. S. Dollar Expenditures In Japan Have Largely Offset The Country's Trade Deficit



visible, trade will be about \$1.1 billion—roughly half the value of Japan's total imports. Taking into account a probable net surplus of about \$150 million from invisible-type earnings, the country's total deficit on both merchandise trade and invisible earnings for 1953 will still be about \$975 million.

During the last 3 years, Japan's trade imbalance has been largely offset by special expenditures of the United States related to the Korean war and the maintenance of our military forces in Japan under the terms of our Security Treaty. This situation, of course, cannot continue indefinitely. United States special expenditures are expected to taper off in 1955, and Japan's economic

position increasingly will depend upon the maintenance of a high level of economic activity and trade throughout the world, and an improvement of the competitive position of Japan's manufactured goods. The Japanese Government is now planning budgetary and other steps to strengthen the nation's economy and defenses.

Negotiations with the Japanese Government are in progress for the sale of United States agricultural products under Section 550 of the Mutual Security Act. A program of approximately \$50 million has been tentatively agreed upon. Twenty percent of the local currency proceeds are to be used to help develop Japan's economy; the balance will be used to purchase military items under United States military assistance programs.

Economic Assistance and Technical Cooperation

The economic assistance and technical cooperation programs in the Far East, jointly developed and financed by the Foreign Operations Administration and the participating countries, constitute a tangible expression of the United States policy to advance the freedom and welfare of the Asian peoples so that they can become effective and self-reliant partners in the free world.

United States technicians are working with the Far Eastern governments and people to make better use of available resources, to increase production, and to improve governmental services and administration. Our economic assistance and technical cooperation activities in the Far East produce results which go beyond measurable improvements in food output, health conditions, power production, and transportation facilities. A child cured of yaws or malaria, a farmer who is given the means to save and expand his crop, a factory or a mine laborer who benefits from better working conditions, a small businessman who gets needed credit support—these are the kind of results which cannot be computed in cold statistical terms, but which, taken together, win popular support for the free governments of Asia, reduce the disruptive social factors which breed discontent, and nullify the efforts of Communist propaganda and attempted subversion.

Economic and technical development, however, is neither a self-starting process nor a goal quickly accomplished. Our programs in the Far East are designed to provide the impetus and show the way. Where financial and technical support is

needed and requested, we are prepared to give such support within the limit of our capabilities. It is up to the countries, themselves, to push forward with all strength toward the desired ends.

A total of \$126 million was programed during fiscal year 1954 for economic aid and technical cooperation programs in the countries of the Far East, exclusive of Korea. Almost one-half of these funds have been earmarked to finance shipments of essential commodities to the Associated States of Indochina and the Republic of China on Formosa. These commodities consisted mainly of food, construction materials, machinery, and other consumer-type goods required to meet the needs of the civilian economy, help control inflationary pressures, and rehabilitate war refugees.

The remainder of the funds were channeled into economic and technical programs which emphasized agriculture, manufacturing and mining, and transportation and power. These fields of activity accounted for 38 percent of the funds programed for the fiscal year. The remainder was used for projects in public health, public administration, education, and engineering advisory services. The cumulative total programed for Far East countries from July 5, 1950, through June 30, 1954, amounted to \$770 million.

At the end of 1953, there were 300 American technicians working in the Far East countries which participated in the mutual security program. In addition, about 430 national trainees were taking part in specialized training programs in both the United States and abroad.

Some Examples of Progress in a Few Short Years

The measure of the overall success of our operations in the Far East is evident in the number of noteworthy gains made in the few short years since a program was begun.

Agricultural Improvement.—In the Philippines, United States technical experts, and supplies of fertilizer and seeds, have helped the Filipino farmer greatly to expand his output of rice. Over 50,000 tons of fertilizers were sold to more than 220,000 farmers and used to fertilize 900,000 acres of farmland. Irrigation pump units, providing water to 22,500 acres have been installed. One gravity system, irrigating 7,500 acres has been completed, and at present 3 gravity systems, for which dollar requirements were financed by the Foreign Operations Administration, are being constructed to irrigate over 100,000 acres.

The 1953-54 rice crop is estimated at 3.2 million tons, 23 percent more than the 1950-51 crop and about 50 percent higher than prewar harvests. This yield marks the attainment of virtual self-sufficiency in rice output for the country.

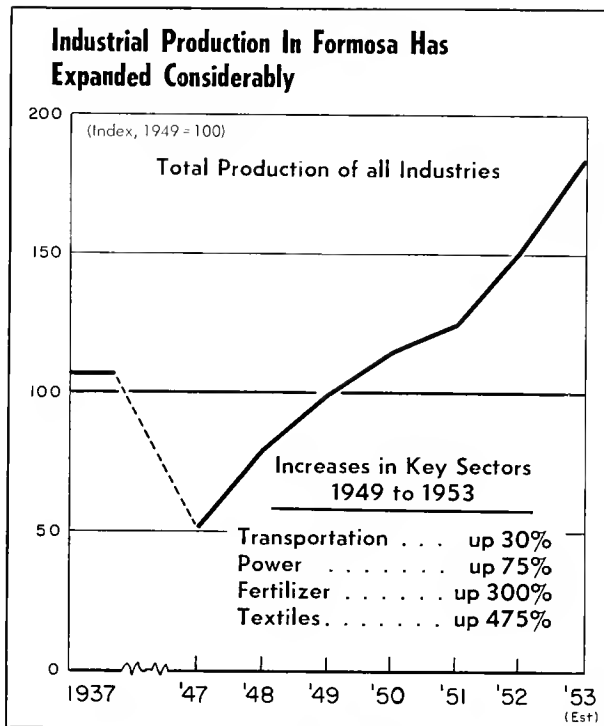
Also in the Philippines, a management contract to analyze and reorganize the vital land registration and title service of the Bureau of Lands, eliminate the backlog of title applications, and install modern methods is being carried out by an American management consultant firm.

Thailand depends on rice exports for the greater part of its foreign exchange earnings. Over the past 2 years, demonstrations on more than 1,000 one-half-acre plots have shown the Thai farmers that rice yields can be doubled and tripled on certain types of soil by proper application of fertilizer. The technical cooperation programs in that country have been instrumental in boosting rice output considerably. The 1953-54 rice crop is estimated at 75 percent above prewar.

To help the Thai Government in its efforts to export its rice surpluses, work of United States technicians is being directed toward the improvement of the country's marketing and distribution facilities and efficiency. These efforts are aimed at reducing costs so that Thailand will be in a better competitive position to meet the price requirements of the area.

Transportation and Power.—The economic progress of the Far East countries is retarded by poor transportation facilities and inadequate power output. Improvement of these basic sectors of the economy is essential to development of both the agricultural and industrial bases of the area.

Our assistance efforts in the fields of transportation and power have been particularly effective in the case of Formosa. United States technical advice and raw materials helped the Chinese to complete the longest steel-span highway bridge in the Far East, at Silo. The 6,500-foot Silo Bridge, links the main north-south highway along Formosa's west coast and permits through traffic on the highway even during the annual 5-month rainy season. The major port at Kaohsiung, on the Island's southwest coast, has also been improved so that the unloading and "turn-around" time of ships has been considerably shortened. These accomplishments are not only necessary to the progress of the civilian economy, but are also important to the buildup of military strength.



Mutual security programs have also helped the Chinese Government considerably to expand the Island's power facilities. Power output has risen over 75 percent from 1949 to 1953. This added power has made possible the increase in Formosa's fertilizer and textile production and has enabled the expansion of military and defense-supporting industries.

In Thailand, 800 miles of highway have been improved for all-weather use. Nearly 100 Thais have been trained in highway maintenance at the Heavy Equipment and Operations Maintenance School in Bangkok. With a dredge furnished under the mutual security program, the Thai Government is dredging a ship channel at Bangkok; the project is scheduled for completion in the early part of 1954. Our aid programs in Thailand have also helped step up the country's power output. Electric power production in Bangkok for the first half of 1953 was recently reported at over 34 percent above 1951.

