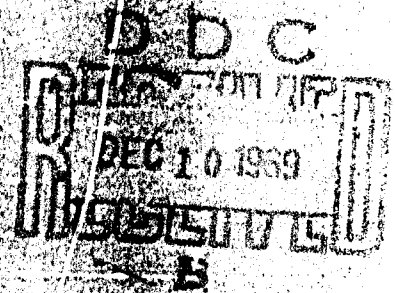


AD697675

DOMESTIC PROSPECTS OF THE REPUBLIC OF VIETNAM

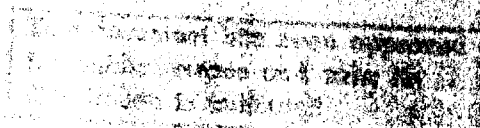
Timothy Hallinan

November 1969



Prepared by the
CLEARINGHOUSE
for the Distribution of Technical
Information (NSA/CSS 174-2745)

Best Available Copy



11-4225

ECONOMIC PROSPECTS OF THE REPUBLIC OF VIETNAM

Timothy Hallinan, Consultant^{*}

The Rand Corporation, Santa Monica, California

The recent publication of a quasi-official three-volume study of The Postwar Development of the Republic of Vietnam raises important questions as to the prospects for a viable, independent, non-Communist Republic of Vietnam, and the roles which the United States may have to play in its development and protection in the 1970's.^{**} Such questions are of considerable concern to a far wider public than those U. S. Government officials responsible for the day-to-day shaping of our Vietnam policies. Their successes--and failures--are likely to do much to shape the success or failure of the present Administration over a wide range of its efforts in both foreign and domestic matters. Some who helped shape the Vietnam policies of the Johnson Administration have expressed mounting doubts about the wisdom of those policies, and now feel that we are addressing ourselves to a problem for which the solutions lie beyond the limits of our capabilities--"the kind of problem" as one of President Nixon's close foreign policy advisors described it, "that decrees tragedy for everyone who touches it."^{***} A great many readers are therefore likely to turn with considerable interest to a report which deals objectively with a wide range of such pressing problems, and may do much to shape the economic policies by which the new Administration may seek to reduce the level of our Vietnam engagement.

^{*} The views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of The Rand Corporation or the official opinion or policy of any of its governmental or private research sponsors. Papers are reproduced by The Rand Corporation as a courtesy to members of its staff.

^{**} Postwar Planning Group and Development and Resources Corporation, The Postwar Development of the Republic of Vietnam: Policies and Programs, published by the Joint Development Group, 1 Tran Quy Khoach, Saigon, 3 volumes, March 1969. Subsequent footnotes refer to these volumes by their volume number and page.

^{***} As quoted by Robert J. Donovan in the Los Angeles Times, August 3, 1969.

The study under review represents the most substantial effort so far on the part of both Americans and Vietnamese to bring together in coherent form their thoughts concerning the economic future of Vietnam. The Vietnamese team was headed by Professor Vu Quoc Thuc of the University of Saigon, the American team by David E. Lilienthal, Chairman of the Development and Resources Corporation of New York. Their report is the major product so far of studies begun in 1967 (as a result of a decision taken at the Manila Conference in October 1966), and funded by the Agency for International Development. It was submitted last year to President Nguyen Van Thieu, and some of its recommendations have already been accommodated in U.S. policies.* Professor Vu Quoc Thuc was appointed Minister of State in May, 1968, and in the cabinet changes of September 1969, he became Secretary of State for Reconstruction and Development. He still serves, however, as the Vietnamese Chairman of the Joint Development Group.

The Joint Development Group was given a widely sweeping assignment. Its members were asked to do no less than

examine the problems and opportunities likely to confront Vietnam when the war ends, and to suggest policies and strategies for development on which operational plans could be constructed, and the restoration of the economy could proceed with a view to the achievement of economic independence in as short a space of time as possible.**

Their concept of economic independence is not, so they tell us at the outset of their study, "an isolated and stagnating self-sufficiency," but instead

a situation in which, in the context of its relations with southeast Asia and the rest of the world, the Vietnamese economy will continue to grow and its people to prosper on the strength of their own skills and resources without continuing dependence on concessionary aid from overseas.***

*Most recently in connection with contracts announced for the expansion of Tan Son Nhut Airport. Cf. Los Angeles Times, Aug. 3, 1969. Some of Mr. Lilienthal's more important conclusions were embodied in his article, "Postwar Development in Viet Nam," Foreign Affairs, Vol. 47, No. 2, Jan. 1969, pp. 321-33, and an interview in U.S. News and World Report, April 21, 1969, pp. 34-35.

**Vol. 3, p. 1.

***Ibid.

As the authors admit with great candor, their report is "optimistic" in its fundamental conclusion:

Provided a satisfactory and lasting peace is secured, and the right public policies are chosen and efficiently applied, there is no reason to suppose that, in the decade immediately following the war, the performance of the economy will be anything less than satisfactory.*

Not surprisingly, therefore, the Report concludes not only that economic independence can be achieved, but that this goal can be reached within "a period of approximately ten years after the war comes to an end,"-- a conclusion which was almost certainly regarded as good news in both Washington and the Presidential Palace in Saigon.**

* * * * *

The first problem, according to the study's authors, is that of agricultural recovery: "the rapid achievement in basic foodstuffs, especially rice, and then the resumption of the export trade in agricultural produce." The authors acknowledge that some increase in agricultural production could be affected by placing more land under cultivation, and point to no less than two million hectares in the Mekong Delta which currently consist of acid sulphate, saline and acidic peat soils, and which eventually could be used productively. But they rightly point to the costs of rendering such lands productive, and suggest that the resources required to do so could almost certainly be used elsewhere more effectively.

