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HEADQUARTERS
UNITED STATES MILITARY ASSISTANCE COMMAND, VIETNAM
APO SAN FRANCISCO 96222

MACJ01R

3 July 1968

**MEMORANDUM FOR: ALL CORPS DEPCORDS
ALL PROVINCE SENIOR ADVISORS**

SUBJECT: Provincial Economic Restrictions

1. Reference: MACV 11831 DTG 261220Z April 68, Subject: Provincial Economic Restrictions (U).
2. PSA's replies to my request for information on execution of GVN Circular 137 of 4 April 1968 indicate very little has been accomplished in removing economic restrictions. Replies make clear that instructions promulgated by Circular 137 were interpreted by province chiefs as applying mainly to transportation of commodities, and not to all forms of restrictions on commerce and trade. In several provinces advisors were told that economic restrictions were non-existent. In others, some token gesture towards simplification of controls -- such as decentralizing administration to District Chiefs -- was all that was accomplished.
3. Economic restrictions stand in the way of one of our major pacification programs -- economic revival of the countryside. Their costs in time and money raise prices to consumers, stifling demand and production and reducing incomes in rural areas. Licenses, quotas and permits limit the volume of trade among regions of the country, depressing prices of locally-produced goods and making imported goods scarce and expensive. Administration of controls provides the opportunity for graft and corruption, favoritism and monopoly. All this runs counter to objectives the US and GVN are jointly pursuing, namely, stimulating production, raising the real income of producers, and eliminating corruption.
4. My aim is to get GVN to abolish selected controls, removal of which would yield a high payoff to the economy. To do this, I need assistance of advisors in collecting data that clearly demonstrates the counterproductive nature of economic restrictions. However, responses to my earlier cable indicate advisors are generally unaware of the character of these restrictions, their administration, and effects. For this reason, I'm inclosing a description of each of the controls we're targeting, together with the information I'd like PSA's to provide on such controls in a special one-time report to be submitted on 1 August.

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5. The report will consist of a narrative and statistical section on each control that is significant for the province. In the narrative portion, discuss functioning of the controls and their impact on the economy of the province. Are they counterproductive or not? In what ways? Include examples of excessive red tape, inordinate delays in processing applications, excessive fees due to graft or corruption, falsification of documents, excessive resource control checks, collusion, favoritism, monopoly, or restricted competition. Cases of unemployment, business shutdown, wide margins between buying and selling prices, popular discontent, or economic loss stemming in whole or in part from existence of controls should also be cited. If controls serve legitimate purposes, such as tax collection and security, do their benefits outweigh the costs? (Use as measure of tax benefit the amount of revenue collected versus the number of civil servants employed in collection.) Statistical questions are included in the inclosure.

6. Reports Control Symbol for this report is RCS MACJ01R (OT)-3-68. Up-date information on economic restrictions should be included in monthly Province Reports.

7. I'd like DEPCORDS to give this matter their personal attention. Make sure PSA's correctly identify the main, significant restrictions, and submit fulsome reports. I'd like your comments and suggestions on the problem, method of approach, and other restrictions that ought to be targeted.



R. W. Komer
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Civil Operations and RD Support

KEY ECONOMIC RESTRICTIONS

1. Rice Controls.

The main rice controls are the export quota system, the export permit requirement, and restriction of purchase to merchants licensed within the province.

The Province Chief is vested, by regulations dating back at least to 1955, with the power to authorize shipments of rice out of the province. In performing this function Province Chiefs rely upon a calculation of probable paddy production, usually produced by the provincial economics service, from which deductions are made for consumption, non-human uses, and local stocks. The remainder is the provincial export quota.

The estimate of paddy production is usually based on traditional estimates for rice acreage and yield. Moreover, the population data used in computing consumption is often different from the commonly accepted estimate. The resulting export quota is almost always lower than the one produced on the basis of sample cuttings and a sample census of production by the Ministry of Agriculture's Economics and Statistics Service.

Export permits are issued to merchants for shipment of rice outside the province, within the limits of the rice export quota. Despite the fact that export quotas have a downward bias, they are most frequently not met -- the sum of shipments covered by export permits is less than the quota.