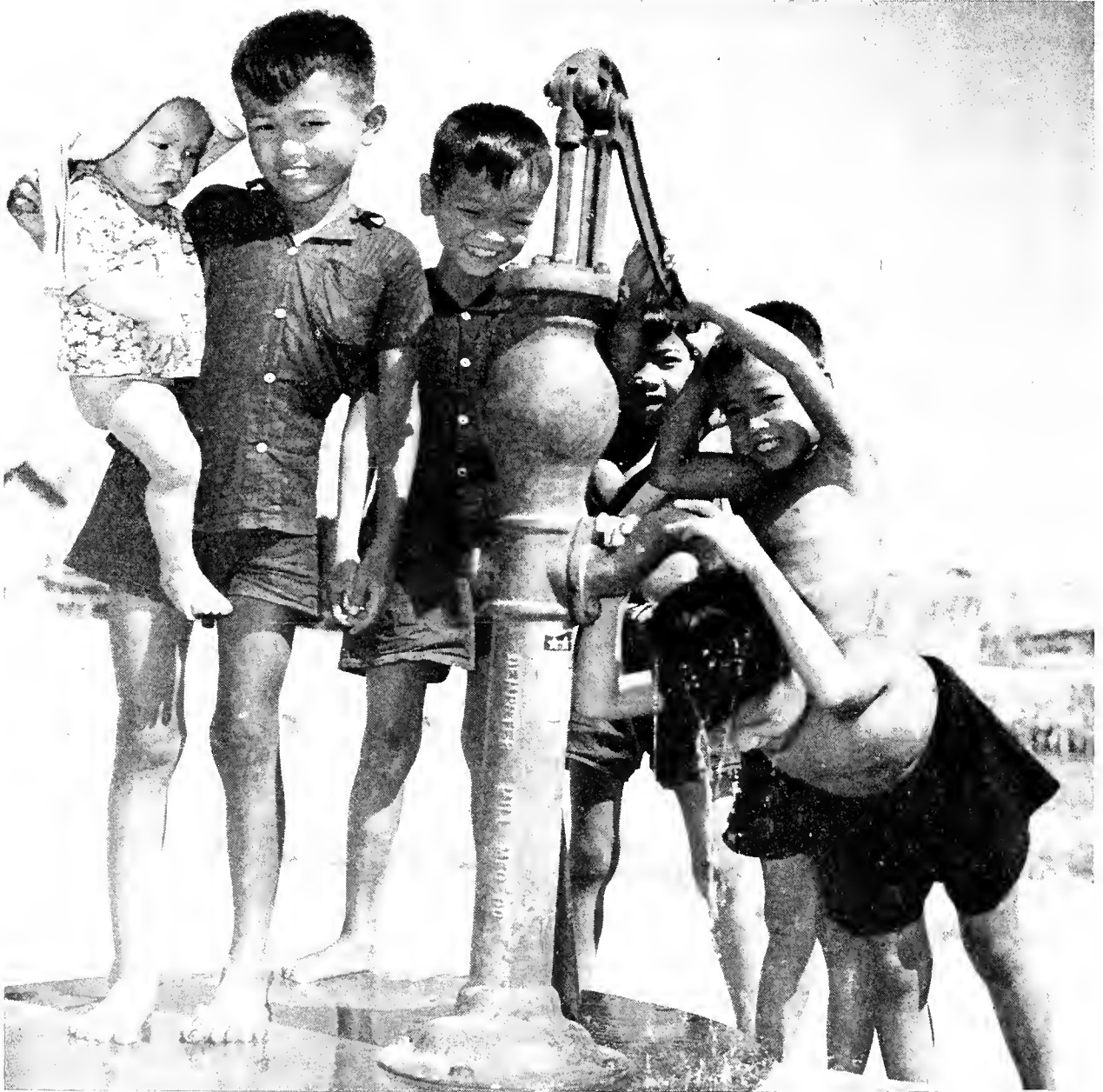
These improvements have encouraged the Thai government to procure substantial amounts of modern equipment with its own funds to carry forward additional rehabilitation and expansion projects in the fields of transportation and power.

Better Health and Sanitation.—A great need exists for expanding and improving medical education programs in all Far East countries to in-

crease the number of competent physicians and trained health workers. In Indonesia, the present ratio of doctors to population served—about 1 per 70,000—is one of the lowest in the world. The Foreign Operations Administration has entered into contractual arrangements with American medical schools to provide for exchange of medical school professors and training of local doctors and

teachers in the United States. At present such an arrangement is in effect in Thailand and is pending for Indonesia and Formosa.

Rural health units of various types have been established to demonstrate both preventive and curative health services, and public health doctors, nurses, and sanitarians are giving special in-service training. In Indochina, United States public



Viet-Namense children now enjoy clean water from village pump near Saigon. United States technicians and supplies have helped build thousands of village pumps and wells like this in the underdeveloped areas. Simple and inexpensive, these pumps not only improve living conditions but prevent diseases spread by polluted water.

health technicians, supported by aid shipments of medical supplies and equipment, have helped to set up more than 1,700 rural dispensaries which now give first aid and treatment to almost 3 million people annually.

In rural areas, the drilling and installation of artesian wells and construction of springs and other dug-wells are demonstrating the value of a sanitary water supply. Over 800 sanitary wells for villages have been completed in Indochina, principally in north Viet-Nam.

Mass campaigns against malaria, trachoma, yaws, and beri-beri are in various stages of development. A 6-year program for the control of malaria is under way in the Philippines, where economic development has been retarded because of the high incidence of malaria. More than a million persons have so far been protected by this program, and three-fourths of the local technical personnel utilized in this large-scale program have received training. The 6-year program provides for the extension of protective measures to all malarious areas in the Philippines, and it is anticipated that upon completion the Philippine Government will assume total financial responsibility for continuing malaria-control work.

Effective malaria-control programs also are showing results in Indonesia, Formosa, and Thailand. It has been estimated that the 1953 program in Thailand prevented 600,000 primary cases of malaria. This means 600,000 individuals who, instead of being dependent or ineffective, can contribute fully to the support and development of themselves and their country.

Public Administration.—The acute shortage of skilled local technicians and trained officials is a powerful inhibiting factor on governmental

efforts to meet the growing demands of their people for better living standards. The lack of competent professionals at the government level is felt perhaps most strongly in the field of public administration. It is in this field that our aid programs can make a valuable contribution with relatively small expenditures of funds.

Our efforts to build effective public administration systems have been especially emphasized in the Philippines. United States experts have worked closely with Philippine Government planning agencies to help formulate plans and policies for the broad economic development of the country. Technical advice has also been furnished to the Department of Finance to achieve a better tax structure and to improve enforcement procedures.

An Institute of Public Administration was established at the University of the Philippines with the advice and assistance of the University of Michigan. Over 700 government officials have taken supervisor courses at the institute; 600 government employees have enrolled in specialized in-service training courses. The Institute is expected to assume importance as a regional training center in management skills. Negotiations are under way with another United States university to provide assistance in connection with a proposed Labor-Management Relations Center.

An American management-consulting firm is presently engaged in making a wage and position classification survey for the Philippine Budget Commission and the Bureau of Civil Service. United States technicians have also cooperated with the Philippine Government in improving its administration of the minimum wage and industrial relations laws.

CHAPTER V

American Republics

Close economic and military cooperation between the United States and our Latin American neighbors is essential to Inter-American well-being and security. Such cooperation is mandatory if there is to be a solid foundation to the Inter-American Treaty of Reciprocal Assistance which was signed by the United States and the Republics of Latin America in 1947 at Rio de Janeiro. Hemispheric solidarity in the conference diplomacy of the United Nations also is dependent upon mutual understanding and joint interests.