Nor do the authors of this report entertain any lively hopes for increasing output by a large-scale redistribution of proprietorial rights. Unlike many proponents of land reform, they approach this sub-

* Vol. 3, p. 2.

** Ibid. In the covering letter to President Thieu, however, the authors went further with the flat assertion: "Vietnam can achieve economic independence within ten years"--i.e. by 1978. Cf. Vol. 1, prefatory (unnumbered) pages.

ject with healthy caution.* They point out that many important social groups--refugees in the cities and camps, demobilized soldiers, and urban workers whose employment may cease with the return of peace--may wish to use their political leverage to acquire small farms created by the subdivision of large ones, and that the subject has political dimensions on which they are not entitled to pass judgment. But they go on to point out that the average farm unit in South Vietnam is approximately 1.35 hectares, and farm incomes may be no more than VN\$60,000 per farm family of 5.5 persons. There are relatively few crops, so these authors report, to provide a farmer and his family, be they tenants or proprietors, with a good living from so small a unit of production; on the other hand, there are a number of other crops already introduced (like sugar cane) or suitable for introduction (like oil palm) which can be grown economically only on much larger holdings.

The fragmentation of large holdings for its own sake, irrespective of its consequences on production and farm incomes, is.....to be avoided.....A high level of production on the farm is surely as important an objective, for owners and sharecroppers alike, as a sense of proprietorship is to the latter.....In many cases in Vietnam the solution to rural poverty may be found in one efficient, well organized farm labor force earning wages

* In the current debate concerning land reform in Vietnam, it is often forgotten that many of the current patterns of land-ownership, far from reflecting a feudal or colonial past, are of very recent origin. For three of the best studies of the Diem land reforms, see David Wurfel, "Agrarian Reform in the Republic of Vietnam," Far Eastern Survey, Vol. XXVI, June 1957, pp.81-91; J. Price Gittinger, Studies in Land Tenure in Vietnam: Terminal Report, U.S. Operations Mission, Saigon, December, 1959; and J.B. Hendry, "Land Tenure in South Vietnam," Economic Development and Cultural Change, Vol. IX, October 1960, pp.27-44. Wolf Ladejinsky, who served as President Diem's personal advisor in these matters, concluded that the South Vietnamese land reform "was carried out in its essentials, but engulfed by a civil war before it came to fruition." (W. Ladejinsky, "Agrarian Reform in Asia," Foreign Affairs, Vol. 42, No. 3, April 1964, p.449.)

far superior to the scanty returns which many farmers now obtain from their small holdings. . . . Land reform is not a subject on which the options should be limited by dogmas and ideologies. The solutions may vary from place to place and from crop to crop. . . . We question the wisdom of breaking up holdings in land to a point at which neither owners nor tenants can possibly make a living from them; preferable objectives are fair rents for farm tenants, fair wages for farm labor, and higher production from the land for all. . . .*

Considering how controversial this subject is in both Vietnam and the United States, the authors are to be commended for taking so sensible a stand. **

* * * * *

The Joint Development Group clearly finds no easy short cuts to agricultural recovery. Its members place their hopes on increasing the yields of Vietnam's staple crops, and accord their highest priority to those which are already grown primarily for domestic consumption and are now in inadequate supply. These include rice, pork, poultry and animal feeds, with the first of these the most important. The authors accord second level priorities to those commodities which (in addition to rice) once played a major role as exports: rubber, tea, peanuts, cinnamon and copra; and third level priorities to those crops which the country now imports but could probably produce at home: kenak, feed grains, cotton, silk, and maybe palm oil, processed cassava, cocoa and milk. ***

* Vol. 2, pp. 224-26.

** Some of the political dimensions of the subject are dealt with in Edward J. Mitchell, Land Tenure and Rebellion: A Statistical Analysis of Factors Affecting Government Control in South Vietnam, The Rand Corporation, RM-5181-ARPA, June 1967; a Congressional report: Land Reform in Vietnam: Twentieth Report by the Committee on Government Operations, U.S. Government Printing Office, Washington, D.C., 1968; and John D. Montgomery, "Land Reform as a Means to Political Development in Viet Nam," ORBIS, Vol. XII, No. 1, Spring 1968, pp. 19-38. A forthcoming study by T. Paul Schultz has sharply challenged the validity of some of Edward J. Mitchell's conclusions. The most recent tacks and turns of GVN policy in this matter are reported in the New York Times for February 16, 1969 and April 15, 1969.

