

STATEMENT OF CHARLES A. COOPER BEFORE THE SENATE
FOREIGN RELATIONS COMMITTEE, MAY 13, 1970



Mr. Chairman, Members of the Committee:

I have been asked to speak today about the impact of the Vietnam war on the economy of Vietnam. My own experience goes back only to mid-1964 when I first visited Vietnam and my remarks will therefore be confined to the period since then. My last visit to Vietnam was in July of last year, and my knowledge of subsequent economic developments is based on reports and discussions with officials and friends in this country. In this statement, I shall try to outline and place in perspective economic developments in Vietnam since 1964, and to bring to your attention an important policy issue raised by the Vietnamization program.

Over the past six years, war has been the dominant influence on the Vietnamese economy as it has on every other aspect of Vietnamese life and society. The unfavorable effects of the war are unmistakeable: the physical destruction of factories, homes, fields and forests; the creation of hundreds of thousands of refugees; the burden of supporting large armies, domestic and foreign; the unhealthy social atmosphere emanating from the wartime boom in Saigon and other cities; a thriving black market in both goods and currency; soaring prices; the turnaround from rice exporter to rice importer; the sharp decline in rubber production and exports; the flood of luxury imports; and the virtual dependence on external economic support. This side of the economic picture is not the whole story, however.

In the spring of 1964 when I first visited Vietnam, the signs of a potentially vigorous economy were visible, but also visible were the indicators typical of an underdeveloped labor-surplus economy: high unemployment rates in overcrowded cities, a large degree of underemployment in rural areas throughout the country, a static agricultural technology and weak and tenuous links between the countryside and the cities. Since that time the pressure that has been placed on the economy by war-related demands has altered the economic scene drastically. Unemployment and under-employment have virtually vanished, transformed into over-full employment and labor shortages in rural as well as urban areas. The serious inflation resulting from this change has been highly undesirable -- but economically and socially the change from labor glut to manpower shortages has on balance been beneficial.

In both urban and rural areas of South Vietnam, productivity has increased. To the casual visitor, the wartime boom is most noticeable in the cities; but the progress in rural areas and in agriculture is probably even more fundamental. The war has affected rural Vietnam in many ways -- and differently in different parts of the country. By and large, the costs of the war have been most pronounced in the northern part of the country and decline steadily to the South, and the progress

has been most marked in the southern Delta and declines steadily to the North.

Internal migration flows in South Vietnam have been massive. In part pushed by the war, in part attracted by economic opportunity, in part mobilized by military and paramilitary recruiting, millions of Vietnamese peasants have moved from the countryside to Vietnam's towns and cities. In 1962 some 20 percent of South Vietnam's population was estimated to have lived in urban areas, while today some 40 percent of the population is estimated to be urban. Together with the war-induced increase in demand, this population flow served to turn around the manpower picture of rural Vietnam. The landless worker became more numerous as people left the land, but the jobless worker, rural or urban, became rare.

At the same time that employment was increasing, rural prices were rising. Prices of foodstuffs (mostly domestically produced) have risen faster than prices of non-foods, while import prices have lagged. Peasants apparently now receive better prices for their output, and pay relatively less -- especially for imported inputs such as fertilizer, pesticides, motor pumps, and small agricultural machinery.

The increase in the use of such inputs is perhaps the most basic measure of agricultural transformation. After decades of static productivity and constant yields, the Delta is in the midst of a basic agricultural revolution, and other areas of the country are pushing in the same direction. Fertilizer use, for example, has increased some threefold in 5 years -- to an estimated 500,000 tons in 1969. Demand for other inputs is also increasing.

Fuller employment, high prices, and increased productivity have all served to raise peasant incomes -- and particularly the relative importance of cash income to income in kind. This, in turn, has stimulated rural demand for consumer as well as producer goods -- notably for synthetic fabrics, sewing machines, motor scooters, and transistor radios. The resulting monetization of the countryside has also led to another basic step towards economic development -- the spread of urban commercial interests to the countryside. The rural market is now important to the urban entrepreneur and merchant and a rural distribution system has begun to emerge. This system has by no means been fully established -- but a much wider variety of goods is now available in the towns and villages than ten or even five years ago. The process of integrating the urban and rural economies of Vietnam has gone a long way forward.

Rice production is where the changing impact of the war on the rural economy can best be seen. In vegetables, only the plus side shows: from very modest levels, vegetable and fruit production have increased to become a significant part of the rural economic scene, accounting for perhaps 5 percent of total agricultural output. In rubber only the negative side of the war is visible: trees destroyed, plantations closed, production and exports dwindled to insignificance. But rice shows both sides of the war.

Before World War II, Vietnam exported as much as a million tons of rice in a good year. She continued to export rice after the war up until 1964. In 1965, she began importing rice and 1967 imported more than 750,000 tons. How did Vietnam, a country that is obviously well suited to rice production pass from being a rice exporter to a net importer?