Report by Dr. Milton Eisenhower

Dr. Milton S. Eisenhower, in reporting to the President on United States-Latin American relations, stressed the fact that this country and our neighbors to the South share common aspirations and common goals. "While there is a wide gulf between the most authoritarian and the most democratic of the regimes," Dr. Eisenhower stated, "* * * virtually all the nations of Latin America seek the goals of permanent peace, independence, rising levels of economic well-being, and the attainment of the basic values of Western civilization.

"In our conversations we developed the conviction that common dedication to the achievement of these goals is the greatest single guarantee we have that the nations of this hemisphere will continue to work amicably together. This cooperation can be made more effective as understanding among peoples and governments increases."

Dr. Eisenhower and his group spent several months in studying ways to strengthen the bonds between the United States and the American Republics. These studies included not only intensive discussions with government and private leaders in this country, but also a 20,000-mile, fact-finding trip to the cities and farms, the factories and schools of the South American countries.

Dr. Eisenhower's report made several observations on the current political and economic situation in the Latin American region. On the political aspect, he noted: "Highly disciplined groups of communists are busy, night and day, illegally or openly, in the American Republics, as they are in every nation of the world. While many persons may now think of Latin America as not being in the line of attack in the modern world struggle, success by the communists in these nations could quickly change all the maps which strategists use in calculating the probabilities of the future.

"One American nation has succumbed to communist infiltration. With this exception, however, the other American Republics share our desire for peace, freedom, and independence and continue to cooperate effectively in the political councils of the world."

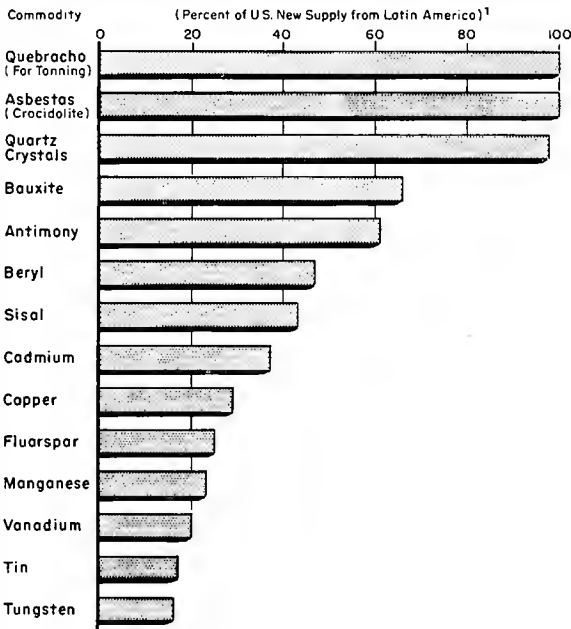
On the economic picture, the report emphasized the interdependence of the United States and Latin America with respect to commodity trade, investment capital, and raw materials.

Latin America's Economic Importance

The three-way economic interdependence which Dr. Eisenhower's report cited is basic to any consideration of United States policy toward the American Republics. This country's export and import trade with Latin America in 1952 amounted to nearly \$7 billion. In the first 9 months of 1953, it was running at about the same rate. Latin America is second only to Western Europe as a market for United States exports, and supplies a larger part of our imports than any other trade area.

Our direct private investment in the Latin American countries at the end of 1952 totaled almost \$6 billion, or about 39 percent of all United States direct private investment in foreign countries. In 1952, also, our income receipts from

Latin America Is A Key Supplier Of Our Strategic Materials Needs



¹ Based on latest available data

this private investment capital was about \$600 million, or over 40 percent of such receipts from all areas.

Latin America ranks high on the list of major sources for basic raw materials. The area is our biggest supplier of petroleum imports—almost 300 million barrels annually. It furnishes important quantities of copper, tin, bauxite, manganese, and other minerals so vital to our civilian and defense production and to our strategic stockpile.

The recent economic growth of the American Republics indicates that the region will assume an even greater importance both to this country and to the free world as a whole. Since the end of the war, the gross national product of 20 Latin American countries—that is, the total value of all goods and services produced—has increased at the rate of nearly 5 percent a year.

Pressing Problems Retard Economic Progress

Latin America's rapid economic growth has highlighted some of the basic weaknesses which exist throughout the area. These weaknesses must be overcome if the Latin American people are to move ahead to greater accomplishment.

Lag in Food Production.—Farm output has risen only slightly and has not kept pace with the

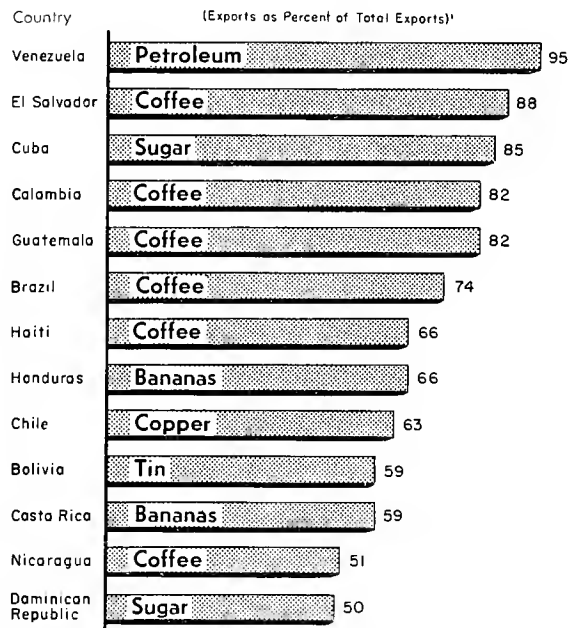
rapid growth of population. The postwar rate of population increase has been about 2.5 percent a year. Agricultural production on the other hand, increased only about 2 percent in the entire 8-year period 1945–52. As a result, Latin America's postwar food imports have been double their prewar average.

Non-Diversification.—Many countries look to one or two commodities or industries for a substantial portion of their national income and the bulk of their foreign exchange earnings. Bolivia, for example, is almost wholly dependent on tin. Colombia relies on coffee; Chile, on copper; Cuba, on sugar; Venezuela, on oil; Costa Rica, on coffee and bananas. A crop failure or an upset in the world market can seriously damage the economies of these single-crop or single-industry countries.

Lack of Transportation.—Transportation facilities in Latin America are generally inadequate. Better roads, highways, railroads, inland waterways, ports, and coastwise shipping facilities are needed to make possible greater economic development in the area.

Need for Power.—The shortage of power and fuel is another roadblock in the way of further economic advancement. Countries short of capital find it difficult to keep up with the ever-growing demands for hydroelectric and other power-gen-

Many Latin American Republics Depend Primarily On One Product For Foreign Exchange



¹ Based on latest available data

erating facilities. This is one field in which foreign capital could provide invaluable support.

Better Health and Education.—Improvement in the health and education of the growing numbers of Latin American people is, of course, basic to any real progress. Widespread disease and mass illiteracy greatly retard efforts to develop greater productive capacity and move on to higher living standards.

The countries of Latin America generally possess in abundance the human and natural resources they need for further economic growth. These resources, coupled with proper incentives, stable political and economic conditions, and necessary capital, can expand development and raise living standards in the American Republics to unprecedented levels in the years ahead.

Economic and Technical Programs

The primary purpose of the technical cooperation program in Latin America is to help the participating countries achieve an accelerated and balanced economic development. To this end, cooperative efforts are concentrated on two broad,

interrelated objectives: (1) to increase the productivity per worker and the number of skilled workers by carefully planned programs in health, nutrition, housing, and education; and (2) to increase total production by selected programs in agriculture and industry, public administration, natural resources, power, and transportation.