*** Vol. 3, p. 27.

The authors see rice production as the key problem of the agricultural sector. Until recently, this was the country's most important export. In 1960, however, it reached its highest level (earning U.S. \$27.3 million on 340,000 metric tons), then passed to the debit side of the ledger. In 1965, the country imported 271,000 metric tons; in 1966, 434,000 metric tons; and in 1967, 749,000 metric tons. The authors hope to see this trend reversed. With increased double cropping in the Mekong Delta, increased yields elsewhere, and greater use of the newly introduced IR-8 and IR-5 varieties, they hope to see the rice deficit replaced by a surplus for export of 1.5 million metric tons in 1980, so earning from U.S. \$40 to U.S. \$90 million per year.*

The authors project the recovery of rubber production along similar lines. This crop, like rice, has declined sharply in the past few years, as some of the fiercest fighting of the war has taken place in the area in which many of the largest plantations are sited. On account of the almost total neglect of the trees since 1965, USAID projections drawn up in 1966 and 1967 estimated rubber production and exports as rapidly declining to insignificant levels and remaining there for several years after the fighting had subsided.** The Joint

*Vol. 1, p. 26 (Table 2.1); Vol. 2, p. 186 (Table 7.10).

**These USAID projections, which this author drew up, accommodated a number of imponderable factors, such as the customary seven-year period required before a new tree can be tapped, the increasing share of synthetic rubber in the world rubber market, the virtually complete switch from Vietnamese to other sources of raw rubber on the part of the major French tire companies, and much convincing evidence that the official export totals were highly exaggerated. Such factors may be accorded a wide range of importance. In any post-war redevelopment, however, the industry will have to address itself to the problems of very rapidly improving the old--and frequently quite barbarous--methods by which its labor force was formerly recruited and controlled. For a fair and very vivid description (which the present author checked on with some care) of the ways in which the plantations were managed before the Viet Cong swept over them, see Norman Lewis' classic account of his travels in Vietnam, Laos and Cambodia in 1950: A Dragon Apparent: Travels in Indo-China, Jonathan Cape, London, 1951, pp. 119-130, 145-147.

Development Group thinks otherwise. Acknowledging the decline in production from 76,000 metric tons in 1963 to 42,000 metric tons in 1967, its report none the less postulates a production of 60,000 metric tons by 1970, and 80,000 by 1980, at which time rubber exports will be earning from U.S.\$40 to U.S.\$60 million per year.*

The authors do not hide from their readers the order of magnitude of the changes they are proposing for the agricultural sector. The total value of the production of this sector is estimated at U.S.\$850 million in 1969, and projected as from U.S.\$1251 (minimum) to U.S.\$1541 million (maximum) in 1978--an increase (in constant dollars) of from 48% to 81%, or approximately the rate of increase attributed to all other sectors of the economy.** Such an expansion would require, so the authors assert, a flow of credit of approximately VN\$30 billion per year by 1980, of which the public sector would be required to provide as much as 50%*** But the impact of such a program on the country's balance of payments would be highly favorable. Over the decade, rice exports would increase to U.S.\$40-90 million, rubber to U.S.\$40-60 million, fish to U.S.\$10-40 million, and other agricultural products from U.S.\$20-80 million, making a total of from U.S.\$110 million to U.S.\$270 million.# Perhaps the most appropriate comment on that estimate is that all exports in 1967 totalled only U.S.\$16 million (f.o.b.).##

The authors may in fact have more going for them than they recognize. The return of refugees from the cities and towns to the country, and the partial demobilization of the GVN armed forces (and

*Vol. 1, p.26 (Table 2.1); Vol. 2, p.177 (Table 7.4), p.186 (Table 7.10).

**Vol. 1, p.8 (Table 1.1).

***Vol. 2, pp. 7, 218.

#Vol. 1, p.26 (Table 2.1).

##A.I.D. Economic Data Book: East Asia, Agency for International Development, Washington, D.C., December 1968.

presumably the Viet Cong cadres) may release critically important manpower for agricultural production; the withdrawal of North Vietnamese forces and the elimination of their stockpiling requirements may reduce the current levels of internal demand for rice and other commodities, and release a larger share of the total agricultural output for export; the removal of many war-imposed interdictions of internal commerce by both the Viet Cong and the GVN may also do something to reduce the deficit. The substantive issue, however, is one of governmental policy--whether or not the GVN will be willing to break the spiral of low farm prices leading to declining production leading to increasing PL480 imports leading to lower prices, etc. A policy of allowing farm prices to rise to such levels as might facilitate the increases in production which the authors of this Report envisage entails high political and social costs which no Vietnamese government could dismiss as of no consequence. It is a pity that the Group did not see fit to accord this issue a much more detailed--and more empirical--analysis.

But this reader, for one, has further doubts concerning this part of the Report's conclusions. Increases in agricultural production do not automatically generate a surplus for either internal or external export. The well known propensity of peasants to match rising real incomes with increasing consumption of food means that if increases in production are brought about in response (among other factors) to rising prices paid to farmers, a rice "surplus" for export may require more than the increase of 500,000 metric tons per year which the authors of the Report envisage.* Vietnamese

* It should not be forgotten that the diversion of such domestically grown crops as rice from domestic consumption to export in the 1950's and early 1960's was effected at considerable cost to the physical well-being of the Vietnamese population in the rice deficit areas. The survey conducted in 1962-63 by the National Institute of Statistics found that rice consumption averaged 432 grams per head per day in Central Vietnam and 318 grams in Saigon, in contrast to 472 grams in the Delta. An authoritative elaboration of the inadequacies of the Vietnamese diet is given in the Republic of Vietnam Nutrition Survey October-December 1959: A Report by the Interdepartmental Committee on Nutrition for National Defense, Saigon, July 1960.

agricultural statistics are unfortunately as yet so poor that probably no firm conclusions can be drawn on this subject. It may well be that the recent steep increase in the output of animal products, in sharp contrast to such crops as rice, may indicate that much of the incremental consumption of foodstuffs may take the form of increased consumption of domestically grown meats--thereby relieving some of the pressure on rice.* It may also turn out, however, that the increase in consumption of foodstuffs may appear as an increase in the demand for imports. A dynamic process requires dynamic analysis, and in reading this section this reviewer not only felt that such static analysis does scant credit to the authors' use of their professional tools, but that their conclusions prompted them to accept a substantially higher rate of economic advancement for the whole economy than a more sophisticated reading of the data would allow.