Provincial officials and established rice merchants frequently claim that quotas can be exceeded should more paddy turn out to be available and merchants be desirous of shipping it. However, as a point of fact, quotas are infrequently exceeded. They tend to serve as a ceiling for shipments.

Issuing of export permits is connected to the tax system for rice. It appears that in some provinces the paddy transformation tax is collected mainly on -- and possibly only on -- exported rice.

In practice export permits are issued only to merchants licensed within the province. This tends to give established merchants a monopolistic or semi-monopolistic position. Not having to meet outside competition they can pay farmers a lower price for their rice and pocket the extra profit. They can share such profits with corrupt officials whose administration of the licensing system gives them their monopoly position.

In at least some provinces rice merchants have a voice in setting export quotas. They may also get together to share out the quota, divide the market, or fix prices. Their position is protected by licensing regulations which restrict "free entry" into the rice trade -- that is, the ability of anyone to go into business for himself without having to pay an exorbitant amount for the privilege.

Statistical Data Desired (To Extent Available) for provinces with significant rice exports.

- a. Provincial export quota last year and this year. (Give rice figures in milled rice equivalent; 100 kilos of paddy equals 60 kilos of milled rice.)
- b. US advisor's estimate of amount available for export last year and this year.
- c. Amount of rice for which export permits issued last year and this year to date.
- d. Number of civil servants engaged in administering rice controls, including collection of related taxes and fees. How much collected last year?
- e. Number of licensed rice merchants in province. Number of "big" rice merchants (bigness defined by sales volume, share of market, assets) and approximate share of market (percentage of total sales) they account for.
- f. Current, peak and average price farmer received for paddy to date during this crop year and at same time last year.
- g. Any data available on legal or illegal fees paid for licenses or permits.

2. Provincial Import Controls.

Certain items may not be imported into a province without written authorization by a number of subordinate officials, endorsed finally by the Province Chief (who sometimes delegates this authority to the Deputy Province Chief or Economic Service Chief). Re-sale is similarly controlled by requirement for the buyer to obtain a license or permit. Among such items are water pumps, gasoline engines, and generators.

Selling price of controlled items is increased both by the legal paperwork required and by the illegal exactions made possible. Sales volume is also reduced by the red tape. A high-cost, low-volume economy is the opposite of that desired for widespread improvement in living standards.

PSA's should strongly urge removal of water pumps, gasoline engines, motors, and generators from the list of controlled items. The same applies to agricultural implements and inputs.

Lists of controlled items should be reviewed periodically and the Province Chief urged to remove controls on items important to economic development and improvement of living standards. This goal is fostered by reducing the cost of goods to buyers and permitting as large a volume of sales as buyers demand.

The argument that controls are needed to keep certain goods out of the hands of the VC is not usually valid. In point of fact, controls seldom deny the items to the VC. In some cases -- such as explosives -- it can be argued that the task of obtaining the goods should not be made easier for the VC. Even here, effectiveness of controls in creating difficulties for the VC must be weighed against costs imposed on the economic livelihood and standard of living of the people.

VC refer to the popular aspiration to own a water pump, sewing machine and transistor radio as the "three machines" revolution. They generally oppose purchase and import of these machines -- as well as other commodities -- into their controlled areas. Fostering commerce in such goods lets the VC bear the onus of imposing controls which run counter to the peasant's interests and desires.

Statistical Data Desired (To Extent Available).

- a. List of controlled items.
- b. Number of civil servants engaged in administering import controls.
- c. For two or three items significant to the provincial economy give:
 - (1) Cost to merchant of permit to import the items. Give legal fee and estimate illegal fees.
 - (2) Cost to buyer of permit to purchase the items. Give legal fee and estimate illegal fees.
 - (3) Total cost to buyer (selling price plus fees).
- (4) To what extent is trade in the items carried on without obtaining the required permit?

3. Provincial Export Controls.

Many provinces require exit permits for fish, chickens, ducks, duck eggs, duck feathers, salt, and other commodities. Kien Hoa requires a permit for export of copra and coconut oil. Other provinces restrict shipment of buffalo -- only animals 10 years old or more may be exported. The permit requirement may be linked to a quota system which limits the total amount that may be legally shipped from the province during the year.