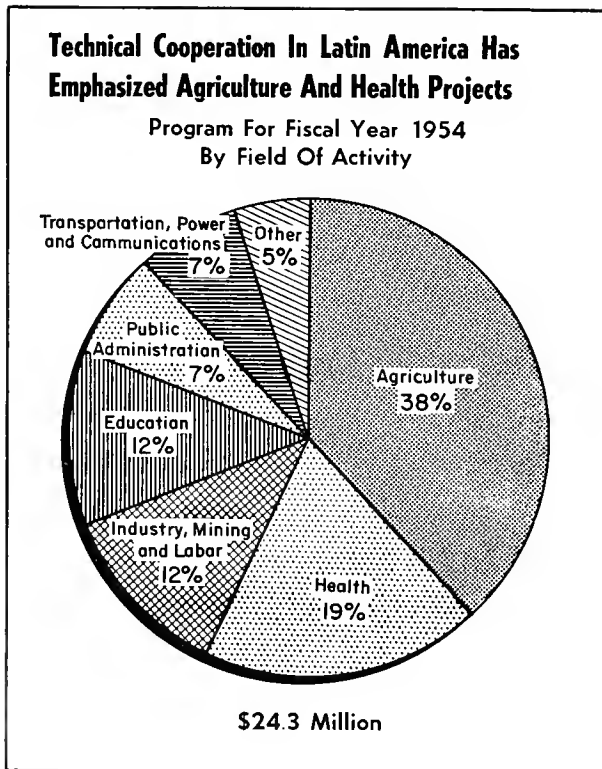
These efforts involve helping the host governments to correct imbalances in the national economies which result from concentration on single industries and products or from too rapid industrialization at the expense of needed agricultural development. Our program in Latin America has been successful in some instances in creating incentives for private investment, both local and foreign. Special study is presently being given to additional measures which might attract the private capital needed for basic development projects.

An important factor in carrying out a country plan for economic development is to have at hand a sufficient number of local technicians who can perform the work required. Local training is provided to Latin American nationals through seminars, adult-education courses, on-the-job training, summer schools, normal-school training of teachers, and day-by-day association with their United States colleagues. In the last 11 years, more than 20,000 Latin Americans have been trained on the job. In addition, more than 3,000 trainees have been brought to the United States for study.

Competent Latin American technicians are now becoming increasingly available to carry programs through successfully. International lending agencies have pointed out that there is a need for major improvements in the management of developmental enterprises and that the amount and types of loans are determined, in large measure, by the degree of administrative knowledge demonstrated by Latin Americans.

The Cooperative Approach

The principal method used to carry forward programs in agriculture, health, and education is the *Servicio*, or cooperative service. The *Servicio* in essence, is an agency set up by a Latin American Government to carry out a particular program of technical cooperation in which the United States participates by supplying technicians and a portion of the necessary funds. Operations under the *Servicio* are jointly planned, directed, and administered by United States and Latin American personnel. The *Servicio* device is used with ap-



appropriate modifications in new fields which the technical cooperation program is called upon to enter.

As the Latin American people have seen at first hand the real and growing benefits of the technical cooperation programs, the proportionate contributions of the host governments have increased. For the fiscal year 1954, the host governments will make available the equivalent of \$44.6 million as compared with the United States programmed contribution of \$24.3 million. Programs for use of these funds emphasized projects in agriculture, forestry and fisheries, as well as public health. These broad fields of activity accounted for almost 60 percent of the funds allotted to the various Latin American countries for the 12 months ended June 30, 1954. Almost 25 percent of the remaining funds were earmarked for training and education programs, and projects in industrial and natural resources development. The cumulative total programmed for the Latin American Republics from June 30, 1950, through December 31, 1953 amounted to about \$65 million.

On December 31, 1953, there was a total of 44 *Servicios* and joint-fund arrangements in operation—16 in the field of health, welfare, and housing; 15 in agriculture and natural resources development; 10 in education, and 3 in industry. Many projects in public administration such as budget-

ing, personnel, statistics, and census were also being carried out on the basis of specific agreements with 12 host countries. Approximately 600 United States technicians were participating in these activities, working with more than 14,000 Latin American nationals. In addition, about 600 Latin American trainees were participating in training programs in the United States.

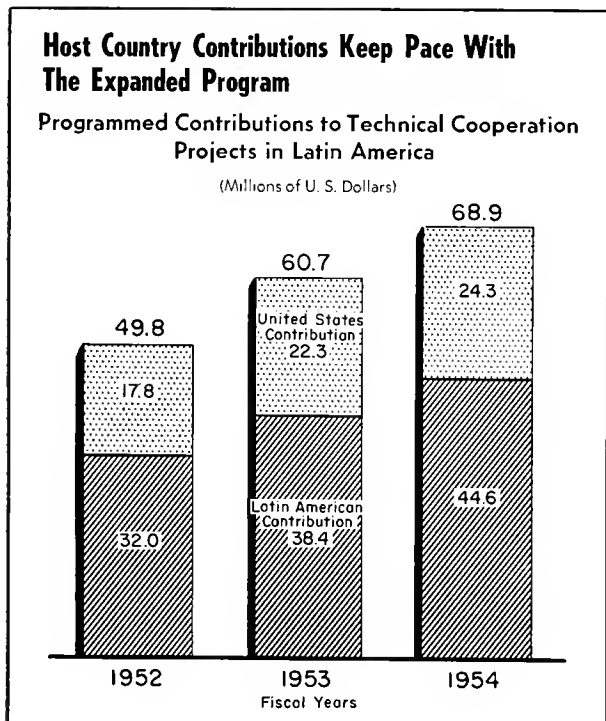
Illustrative Projects Show Scope of Joint Efforts

Technical cooperation programs are being carried out in 19 countries of Latin America: Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

Since it is not possible within the space of this report to describe all of the technical cooperation programs in each of these 19 countries, a number of key projects have been singled out as illustrative of the type of activities now in progress.

Health.—A good example of what has been accomplished in the health and sanitation program is to be found in Brazil. In the Amazon River Valley, 56 health centers and their subposts minister to 2 million people scattered over an immense area. Efforts have been concentrated on reducing malaria and intestinal diseases that had affected almost the entire population. As a result of cooperative measures, these diseases have been substantially reduced. When the health program for the area was first initiated in 1942, life expectancy at birth was estimated at 37 years. Results of a study, recently made available, show that by 1952 the longevity figure had risen to nearly 48 years, a gain of almost 30 percent. Also, when work was begun in 1942, there were 40 United States technicians cooperating with 500 Brazilians. Today, not a single United States technician is permanently stationed in the Amazon Valley. The work is being carried forward almost entirely by 1,000 Brazilians, most of whom were trained as a part of the cooperative program.

Another interesting example is the industrial hygiene program being carried on in the mines of Peru. Many of the mines in the Andes Mountains of Peru are from 14,000 to 16,000 feet above sea level, and only Peruvians who are native to these high altitudes can work there. This valuable labor force is a diminishing one, however,





A mass vaccination campaign carried out jointly by FOA and Panamanian personnel was completed December 31, 1953. Seventy percent of all the people under 30 were vaccinated.

since occupational diseases, including silicosis, are incapacitating men who cannot be replaced. These high-altitude mines contain copper, zinc, lead, vanadium, antimony, bismuth, and other important strategic products.

The Peruvian Government in 1947 passed a law making an industrial hygiene program mandatory and made provision to finance it. The Government then asked the Health *Servicio* staff to accept responsibility for supervising this program. A Department of Industrial Hygiene within the Peruvian Ministry of Health was established at Lima under the technical direction of United States health specialists. These specialists have helped to train personnel, start education and health control measures, and win the support of labor and industry. Medical and engineering studies have been carried out in the mining industries, and almost 10,000 workers have received physical examinations.

This industrial hygiene program has been so successful that other Latin America countries are sending personnel to be trained at the Lima

laboratory. Industrial hygiene programs have been established in 5 countries besides Peru—Bolivia, Brazil, Chile, Colombia, and Mexico; preliminary work in this field has been started in Costa Rica, El Salvador, Uruguay, and Venezuela. These 10 countries contain 75 percent of the working population of Latin America.