* * * * *

The authors recognize that any agricultural/industrial expansion of the order of magnitude which they propose in these pages would require to be fueled by a far more effective mobilization of domestic capital than the economy currently permits. For the private sector, the authors cite the strategies adopted in both Taiwan and Korea, where annual rates of inflation were, for certain periods, far greater than interest rates on time deposits. By raising interest rates, sometimes to levels as high as 7 percent per month, savings were increased without notably unfavorable effects on investment.** The authors of the

* While plant production declined from 1959-61 to 1967, animal production increased by almost 50 percent in the same period. Detailed figures on livestock production and consumption from 1944 onwards are given in Annual Statistical Bulletin of the United States Operations Mission to Viet-Nam, Research and Statistics Section, USOM, Saigon, 1958, pp. 52-58, and subsequent issues each year.

** For some of the operational considerations of these policies, see E. S. Shaw and H. Patrick, Finance and Development in Korea, U.S. Operations Mission, Seoul, Korea, March 1965; R. J. Irvine and R. F. Emery, Interest Rates as an Anti-Inflationary Instrument in Taiwan, and R. F. Emery, The Korean Interest Rate Reform of September 1965, Division of International Finance, Federal Reserve System, Washington, D.C., 1966. For two recent reviews of these problems and programs, see Neil H. Jacoby, U.S. Aid to Taiwan: A Study of Foreign Aid, Self-Help, and Development, Frederick A. Praeger, New York, 1966, pp. 94-97, and Professor Lee's excellent study of Korea: Chang-Nyol Lee, Mobilization of Domestic Capital, Department of Economics, Korea University, Seoul, Korea, February 1965.

Report urge a similar reform of interest rates for Vietnam, and a substantial widening of the banking network.*

The problems of this sector to which the authors of the Report address themselves are extraordinarily intractable, as those who have had operational exposure to them know. Recent events in Korea, far from underlining the ease with which such orthodox prescriptions can be implemented, suggest very strongly that once inflation has caught hold of an economy, the banking sector is an extremely weak instrument to depend upon to bring it to an end. More importantly, perhaps, the Korean experience also suggests that the rerouting of capital flows from informal to formal (institutional) channels is not entirely costless. It may readily turn out that the advantage of increased capital flows for investment are more than fully offset by the distortions which follow in investment decisionmaking when the banking institutions are subject to close government control.

With tacit acknowledgement of the intractability of the problems of increasing rapidly the processes of private capital formation, the authors turn their attention to fiscal policy. They postulate a reduction of public expenditure from 30% of GNP in 1968 to 20% in 1978, and within those expenditures a shift from consumption towards public investment. The defense budget would decline from its 1967 level (for war and war-related expenditures) of approximately 77% of the total budget (or 23% of GNP) to approximately 15% of GNP in the early postwar years, and decline thereafter to even lower levels. Public investment, now only 5% of total public expenditure, or 1% or 2% of GNP ("an abysmally low figure") would have to rise to two or three times that amount.**

In examining the means by which these goals may be accomplished, the authors have little if any good to report of Vietnam's current system of taxation (see Table 1). Direct taxes have declined as a

*Vol. 1, pp.40-56.

**Vol. 1, pp.1 (Summary), 10-11, 63-67.

Table 1

VIETNAM'S GROSS NATIONAL PRODUCT AND BUDGET

Revenue Projections 1960-1978

(VN \$ Millions)

	1960		1967		1978	
	Amount	%GNP	Amount	%GNP	Amount	%GNP
Direct	831	1.0	2857	0.8	--	--
Indirect	3190	3.9	4799	1.4	--	--
Excise	1435	1.7	6254	1.8	--	--
Registration	729	0.9	2989	0.8	--	--
Total Internal Taxes	<u>6184</u>	<u>7.5</u>	<u>16,898</u>	<u>4.8</u>	<u>--</u>	<u>--</u>
Customs	<u>1991</u>	<u>2.4</u>	<u>13,731</u>	<u>3.9</u>	<u>--</u>	<u>--</u>
Total Taxes	<u>8,175</u>	<u>9.9</u>	<u>30,629</u>	<u>8.7</u>	<u>79,200</u>	<u>15.0</u>
Foreign Aid	4481	5.5	21,577	6.1	--	--
Other revenues	<u>1177</u>	<u>1.4</u>	<u>13,085</u>	<u>3.7</u>	<u>--</u>	<u>--</u>
Totals	<u>13,833</u>	<u>16.8</u>	<u>65,292</u>	<u>18.5</u>	<u>--</u>	<u>--</u>
Gross National Product (Billion)	<u>82</u>	<u>100.0</u>	<u>352</u>	<u>100.0</u>	<u>528</u>	<u>100.0</u>

percentage of GNP from 1.0% in 1960 to 0.8% in 1967, and constitute too small a share of total internal tax revenue (16.9% in 1967), even compared with other Asian countries. In the period 1958-1962 (when direct taxes in Vietnam represented 10% of tax income), the figure was 24.8% for Ceylon, 27.7% for India, 26.1% for Indonesia, 21.3% for Malaysia, 25.7% for South Korea, 23.1% for the Philippines, and 55.6% for Japan.*