Such controls have the effect of dividing the country into provincial economic units, narrowing the market and limiting production and trade. Controls may keep prices low at home but they keep incomes low also, whereas expanded production for a national market would raise provincial income and living standards.

Statistical Data Desired (To Extent Available) for Provinces in which Exports are Significant.

- a. List of controlled items.
- b. Number of civil servants engaged in administering export controls.
- c. For two or three significant exports give:

(1) Amount produced last year, quota if one was established, and amount actually exported last year.

(2) Cost of obtaining an export permit. Give amount of legal and/or illegal fees.

(3) Is commerce in these items limited to licensed merchants? If so, what is total cost of license?

(4) To what extent is trade in the items carried on without obtaining the required permit?

4. Hog Controls.

These controls consist of the hog health certificate, exit permit (endorsed for entry into the Saigon slaughterhouse), and slaughterhouse bill of sale.

The hog health certificate is issued by the Animal Husbandry Service. It is a meaningless requirement as most hogs are shipped for slaughter, and slaughter is the best form of disease prevention. According to modern practice, the certificate might legitimately be required to prevent spread of disease to other regions where animals are sent to be raised. But since most hogs are shipped for slaughter, and are seldom inspected visually, the certificate serves no useful purpose.

Hog merchants, who have to be duly licensed to engage in that trade, must secure an exit permit for each shipment of hogs. This is in addition to the health certificate.

The merchant must obtain from the Saigon slaughterhouse a bill of sale which must be presented to province officials the next time he applies for an exit permit.

Statistical Data Desired (To Extent Available) for Provinces with Significant Hog Exports.

a. Fee (legal and/or illegal) for health certificate, hog merchant license, and exit permit.

b. Number of civil servants engaged in administering hog controls.

c. Any data on price of hogs in province and price at Saigon slaughterhouse.

d. Estimate of extent to which trade is carried on outside legal (controlled) channels.

5. Official Prices.

Each province has a provincial price committee which meets monthly to set the official price for a wide range of items.

If the government has sufficient control over supply, it can maintain the official price by selling to buyers at that price. The price of rice is maintained in this way.

In most cases the government does not have control over supply. The reaction to a rising price is frequently to impose an official price ceiling. This accomplishes little, serving only to produce a black market and ensure continued scarcity of the commodity. If the price were allowed to rise, producers would respond by increasing supply.

Statistical Data Desired (To Extent Available).

- a. List of commodities for which official prices are set.
- b. Indicate two or three commodities of significance to the economy of the region which are traded to a significant extent on the black market. Give official price and black market price.
- c. Evaluate whether official prices serve any useful purpose and whether or not they can be usefully eliminated.
- d. Number of civil servants engaged in setting official prices (including research, promulgation, enforcement, etc.).

6. Forestry Controls.

The Forestry service administers a system of cutting permits and royalties to be paid by loggers for cutting different grades of timber. Legal and illegal fees associated with these controls -- and exacted by the VC also -- have done much to increase the cost of logs. Regulation of log shipment, together with authorization of military and paramilitary forces to inspect movement permits, also increases the cost.

Cutting permits are associated with a quota system designed to equalize withdrawal from and replenishment of the forest. Such a system is based on an erroneous concept of forest management. Experts do not consider removal of one or two million cubic meters a year (the amount expected to be cut if there were no quota) excessive for an underdeveloped country with 12 million hectares of forest. Instead, the contribution of the forest to economic development through a larger, less expensive supply of lumber for construction and industry, should eventually permit GVN to devote increased revenues to reforestation and management.

Statistical Data Desired (To Extent Available) for Provinces in which Lumber is a Significant Industry.

- a. Number of sawmills in province and number operating.
- b. Number of operating sawmills not operating to capacity. Reasons for not operating to capacity.

- c. Logging quota last year and amount cut.
- d. What are the legal (and illegal) fees for a cutting permit?
- e. What are the legal and illegal fees for a log or lumber movement permit?