Agriculture.—In Costa Rica, marked increases have been achieved in food production and exports through the development and operation of 30 agricultural extension agencies throughout the country. By the end of 1953, these agencies were staffed 100 percent by Costa Ricans. Urgent requests have been received from local farmers to establish extension agencies in three new areas to impart basic agricultural knowledge and techniques to Costa Rican farmers and to develop rural youth organizations and home demonstration programs.

The technical cooperation program has assisted Costa Rica in increasing production of food items. The country is now exporting certain foods that it formerly had to import, such as corn, rice, and



Members of a Costa Rican 4-H Club learn modern farming methods. This work is part of the cooperative agricultural program.

beans. Fresh tomatoes are being shipped to the Panama Canal Zone in growing volume. Establishment of approximately 10,000 family gardens, combined with programs of extension work in food preservation, has helped to increase and diversify the rural diet. Milk supplies have increased by 25 percent, and annual losses of beef cattle have been reduced materially so that imports of cattle have ceased despite the increase in local consumption.

The Government of Haiti is being helped under the technical cooperation programs to develop a 150,000 acre agricultural project in the Artibonite Valley. In cooperation with Haitian technicians, a United States field party prepared the development plans which included permanent irrigation for 70,000 acres and land reclamation. Provisions were also made for project management, operation, and maintenance. The Export-Import Bank has approved a \$14 million loan to assist the Haitian Government in financing the project, and construction is now under way. In time, this project should narrow the gap between crop production and food needs in overpopulated Haiti.

Similar projects, which point the way to a new agricultural economy, are being carried forward in other countries of Latin America.

Education.—In the field of education, there are currently programs in 10 Latin American countries with special activities in 3 additional countries. These programs are designed to assist in improving public elementary school systems, mainly in rural areas, and vocational education, primarily in urban areas.

The education program in Paraguay may illustrate the progress made in both these fields. A technical cooperation program has been operating to help Paraguay establish a system of vocational training. Starting from a situation in which Paraguay had no trades school and no vocational teachers, technicians working under the program have helped to build and equip a school in Asuncion, organize its curriculum, train its teaching and administration staff, and guide its first few years of operation. At first, all instruction had to be given by United States instructors; now, the school is entirely staffed by Paraguayans. Courses are being offered in automotive mechanics, radio, re-

frigeration, carpentry, leather work, plumbing, and black-smithing. The school is currently expanding operations by building new shops and adding courses in graphic arts and electricity.

The Asuncion school is running at a capacity enrollment of about 240, with a long list of waiting applicants. In November 1953, the third graduating class of 53 received diplomas. The school is now planning to establish both trades courses and industrial arts courses in other parts of the Republic of Paraguay.

In the rural education field, a new demonstration school has been established at San Lorenzo, which not only tests and demonstrates improved methods of rural teaching, but also serves both as a center for in-service training for normal school facilities and rural teachers throughout Paraguay, and as a laboratory for working out an improved curriculum for rural elementary and rural normal schools. A new "laboratory" normal school with a 5-year course is also planned for establishment at San Lorenzo; the curriculum is now before the Minister of Education for approval.

Industrial and Natural Resources Development.—The concept of balanced economic development has prompted numerous requests for assistance in a range of activities going beyond the basic fields of health, agriculture, and education. These requests cover particularly projects to develop industrial enterprises and natural resources.

At present, industrial development programs are operating mainly along the lines of increasing industrial productivity, since a program in this field should begin with already existing industries to help them improve their methods, cut costs, increase quality, and lower prices. This, of course, is only one phase of a total industry program, but it is an excellent place at which to begin making efforts toward broad industrial development.

The organizational pattern which has been adopted in industrial productivity programs is to establish cooperative technological and investment advisory centers for small and medium industries. In addition, field staffs of vocational industrial programs are aiding small industries to increase productivity by selecting machinery adapted to their needs and to their resources, and by assisting in the solution of shop organization and management problems. This program is also concerned with technical cooperation in the field of handicrafts, such as weaving, ceramics, leather working, and carving.

A significant development in the natural resources field in recent months was the initiation of a mining and a geological survey project in Cuba. Under the mining project, the Cuban Development Bank is being helped to train engineers in improved methods of appraising mine properties for the extension of credit. This project also provides for the establishment of a metallurgical testing laboratory for which Cuban personnel are now being trained in the United States. Under the geological survey project, the Ministry of Agriculture is being given assistance in reorganizing its own geological work and in carrying out field work with Cuban geologists to define specific deposits to the point required for commercial development. Technical cooperation in various phases of minerals development, including coal, is being given also in Brazil, Chile, Colombia, Mexico, and Peru.

Public Administration

United States technicians in public administration have been requested by many Latin American governments to serve as advisors on management and administrative methods to ministry officials, agencies, and special commissions.

The Brazilian Board of Advisors on Public Administration is the main body responsible for improvements in public administration in Brazil. United States technicians are working with the Brazilian Board on various public administration studies, such as a position classification survey of the Federal Government and the State of Sao Paulo, budget management assistance for the State of Minas Gerais, organization and management study of the Institute for the Retirement and Pensions of Commercial Employees, and the establishment of a school and institute of public administration at the University of Minas Gerais in Belo Horizonte. In this cooperative program, the Brazilian Government contributes about \$4 for every \$1 contributed by the United States.

The United States public administration advisor in Panama, at the request of the Panamanian Government, worked with the manager of the Colon Free Zone in carrying out an extensive management survey of the Free Zone's operations. As a result of this joint study, the flow of goods through the Free Zone is being expedited. Also in Panama, a United States expert is helping to carry out a government-wide training program in records management.

In Costa Rica, the United States public administration advisor is helping the Costa Rican Director of Civil Service to carry out plans to establish a government civil service system.

Special Aid to Bolivia

Bolivia's economy is exposed to the dangers inherent in a one-product economy, since exports of tin account for about 60 percent of the country's total exports. In spite of the Government's current efforts to remedy the situation by a program of diversification, the major portion of the country's food requirements, as well as a sizeable volume of other essential commodities and equipment, must still be imported. The price of tin in the world market determines the amount of exchange earning available to Bolivia to satisfy these essential needs of its economy.

During 1953, a sharp decline in the world price of tin precipitated a serious economic crisis. Since the Bolivian Government had virtually no financial reserves, extraordinary assistance was urgently needed to cover foreign exchange costs of essential imports, primarily agricultural commodities.

The President, on October 5, 1953, authorized assistance to Bolivia in the amount of \$5 million worth of surplus agricultural commodities.

This authorization was made under Public Law 216, 83rd Congress. The Bolivian Government indicated that its most urgent need was for wheat and flour, and it was agreed that the entire \$5 million grant would be used for these commodities. On November 13, 1953, FOA authorized the first transfer of 3,000 tons of wheat from the stocks of the Commodity Credit Corporation for shipment in November and December. Another authorization followed for 42,000 tons of wheat, of which half is to be milled into flour in the United States. Shipments are scheduled at the rate of 4,000 tons of wheat and 3,000 tons of flour monthly.

In addition to the \$5 million worth of wheat authorized under Public Law 216, the President, determined that up to \$4 million of economic and defense-support funds might be transferred from the European area to furnish urgent economic assistance to Bolivia. A portion of these funds is being used to cover costs of ocean transportation and miscellaneous handling charges for the wheat and wheat flour, and approximately \$1.7 million will be used for cotton, lard, and cottonseed oil.

The disposition of the balance of funds will be determined at a later date.

Moreover, \$2 million for an expanded food production program was added to fiscal year 1954 technical cooperation funds of \$1.5 million for Bolivia. The bulk of this money is being used for agricultural supplies and equipment needed by Bolivia in its efforts to diversify its economy and to accelerate domestic production of vital food-stuffs now in short supply.

Overseas Territories

The European overseas territories in the Western Hemisphere provide strategic bases for the free world and supply many critical raw materials. Their continued stability and economic growth is essential to hemispheric security.