This type of tax structure has deep historical roots. It represents an authentic reflection of the fiscal structure of metropolitan France, where direct taxes (on individuals and corporations) represent even now only a very small fraction of total revenues.** It also represents, more deeply, a transfer from France to the Saigon bourgeoisie of some extremely authentic French attitudes toward both government and taxes, including the pervasive habit of keeping two sets of financial records (one for the Ministry of Finance's inspectors).*** The deleterious effects of such habits on the Vietnamese body

* Angel Q. Yoingco and Ruben F. Trinidad, Fiscal Systems and Practices in Asian Countries, Frederick A. Praeger, New York, 1968, Table 28, pp. 252-253. The most significant exception in this region is Thailand (9.4%). Here, however, yields have proved remarkably responsive to increases in real incomes: over the last decade, revenues from income taxes have increased 86% faster than the GNP, and revenues from other domestic taxes 67% faster. Cf. this writer's Inflationary Pressures in Thailand, 1959-1968, United States Operations Mission, Bangkok, Thailand, 1967.

** In 1965, direct taxes on households and corporations in France yielded a return of only 28.4 billion francs on a GDP of 461 billion francs, or 6.2%. Cf. United Nations Statistical Yearbook 1966, United Nations, New York, 1967, Tables 179 and 191.

*** For two descriptions in English of attitudes which anyone who has lived long in Saigon will recognize, see John B. Christopher, "The Desiccation of the Bourgeois Spirit," in Edward Mead Earle (ed.), Modern France: Problems of the Third and Fourth Republics, Princeton University Press, Princeton, 1951, pp. 44-57; and more importantly, David S. Landes, Unbound Prometheus: Technological Change and Development in Western Europe from 1750 to the Present, Cambridge University Press, New York, 1969.

politic, however, are not offset by indirect taxes which are suitably responsive to the continuing redistribution and changing levels of income. Indirect taxes have declined from 3.9% of GNP in 1960 to 1.4% in 1967, and total internal tax collections from 7.5% of GNP in 1960 to 4.8% in 1967.* If, as these authors recommend, the high-level flow of U.S. financed imports are drastically reduced in the post war period, and many luxury imports, now financed by the GVN's own foreign exchange and subject to the high rates of the austerity and perequation taxes, are no longer imported on the current scale, customs revenues will decline very sharply, thereby making the reform of internal taxes even more urgent than they are already.

The authors therefore propose a long series of reforms, among them the extension of the existing production tax to a value-added tax, a resuscitation of taxes on real property, a new mix (unspecified) of taxes on agricultural income, higher taxes on such items as gasoline and motorcycles, simplification of import duties and improvement of tax administration. Although many of the details are new, and some of the theoretical argumentation reflects some recent advances in tax theory, readers of the University of Michigan's tax studies of the late 1950's and early 1960's will find themselves surveying familiar landscape. What is most strikingly new in their proposals is the assumption that with declining revenues from customs, the GVN can raise its revenues from 9% to 15% of GNP, or from VN\$30.6 billion to VN\$79.2 billion (in 1967 piasters), before the expiration of ten years.

* * * * *

No part of this study, however, will be read more closely in Washington than those sections dealing with Vietnam's balance of payments. On the export side, the study projects minimum exports of rubber at U.S. \$40 million, of rice also at U.S. \$40 million, of fish and other agricultural products at U.S. \$30 million, and of industrial products at U.S. \$50 million, making a total of U.S. \$160 million (see Table 2). These figures may be high for rubber and industrial products, but a total volume of exports of some U.S.\$150 million

*Vol. 1, Table 4.5, p. 79.

Table 2

EXPORTS AND EXPORT PROJECTIONS

1960 - 1978

(U.S. \$ Millions)

	<u>1960</u>	<u>1967</u>	<u>1978</u>	
			<u>Low</u>	<u>High</u>
Rice	27	0	40	90
Rubber	48	20	40	60
Fish Products	*	*	10	40
Other Agriculture	<u>5</u>	<u>4</u>	<u>20</u>	<u>80</u>
Sub-totals	<u>80</u>	<u>24</u>	<u>110</u>	<u>270</u>
Industrial	<u>4</u>	<u>1</u>	<u>50</u>	<u>170</u>
Totals	<u>84</u>	<u>25</u>	<u>160</u>	<u>440</u>

* Less than U.S.\$500,000

does not seem unreasonable. The high estimates--U.S.\$60 million for rubber, U.S.\$90 million for rice, U.S.\$120 million for other agricultural products, and U.S.\$170 million for industrial products--would seem to rest on a generous measure of hope, particularly in the light of the very few hard estimates which the authors are willing to make for specific line items. In the halcyon days of Vietnam's export trade, rubber and rice constituted 90% of its exports, and when the country comes back into the export business, it will surely find the international market which it used to serve has almost completely disappeared. A projected level of exports towards the end of the 1970's of from U.S.\$150 to \$200 million would seem more reasonable.