The technical cooperation programs in the overseas territories have moved forward with good results. In Surinam, Antigua, Jamaica, Barbados, and the Windward Islands, United States specialists have helped the local authorities in their efforts to develop low-cost housing facilities. In Barbados, St. Lucia, and St. Vincent, soil conservation and land-use studies are under way.

As the year ended, a survey team was being sent to Surinam and British Guiana to discuss the initiation of technical cooperation programs in those countries.

Hemispheric Defense

The purpose of military grant aid program for the American Republics is to enable them to accomplish the military roles and missions assumed in the mutual defense of the Western Hemisphere and to strengthen their collective effort against possible Communist or other aggression.

In pursuance of this policy, military assistance appropriations for the American Republics from the beginning of the mutual security program until the present time have totaled \$105 million. Of this amount, \$83 million has been used to furnish these countries with equipment which will strengthen their armed forces; \$900,000 has been spent in training programs, the majority of which have been carried on in the United States.

The Latin American countries have devoted much of their own budgets to support the basic policy of hemispheric defense. They have defrayed the major portion of the costs of such a

policy by using their own funds for pay, rations, and uniforms, and for purchasing in the United States a total of \$38.3 million worth of military items.

Although most Latin American countries are hampered by a lack of adequate facilities and by a preponderance of obsolete military equipment, they have shown themselves fully capable of utilizing and maintaining modern ships and air-

craft. Colombia is a good example. Throughout the Korean conflict, Colombia maintained forces in Korea. The majority of the Latin American Republics have requested assistance from the United States in the form of military missions or advisors. The military assistance we furnish will help insure that these countries will be able to continue to develop military establishments of increased size and effectiveness.

CHAPTER VI

Other Parts of the Program

There are a number of activities carried out under the mutual security program which are global in scope and cannot be grouped regionally. A report on these activities is contained in this section.

Farm Surpluses Sold to Friendly Countries

Section 550 of the Mutual Security Act of 1951, as amended, provides for the purchase of between \$100 million and \$250 million worth of surplus agricultural commodities to be sold by the United States to friendly countries for foreign currencies. Commodities bought by a foreign country under section 550 must not substitute for or displace usual marketings by the United States or friendly countries. The surplus commodities are generally sold at prevailing United States export prices, as required to meet the price criteria set by Congress, and private trade channels are being used to the maximum extent practicable.

Illustrative of the types of commodities that may be included in the program are cotton, tobacco, corn, wheat, beef, dairy products, fruits, fats, oils, and some oilseeds. This list is subject to change upon recommendation of the Secretary of Agriculture.

Congress did not appropriate additional money to cover the purchase of these surplus commodities, but provided that a portion of the funds appropriated for the mutual security program, including those for military assistance, defense support and economic aid, should be used to carry out the provisions of section 550. The foreign currencies received from the sale of surplus agricultural products will be used for military production programs, payment for offshore procurement of military materiel for use in the country where purchased or elsewhere, and for other purposes as prescribed by this section and in accordance with agreements reached with each government.

Negotiations with a number of countries, including Afghanistan, Formosa, France, Finland, Germany, Indochina, Italy, Israel, Japan, Netherlands, Norway, Spain, the United Kingdom, and Yugoslavia, have been actively carried on to develop programs for the direct sale of surplus agricultural commodities. Plans are also being made to use section 550 sales proceeds to promote triangular trade arrangements; that is, FOA would sell agricultural commodities to one country in return for local currency to be used to purchase and export items required for the economic aid of another country.

Through December 31, 1953, allotments of \$59.1 million have been announced, including \$55 million to the United Kingdom, \$2.1 million for Norway, and \$2.0 million for West Germany. Procurement authorizations providing for sales of \$20 million worth of tobacco, \$5 million of prunes, and \$19 million of fats and oils were issued to the United Kingdom. By the end of the year, also, nearly \$60 million of additional sales were in process of negotiation. Shipments of all purchases will be subject to the usual requirement that 50 percent be sent in American ships. Authorizations, which are issued on the basis of requests submitted by the foreign government, provide the terms and conditions of sale. The commodity may not be re-exported without prior agreement of the United States Government, and the foreign currency is to be deposited to United States account and used for the approved purposes.

In evaluating requests received from the foreign governments for surplus agricultural commodities, appropriate consultations are held with the Departments of Agriculture and State to determine that the furnishing of each commodity in the amount requested would be consistent with the provisions of section 550.

The Christmas Food-Package Program

The Christmas food-package program provided for the distribution of special food packages during the period of the Christmas season to needy families in a number of countries in Western Europe, Latin America, and the Near East. The program was conceived as a means of bringing a sense of direct participation in the programs of the United States to people in the various countries of the world. Most of the gift food was shipped in individual, consumer-sized packages, and later assembled into special parcels stamped with the FOA clasped-hand emblem and holding about 12 pounds of food for each family.

Prunes, raisins, rice, dry beans, evaporated milk, canned beef and gravy, shortening, cheese, and sugar—all foodstuffs in abundant supply in the United States—were included in the parcels. Funds to finance the program, totaling \$15.5 million, were drawn from mutual security appropriations under the provisions of Section 513 (b) of the Mutual Security Appropriation Act of 1954.

According to arrangements made by the foreign governments, the food was distributed on a family-by-family basis through local charitable groups and other agencies. CARE, Hadassah, and the American Middle East Relief also participated in the program, as did units of the United States Armed Forces which helped to distribute some of the food to individual families, or through local Christmas parties in institutions such as orphanages and refugee camps.

Transportation: Over 50 Percent in U. S. Ships

The urgency and speed required to carry forward the special programs of the Foreign Operations Administration in the last 6 months of 1953 posed difficult ocean shipping problems. The shipment of 600,000 tons of wheat to Pakistan, other grain shipments to Jordan and Bolivia, the East German food program, the Christmas-package program, the rush shipments of commodities to Korea—all these necessitated the most careful coordination and scheduling.

It was also necessary to obtain the complete cooperation of the steamship industry inasmuch as the time requirements for procurement, packaging and shipment in each case involved numerous schedule changes, re-routing and diversion of vessels. Despite the many complexities of the situation, all programs were expedited and carried forward in excellent time.

Congress, in establishing the Foreign Operations Administration, renewed the provision requiring that at least 50 percent of the tonnage financed from FOA funds and shipped from the United States must move in United States-flag vessels. This requirement has been met in each fiscal year period since 1949. Only preliminary reports for the first four months of fiscal year 1954 are available, but on the basis of these preliminary figures, American-flag vessels in the liner category carried 50 percent of the tonnage shipped during July–October 1953 to European destinations, and 72 percent of the tonnages moving to Far East destinations.

For this same 4-month period, unofficial reports show that, in the “tramp” category, American vessels carried 50 percent of the total of 575,000 tons shipped to Europe. There were no other bulk movements on shipments reported to date. Four vessels in the tanker category had been FOA-financed, two of which were American-flag vessels.

Homebound cargoes of strategic materials procured under the Foreign Operations Administration program similarly are subject to the flag rule. For the last 6 months of 1953, 77 percent of these shipments was carried in American vessels, all in the liner category.

At least 50 percent of the tonnage financed under the military assistance portion of the mutual security program also is required to be shipped in United States vessels. Through October 1953, American-flag vessels carried 66 percent of all military items shipped under grant aid.

Ocean Freight Paid on Voluntary Relief Shipments

For the fiscal year 1954, Congress appropriated \$1.8 million for financing the freight costs of voluntary relief shipments. Another \$2.5 million was authorized by the President as essential to support this program, so that a total of \$4.3 million was made available.

From July 1 through December 31, 1953, \$2.1 million was expended to subsidize transportation of relief shipments of American voluntary nonprofit relief agencies registered with the Advisory Committee on Voluntary Foreign Aid. This brought to a total of \$29.4 million the payments since July 1948 to subsidize the cost of ocean transportation of voluntary relief shipments. Of this total amount, \$18.6 million or 63 percent

was used to pay for parcel-post packages sent by individual donors. The parcel-post subsidy program was ended on March 31, 1953.

The ocean freight subsidy at present is paid on voluntary agency shipments to Austria, France (including Morocco and Tunisia), Germany, Greece, Italy, Trieste, Yugoslavia, India, Pakistan, Korea, Formosa, Lebanon, and Iran.

Since May 1953, the Department of Agriculture has made available under Section 416 of the Agriculture Act of 1949, 70,000 tons of dried milk, 25,000 tons of cheddar cheese, and 25,000 tons of butter for distribution to needy persons abroad. By the end of December 1953, the freight costs of over 45,500 tons of these commodities were either financed or marked for financing under this subsidization program.

Escapee Program for Those Who Flee Communist Oppression

Through the escapee program, the United States provides help to those who flee from Communist oppression by supplementing the considerable assistance rendered these refugees by the countries which give them first asylum. The escapee program also provides major assistance in the resettlement of the escapees by migration to other countries of the free world. At the end of 1953, there were 14,500 escapees registered for care and resettlement assistance under projects administered through United States Operations Missions in Europe. More than half of this number were located in West Germany and Austria. In addition, about 3,000 persons were registered for resettlement assistance only.



Albanian and Bulgarian escapees from Communism at a vocational school in Athens, Greece, are being trained for resettlement opportunities under the Escapee Program. By the end of 1953, almost 8,000 persons had been resettled in various free world countries.

For the 6 months ended December 31, 1953, 2,700 escapees were resettled in the United States, Canada, Brazil, Australia, and other countries of the world. This brought to a total of 7,800 the number of persons resettled since the inception of the program. Screening procedures provide for thorough interrogation and examination of all escapees. Although the escapee program thus far has operated mainly in the European area, special projects have been undertaken for resettlement of recent anti-Communist escapees from the China mainland and in the Near East, and this phase of the program has been expanded and intensified in accordance with the expressed wish of the Congress.

Resettlement projects provide visa opportunity searches and visa processing, give counseling and legal aid, and furnish language and vocational training so that the escapee is better able to take advantage of existing emigration opportunities. In addition, CARE projects are undertaken to supplement the food, clothing, lodging, and medical aid which are provided for the escapees by the countries of asylum and by relief organizations.

These care and resettlement assistance projects are administered in most instances by private voluntary agencies under contract. Transportation to the countries of resettlement is secured through a contract with the Inter-Governmental Committee for European Migration. In carrying out the escapee program, close liaison is maintained with the Department of State in order to utilize added resettlement possibilities made available under the Refugee Relief Act and to insure proper coordination in regard to escapee resettlement activities.

The escapee program gives tangible evidence of the concern of the West for populations behind the iron curtain, and interviews with recent arrivals indicate that knowledge of the favorable treatment accorded escapees is spreading within the Soviet orbit.

Basic Materials Development

For the fiscal year 1954, \$19 million was appropriated for a basic materials program to finance projects which will contribute to the supply of essential raw materials for the collective defense of the free world.

Under the basic materials program, paramount consideration has been given to country efforts which are geared to the development of primary supporting facilities, such as the construction of

roads and railways, and the improvement and expansion of port facilities. Governmental assistance is particularly required in the transport field because, as a rule, private capital flows into projects which are directly tied to materials production rather than into supporting-type projects. The development of their transportation base will permit underdeveloped countries to exercise a greater attraction for foreign and domestic private investment capital.

Present plans for use of the basic materials program funds are limited to the geographical areas of Africa and Asia and call for some 9 projects, primarily in port and road development, which will aid in the increased production or transportation of critical materials. A number of these projects are still in the engineering survey stage. In others, the initial surveys have been completed and applications are being prepared. Some projects are still subject to negotiations with the foreign government concerned.

Guaranty Program for U. S. Investments Abroad

Through the investment guaranty program, the United States Government has offered, for a fee, insurance protection to new American investments abroad against the risks of currency inconvertibility and loss through expropriation or confiscation. The Mutual Security Act of 1953 provides that guaranties shall be available to protect investments in any country in which the United States has agreed to institute the guaranty program.

Agreements in connection with the program provide certain assurances by the government of the foreign country concerned regarding claims settlement to the United States. By December 31, 1953, the required assurances had been obtained from 18 countries with respect to convertibility guaranties; bilateral agreements with 16 of these countries also were made with respect to expropriation guaranties.

The Mutual Security Act of 1953 also provides that guaranties may be written for a maximum term of 20 years from the date of issuance and extends the authority to issue guaranties to June 30, 1957.

Through December 31, 1953, 57 industrial investment guaranties totaling \$42.4 million had been issued to cover private investments in 7 European countries. Of the total, \$40.6 million insured against inconvertibility of foreign cur-

rency receipts, and \$1.8 million against loss from expropriation or confiscation. Total fees collected amounted to \$888,600; no payments under the guaranty contracts have been required.

Small Business Informed on Export Opportunities

During the last 6 months of 1953, the Foreign Operations Administration, through its Office of Small Business, maintained a steady flow of advance procurement information to the American business community. In this way, American small business has been able to keep in touch with opportunities for export trade financed under the various FOA programs. During the period, 455 small business circulars and memos of advance procurement were issued to manufacturers, suppliers, and exporters who had expressed active interest in receiving such information. These circulars and memos now include information on procurement handled by the United Nations Korean Reconstruction Agency. Arrangements were also completed to have the General Services Administration publicize its purchases which are financed with FOA funds.

The Directory of Combination Export Managers, listing commodities and services which United States small business enterprises could supply through combination export managers, was distributed. A total of 37,500 copies were issued, 33,000 abroad and 4,500 in this country. This Directory has given valuable assistance to American manufacturers and suppliers who cannot afford export departments of their own. By arranging for combination export managers to carry out the necessary export functions, these manufacturers and suppliers are able to participate more fully in the procurement programs financed by the FOA.

The FOA conducts a Contact Clearing House Service which is designed to establish direct contact between private American and foreign firms interested in exploring specific opportunities for entering into investment agreements. This service has been operating in 13 Western European countries, Israel, and Formosa. During the period under review, it was established in the Philippines and the British overseas territories. Arrangements for clearing house services are in their final stages in Japan, and preliminary negotiations are under way to extend these services to India, Iraq, Switzerland, and Mexico.

During the period, approximately 220 specific investment proposals from American and foreign concerns have been published. This brought to a total of nearly 2,000 the proposals made since the operation was started in 1950. It is intended to extend the Contact Clearing House Service to all free countries of the world where encouragement of private investment would promote the objectives of the mutual security program.

Reimbursable Military Assistance to 46 Countries

Under existing legislation, the President is authorized to transfer equipment, materials, and services to certain nations and international organizations on a reimbursable basis and to provide them with procurement assistance, without cost to the United States. Assistance of this type is characteristic of the basic philosophy of the mutual security program as a whole. It provides a means whereby the United States can help the friendly nations of the world to help themselves. Moreover, it permits requests from friendly nations to be merged with the overall procurement programs of the military departments, thus avoiding conflicting demands on the productive capacity of the United States.

As of December 31, 1953, 46 countries have contracted to buy \$676 million worth of equipment, materials, and services. Their purchases were allocated as follows: Army, \$214 million; Navy, \$113 million; Air Force, \$349 million. By the same date, the purchasing governments had advanced \$543 million, the remainder of \$133 million will be liquidated by cash payments to the military departments concerned before the materiel or services are furnished by the United States.

The purchases made under the reimbursable assistance program have covered the whole range of military end-items and have included: 6 light cruisers, 5 destroyer escorts, 5 coast guard utility vessels, 4 patrol frigates, 464 aircraft of all types, 486 tanks, 187 gun motor carriages, 318 armored cars and such items as motor vehicles, weapons, ammunition, and electronic equipment.

Canada has been the largest purchaser. Not only has Canada bought for cash from the United States the munitions required to convert her armed forces from British to United States-type equipment, but it also has transferred substantial quantities of its military stocks to other North

Atlantic Treaty Organization nations on a grant basis.