Having expressed such pessimistic thoughts about the line items on one side of the ledger, it may seem a little unkind to express similar thoughts about the other side, too. But a truly realistic appraisal of Vietnam's political economy must recognize a number of unpleasant facts. There is probably no country of equal or greater size today that, in terms of its per capita incomes, has had a wider exposure to foreign produce and tastes. It has become, with much American help, a textbook example of what may be aptly described as a cross-country "Duesenberry process."* Vietnamese imports (excluding rice) rose as high as U.S.\$42 per head in 1966-67, or U.S.\$0.33 per U.S.\$ of per capita income (see Table 3). Comparable figures were U.S.\$0.24 for Korea, U.S.\$0.22 for Taiwan, U.S.\$0.19 for Thailand, U.S.\$0.11 for Japan, and \$0.05 for Indonesia. Few, if any,

*For the classical formulation of this process, see James S. Duesenberry, Income, Saving and the Theory of Consumer Behavior, Harvard Economic Studies, Vol. 87, Harvard University Press, Cambridge, Massachusetts, 1949, and its application to the developmental process, Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries: Patterns of Trade and Development, Oxford University Press, London, 1953.

Table 3

PER CAPITA INCOMES, PER CAPITA IMPORTS AND PER CAPITA IMPORTS
PER U.S.\$1.00 OF PER CAPITA INCOME: SELECTED COUNTRIES
OF EAST ASIA: 1966-67
(U.S. DOLLARS)

	<u>Per Capita Income</u>	<u>Per Capita Imports</u>	<u>P/C Imports Per U.S.\$1.00 P/C Income</u>
Indonesia	100	5.42	0.05
Korea	139	33.44	0.24
Japan	1074	116.83	0.11
Philippines	175	27.61	0.16
Taiwan	247	54.41	0.22
Thailand	141	27.05	0.19
Vietnam	126	41.81	0.33

Sources: A.I.D. Economic Data Book: East Asia, Agency for International Development, Washington, D.C., December 1968; United Nations, Yearbook of International Trade Statistics, 1966, New York, 1968, Table A, p.18. Imports are all CIF.

countries in non-Communist Asia are governed by elites whose way of life is so authentically reflective of high levels of imports; and the GVN's long history of adroit resistance to curtailment of CIP-financed imports suggests that the opportunity costs (in terms of foregone leverage as well as lower rates of industrial development) of imposing any drastic curtailment of the Commercial Import Program on a resistant GVN will almost certainly be high. It would seem more realistic to assume that even after the fighting has substantially subsided, the U.S. Government will find itself confronted with compelling pressures to maintain the Commercial Import Program at levels close to U.S.\$350-\$450 million per year for a far longer period of time than the two or three years which the Report implausibly suggests.

A great deal turns on the management of the Vietnamese piaster's exchange rate, and the authors are rightly concerned that the current rate of VN\$118 per U.S.\$ is unrealistic by too wide a margin to last for very long.* They find in Taiwan a hopeful model of the sort of once-and-forever devaluation which they clearly approve of. It now looks likely, however, that Korea, with its serial devaluations which brought the Won from 18 per U.S.\$ at the end of the war to 282 per U.S.\$ at the end of 1968, may be a much more relevant example. Each of these devaluations required long periods of preparatory bargaining and negotiations between the Korean and the U.S. Governments; each one diverted high level attention from other problems and so postponed their solution, sometimes for long periods of time. The post-war history of Vietnam may shape up more favorably. But having established a ratio of imports to exports of more than forty to one (as shown in Table 4), it seems to this writer that the way out of these thickets is going to require a far more protracted effort on the part of the U.S. Government and taxpayer than the authors of the Report envisage.

* * * * *

* At the time of writing, the "free" or "black" market rate for the piaster is reported as VN\$235-245 per U.S. \$.

Table 4

TRADE BALANCES: KOREA, TAIWAN AND VIETNAM: 1953-1967

(in millions of U.S. \$)

	Korea			Taiwan			Vietnam		
	Imports	Exports	I/E	Imports	Exports	I/E	Imports	Exports	I/E
1953	345.4	39.6	8.7	193.2	128.6	1.5	288.5	61.9	4.7
1954	243.3	24.2	10.1	206.4	95.9	2.2	267.0	50.6	5.3
1955	341.4	18.0	19.0	189.3	127.1	1.5	263.2	69.0	3.8
1956	386.1	24.6	15.7	229.8	124.1	1.9	217.7	45.1	4.8
1957	442.2	22.2	19.9	251.5	148.3	1.7	288.7	80.5	3.6
1958	378.2	16.5	22.9	273.5	155.8	1.8	232.1	55.2	4.2
1959	303.8	19.8	15.3	264.0	156.9	1.7	224.6	75.1	3.0
1960	343.5	32.8	10.5	286.5	164.0	1.7	240.3	84.5	2.8
1961	316.1	40.9	7.7	330.3	196.3	1.7	255.1	69.8	3.7
1962	421.8	54.8	7.7	340.8	218.2	1.6	264.5	56.6	4.7
1963	560.3	86.8	6.5	359.8	331.7	1.1	286.2	76.7	3.7
1964	404.4	119.1	3.4	410.4	469.5	0.9	297.8	48.4	6.2
1965	463.4	175.1	2.6	556.4	495.8	1.1	357.3	35.4	10.1
1966	716.4	250.3	2.9	603.1	584.2	1.0	564.9	24.8	22.8
1967	996.2	320.2	3.1	847.5	675.1	1.3	691.9	16.4	42.2