Among the Latin American countries, purchases to maintain equipment of United States origin already in their possession have been particularly important. A number of naval vessels have been sold to members of the Inter-American Community. Argentina, Brazil, and Chile purchased 2 light cruisers each. Three destroyer escorts have been sold to Peru, 2 destroyer escorts to Uruguay, and 2 patrol frigates to Colombia.

These ships added new strength to hemispheric defense by providing vessels manned by trained crews who are prepared to protect strategic communication lines.

Military Training for Effective Use of Equipment

The combat effectiveness of our allies is growing daily as unit after unit is being furnished with modern equipment. To insure that this equipment is employed and serviced in the most effective manner, foreign military students of the allied governments are being trained by the United

States under the military assistance program. Through the end of 1953, over 33,000 allied students had been given specialized training courses both in this country and abroad.

The particular type of training given—whether it be formal courses of instruction, orientation tours, or special training in the use of a particularly complex piece of equipment—is based upon the recommendations of the United States Military Advisory Group in each country. One example of the kind of training given is the pilot program. Over \$100 million has been used to train pilots to fly the latest type of jet planes. Program students are given exactly the same training as our own air cadets, and today allied pilots are capable of flying the powerful F-84 Thunderjets from any one of the free world's far-flung air bases. In the same way, the latest electronic equipment is being efficiently operated and maintained on a world-wide basis by crews trained under the military assistance program.

The large-scale military training program is enabling the countries which receive our defense weapons and equipment to maintain high stand-



French, Italian, and Portuguese armor personnel being trained in the operation of the United States M-46 medium tank at the NATO Training Center in Mailly-le-Camp, southeast of Paris, France.

ards of operating and servicing. In addition, close association of foreign trainees and American instructors and students has helped promote a better understanding abroad of the characteristics and capabilities of our form of government and way of life.

Participation in International Organizations

United Nations Expanded Program of Technical Assistance.—The United Nations technical assistance program is an international effort to enlist specialized skills from many nations to help the governments and people of underdeveloped areas expand their economies. The United States has supported this program at the same time that it has developed and carried on its own bilateral program of technical cooperation. Each approach—the multilateral and the bilateral—has its particular merits, and the use of both produces more substantial results than the exclusive use of either.

Continuous attention has been given to the problem of coordinating the United Nations and the United States programs so that the two complement each other, rather than overlap. As a result, coordination between the programs is good, and is based primarily on active cooperation both in the field and at headquarters level to assure the best use of total resources.

As of October 1953, about 1,100 United Nations experts, drawn from 60 countries all over the world, were at work in the field. Of this number, 17 percent were technicians of underdeveloped countries whose particular skills were desired by the governments of other underdeveloped areas; 21 percent were drawn from the United States. In addition, as of the same date, 1,528 new fellowships had been awarded under the 1953 program, and 788 fellows from 45 countries had completed their studies.

Contributing governments have increased their financial support of the United Nations program for 1954. The fourth Technical Assistance Conference met in New York in November 1953 to raise on a voluntary basis funds for the calendar year 1954 program. Fifty-eight countries made valid pledges totaling slightly over \$23 million. Twenty-three of these pledges represented increases over the previous year.

The United States had, at previous conferences, offered to contribute 60 percent of total pledges. At the November meeting, however, the United States representative declared the intention of

his Government, subject to Congressional approval, to match the first \$8.5 million validly pledged by other nations at a 60-40 ratio and to match up to \$3 million in additional pledges at a 40-60 ratio. This formula was designed both to elicit greater financial support of the technical assistance program from other governments and to reduce the United States share below 60 percent.

Subsequent to the pledging conference and prior to December 31, 1953, the cut-off date for making pledges for the purpose of matching contributions, 10 more countries made pledges, bringing total pledges for 1954 to \$24 million. Under the new formula, the United States pledge to the 1954 program is \$13.9 million, of which about \$10 million is subject to appropriation by the Congress. The United States pledge is 58 percent of total pledges.

The United States has contributed \$11.1 million toward the calendar year 1953 expanded program. This sum was approximately 60 percent of the total contributions received through December 31, 1953.

Technical Cooperation Program of the Organization of American States (OAS).—In contrast to the United States and United Nations programs of technical cooperation in Latin America, which emphasize direct assistance to individual countries on specific projects, the OAS program is presently limited to the establishment and support of regional training centers to which all participating governments may send persons for technical education. With funds contributed voluntarily to the OAS technical cooperation account, training centers are developed by enlarging existing facilities in institutes and universities located in various Latin American nations.

During the latter half of 1953, there were 5 centers in operation, giving training in the fields of agricultural extension, housing, child welfare, economic and financial statistics, and animal husbandry. The proposed program for 1954, now under review by the Inter-American Economic and Social Council, would continue these centers and, if sufficient funds become available, would provide for additional projects in rural education and natural resources.

A special meeting of the Council in November 1953 opened the pledging of funds for the 1954 program. By the year's end, 12 governments including the United States, had pledged \$1.3



Children in a day nursery at Athens, Greece, try on their new shoes made from the leather supplied by the United Nations Children's Fund.

million. Five pledges represented increases over 1953 contributions. As in earlier years, the United States pledged \$1 million, provided that its contribution would not exceed 70 percent of total contributions. Additional pledges to the 1954 program are expected to be made early in 1954.

By December 31, 1953, the United States had paid in \$716,968 toward the 1953 program, and other countries had contributed \$98,489.

United Nations Children's Fund.—In October 1953, the United Nations General Assembly

voted unanimously to continue the International Children's Fund. The name of the agency was changed officially to "United Nations Children's Fund"; however the initials UNICEF were retained. The word "Emergency" was dropped from the title in accord with the General Assembly's desire that the fund emphasize the establishment of basic child care programs in the underdeveloped countries.

UNICEF's program in 1953 was directed principally to assisting underdeveloped countries of Asia, Africa, and Latin America in the develop-

ment of their own permanent maternity and child welfare programs. These programs included assistance to rural maternal and child welfare centers in areas where child-care services have previously been non-existent; the training of auxiliary medical personnel, such as village midwives, to staff these services; and extensive health campaigns against diseases affecting large numbers of children, such as tuberculosis, malaria, and yaws. Aid for these long-range programs rose from 25 percent of the total in the period 1947-50 to 66 percent in 1951-52, and to 82 percent in 1953.

UNICEF is currently aiding 213 programs in 75 countries and territories. This aid will reach over 60 million children. During 1953, approximately 17 million persons were protected from malaria. Also, 10 million children were tested for tuberculosis, approximately 37 percent of whom were vaccinated. In the 3 years 1951-53, some 10 million children were examined for yaws, and nearly 3 million treated with penicillin. During this same 3-year period, aid was approved for 5,300 maternal and child health centers.

UNICEF has provided emergency assistance to the victims of catastrophes. This emergency aid, primarily in the form of food, clothing and drugs,

was provided in 1953 to children in the famine areas of India and Pakistan, the earthquake-ridden Ionian Islands of Greece, the flood-stricken areas of southern Japan, and the war-torn regions of Korea. For example, the Greek earthquake in August included among its victims 40,000 children and 3,000 expectant mothers. UNICEF immediately made available 20,000 blankets, 300,000 pounds of milk powder, and fish liver capsules and soap.

A significant development in the latter half of 1953 was the increase of UNICEF assistance to central Africa, particularly for the control of disease rampant in that area. An allocation for leprosy control in Nigeria constituted the first UNICEF aid for this disease.

At its September meeting, the Executive Board of UNICEF allocated \$9.9 million. This amount, plus subsequent allocations of \$276,000 brought the total allocation for 1953 to \$15.9 million. These funds from UNICEF's central account were more than matched by contributions made from local resources by governments receiving aid. In the latter part of 1953, the United States paid its contribution of \$9.8 million for the calendar year 1953 program.