- 18 -

SOURCE: for Korea, Korea Statistical Yearbook 1964, Economic Planning Board, Republic of Korea, Seoul, 1964, Table 209, p. 285, and Bank of Korea, Monthly Statistical Review, Vol. XXII, No. 12, December 1968, Table 54, p. 81. For Taiwan, Neil H. Jacoby, U.S. Aid to Taiwan: A Study of Foreign Aid, Self-Help, and Development, Frederick A. Praeger, New York, 1966, pp. 287, 290, and Far Eastern Economic Review: 1969 Year Book, Hong Kong 1969, p. 315. For Vietnam, Annual Statistical Bulletin of the United States Operations Mission to Viet-Nam, Data through 1957, Research and Statistics Section, Program Office, USOM/Saigon, 1958, Table D-2, p. 45, Annual Statistical Bulletin No. 9, Data through 1965, Joint Economic Division, United States Agency for International Development, Viet-Nam, 1966, Table D-2, p. 57 and Table D-9, p. 67, and subsequent issues of this series.

The fundamental difficulties which the present reviewer had in reading this Report lie at a number of quite separate levels. In the first plane, he found himself baffled in attempting to reason from the data he had at his disposal--both from the Report and elsewhere--to the conclusions which the authors put forward in their first dozen pages. The linkages, for instance, between investments, imports and the balance of payments, or between the proposed tax reforms and their imputed increases in yields, or between infrastructural requirements and exports are never explored in such a way as to convince the reader that the authors' conclusions emerge logically from well-defined and well-defended assumptions. The day has long passed when serious planning can take the form of ex-cathedra pronouncements. This plan is so written that whatever its current political utility, it cannot give the Program Officers who may wish to use it the type of guidance they need. The elaboration of alternative targets and priorities, the trade-offs between programs, the organization of feedbacks--all these and many other established planning techniques find no place in these pages.

The most important--and disturbing--feature of this study, however, is not its shortcomings in terms of planning theory, but its implicit model of guerrilla war. The authors proceed to elaborate their economic plans in a socio-political vacuum. Raising taxes, developing industry, decreasing imports, increasing exports, curtailing aid--all these and many other planning objectives would no doubt be pertinent if only Vietnam were Korea or Taiwan. However, to apply such orthodox criteria to so unorthodox a situation as now prevails--or is likely to prevail in the foreseeable future--in Vietnam is to completely misappraise the real core of the problem. If any lesson may be learnt from Vietnam's recent history, it is surely that substantial economic advancement can take place at the same time as increasing political alienation and protest.* The major thrust of our policy, therefore, should be to establish--through housing, medical, educational, marketing, and many other types of programs--such webs of interest and communication between the villages and the provincial and the national capitals as may minimize the spread of political disaffection and strengthen the legitimacy and leadership of the central government.

* Similar parallelisms have been noted for some other countries, most notably for pre-Communist China. For a statistical analysis of China's industrial growth which casts this point in high relief, see the forthcoming study by John K. Chang, Industrial Development in Pre-Communist China: A Quantitative Analysis, Aldine Publishing Company, Chicago, Illinois, 1969.

There are good general reasons for regarding the developmental process as essentially disruptive. Among the upper layers of society, it entails a substantial spread of decisionmaking authority among circles which sooner or later are likely to claim access to the central political process; among the lower layers it entails an expansion of those classes which lie outside the traditional lines of authority, and very frequently a rapid reduction in absolute numbers of those lying within them. In Vietnam, however, the war has spread social disruption through the length and breadth of the country, from Hue in the north to the southern tip of the Delta. Hence, the paramount problem is that of re-establishing the broken lines of communication between people and government before the Viet Cong lay down their lines of communication and control in such ways that they can be uprooted only at prohibitive political cost to those doing it. All other matters--such, for instance, as balancing imports and exports--are of subsidiary importance unless they contribute to the favorable resolution of this issue.

This problem alone is of sufficient dimensions to absorb whatever American wisdom and resources may be forthcoming in the next decade.* Even now, after 15 years of large-scale American aid, the GVN plays a very marginal role in meeting the social needs of its people--a role far smaller than those needs suggest it should be, and small even by the standards of its Asian neighbors (see Table 5). American leverage and American resources are far too tightly constrained to be effective if diffused over a wide panoply of goals, and if

*Without doubt our efforts will be greatly weakened by the marked lack of good studies of Vietnam's political movements such as the militant Buddhists, the Cao Dai and others. Ironically, we know far more about the Viet Cong than we do about those popular movements on which the Saigon Government must at least partially depend for whatever mass support it may be able to acquire. Even fundamental shifts of Viet Cong policy, as took place after the fall of President Diem's Government, are difficult for official analysts to interpret--let alone anticipate--in the absence of better information concerning the contexts in which Viet Cong policies are shaped. On this point see R. B. Smith's review of Douglas Pike's Viet Cong: The Organization and Techniques of the National Liberation Front of South Vietnam, M.I.T. Press, Cambridge, Mass., 1966, in Modern Asian Studies, Vol. II, Part 1, January, 1968.

Table 5

Comparison of Budget Expenditures
for Selected Categories

Percent of Total Expenditures

Current Expenditures

Country	Defense	Economic Services	Social Services	Investment
1. Vietnam	61.6	7.5	12.0	7.4
2. Korea	24.9	3.6	17.7	33.9
3. Malaysia	14.3	3.2	20.0	34.4
4. Philippines	13.2	15.3	32.0	16.8
5. Thailand	15.4	8.2	17.8	30.6

Source: Economic Survey of Asia and the Far East 1967, UN, ECAFE, Table 36, pp.200-201. The percentages do not add to 100 because the table does not show the percent for other current expenditures (general administration) and contributions to provincial and local governments, which are not always identified. Investment includes direct capital outlay plus net loans and advances for these purposes. The figures refer to the following years: Vietnam 1966; Korea 1967; Malaysia 1967; Philippines 1967-1968; Thailand 1967-1968.

the U.S. Mission is charged with the achievement of the economic objectives which this Report enumerates, it is exceedingly unlikely to have much influence left over to secure the achievement of other ones. It would have been far more useful, therefore, if the authors of this Report had accorded overriding importance to such socio-political objectives as might enable the GVN to win its political competition with the Viet Cong insurgency and then worked out the economic implications of such programs, instead of placing economic objectives first and assuming--in unashamed defiance of a great mass of evidence pointing in the opposite direction--that the achievement of one set of objectives would automatically induce the achievement of the other. After the expenditure of as much blood and treasure as the war in Vietnam has entailed, it would be no less than a tragedy if we allowed--as this Report suggests we should--the very real appeal of a strictly developmental approach to edge out of focus the more diffuse and elusive political goals which will far more certainly determine whether or not an independent Republic of Vietnam will survive.

* * * * *

What then--if anything--may be said of Vietnam's uncertain economic future? Much of it is clearly going to be shaped by its politico-military context. A continuation of the current high military posture would almost surely involve a continuation of current high levels of military expenditures, large budget deficits, continued inflation, continued distortions in resource allocations, and continued if not increasing corruption at almost all points of contact between government and people. It might also effectively preclude the development--now long delayed--of such capital intensive industries as the economy is already able to sustain. For reasons which will be touched on later, a high military posture would probably also entail even further postponement of long overdue reforms in such matters as tax policies.

On the other hand, a lower or declining military posture would bring about important--and advantageous--changes to which the economy would probably respond quite rapidly. For despite the great damage in human terms which the war has entailed, it has prompted advances in

many critically important areas which would otherwise have taken place more slowly and maybe not at all. The enlistment of so large a proportion of Vietnamese men into the armed forces has broken--or helped break--the family and village patterns which restricted the reallocation of manpower between different sectors of the economy and different parts of the country. It has also--maybe more importantly--introduced many thousands of men and women to methods of large scale organization and industrial and para-industrial techniques. An uncommonly broad base has been laid in this way for future advances in the non-agricultural sector. These changes will be sustained and furthered by the great expansion which has already taken place in the country's educational system. Indeed, only five Far Eastern countries have school enrollment ratios which are higher than those now obtaining in Vietnam, and no other country in that region has wrought its educational revolution so rapidly.*

Furthermore, a swing factor of some importance may be found in the strange dialectics of international diplomacy. For as long as the U.S. commitment to a country increases, the balance of leverage may lie more with the host country than it does with the United States.** The reverse is equally true, however. When the U.S. commitment is clearly seen by the host government as already diminishing, U.S. leverage increases. In Vietnam, for example, forward movement on a large number of highly sensitive issues was brought almost to a standstill as U.S. military and economic assistance expanded. As soon as its contracts, however, as it would do when the GVN is reducing its own military posture, U.S. influence on such matters as tax and trade policies may--if properly handled--increase. At a number of key points of economic

* The five countries are--predictably--Ceylon, Japan, South Korea, the Philippines and Taiwan. Comparative statistics on school enrollment ratios are given in the Unesco Statistical Yearbook 1966, Paris, 1968, pp. 59-78. Between 1950 and 1966, the number of pupils enrolled in first level schools (ages 5-14) increased by a factor of 3.9, and those enrolled in second level schools (ages 15-19) increased by a factor of 13.5 (Ibid, pp. 101-132).

** The reasons for this "rule" are complex: I have examined this in detail in a forthcoming study of the political uses of U.S. foreign assistance.

policy, therefore, the Vietnamese Government's ability to organize and implement a broad-based developmental strategy may very rapidly improve, as happened in Korea in the early 1960's.

These are important entries on the plus side of the ledger. They can be readily offset, however, by the simple fact that the critically important programs will be made--or not made--in those political areas in which the GVN has turned in a poor record of performance, and the U.S. mission, working through the GVN, has been unable to make its voice as effective as it should have been. Professional optimists and professional pessimists will both no doubt wait impatiently for history to cross their stationary gunsights. Others would do better to ponder the asymmetries which characterize Vietnam's problems and the resources it commands to solve them, and wonder if the fit--maybe, in Kenneth Burke's echolalic phrase--"fit in an unfit fitness"--will help or hinder their solution.