Beginning in 1964, there was an apparent decline in rice production accompanied by a sharp increase in the recorded consumption of rice in Vietnam's urban areas. The official figures which show a drop in rice production from 5,205,000 tons of paddy in 1962-63 to 4,366,000 tons in 1966-67 may even underestimate the change that took place. The downward trend was reversed, however. The 1967-68 crop was estimated to be some 300,000 tons higher than the year before, and the 1968-69 crop held to about that level in spite of bad weather. The present crop is believed to have risen another 400,000 tons, restoring it to about the 5 million ton level -- and only some 5% below the 1963-64 peak.

During these years population growth, and perhaps some increase in per capita rice consumption, raised Vietnam's rice requirements. Moreover, fewer people growing rice means that more of a rice surplus in the growing area is used within the country itself. In the early 1960's a 5 million ton crop meant rice could be exported; today it still must be supplemented by rice imports -- though in much smaller amounts than in 1967.

The principal reason rice production in Vietnam declined was a major reduction in the area under cultivation. Between 1963 and 1967, some 250,000 hectares of rice land were abandoned owing to military hostilities and the drawing off of manpower to the armed forces of both the Government of Vietnam and the Viet Cong. What is remarkable is that the restoration of rice production and the Delta surplus to the level of the early 1960's has come about through increased productivity, not through the restoration of the cropped area. During the years of declining rice production, rice yield per hectare remained mostly constant, but a noticeable increase has occurred in the last few years as farmers have increased their use of fertilizer, pesticides, and water pumps for irrigation and have increasingly adopted improved seeds. These yield increases are expected to continue and Vietnam will probably produce enough rice to meet its domestic needs by 1971 in spite of war, the reduction in the sown area, and a smaller number of rice producers.

Progress in industry and services is more difficult to gauge, because it is hard to disentangle war-support activities. But there have been notable examples of entrepreneurial success in the industrial field, and there has been a significant increase in industrial production. Directly related to the military build-up there has been rapid growth in the construction and services sectors. While military activity has had a harsh impact on the economy of the country in many ways, some military construction -- notably on roads, ports and airports -- has increased the transportation and communications base for the future. Perhaps most important of all has been the development of Vietnam's human resources. Vietnam's labor force has been trained at a rapid rate

in recent years -- both through conscious programs, many of them organized by U.S. military forces, and by the normal operation of a dynamic private sector. Heavy machinery operators, mechanics, bookkeepers and secretaries -- all the middle level skills on which a modern economy depends -- exist today in Vietnam in greater abundance than even a few years ago. The educational level of the population has also improved substantially: ten years ago, only 1,216,000 were enrolled in schools through the university level. Today this figure has risen to 2,473,000, an increase of over 100 percent.

In short, the Vietnamese economy has been distorted by the war, but it has also been jolted out of traditional stagnation. Vietnamese economic performance has been responsive and resilient and should continue to be so during the coming years.

Underlying the economic performance I have described has been the very substantial economic aid provided Vietnam. This has permitted large amounts of commercial imports to be brought into Vietnam, few of which have been financed from Vietnam's own resources. In 1969 for example \$667 million of imports were paid for, while export sales totaled only \$15 million. The U.S. finances this large import surplus both directly via PL 480 and foreign aid, and indirectly via the purchase of piasters with dollars for spending in Vietnam in support of our military effort there. In 1969, the breakdown of these sources of import financing included \$265 million of foreign aid, and \$292 million of official piaster purchases.

Financing a large import deficit is probably the only way of accommodating a major war in small and poor economy. The simplest way to look at this policy is as a means for providing resources from outside the country to offset the local resources used in the war effort. If manpower is going to be directed into the war effort, it can't be used to produce goods for private economy. Imports help make up for this economic burden. Another way to look at this policy is as a response to a financial problem -- a counter-inflation program needed to cope with the increased public deficit occasioned by increased military spending. Finally, this policy may be looked at as a means for inducing a larger war effort in South Vietnam. If substantially less external financial support had been available, the pressure on the standard of living and rate of inflation would have forced a smaller defense effort by the Vietnamese.

Looking back on the period since 1964, two phases are distinguishable. The first phase takes place in 1964 and 1965: a major increase in the defense effort, offset by a very large increase in imports. The period from 1966 to the present represents the second phase: the defense burden continues to grow but the import offset changes very little. The table, included in my statement, summarizes these developments.

Since 1966, the following developments have occurred:

1. The real burden of the war has increased substantially. Vietnamese military and paramilitary forces have increased by over 50%; resources used to support U.S. military activities have increased though very much less rapidly.

2. Imports have increased only slightly.

3. GVN civilian programs have hardly changed. Civilian employment was no higher in 1969 than in 1966.

4. Increasingly, the burden of the war has been passed back to the Vietnamese soldier and civilian employee in the form of lower real wages.

Turning from the past to the future, there is an important economic policy issue involved in the Vietnamization program. The purchase of piasters for military use will decline in the future as American troops are withdrawn from Vietnam. At the same time, increased military responsibility will have to be assumed by Vietnamese armed forces. Unless some way is found to maintain or increase our economic support to Vietnam, it is unlikely, in my opinion, that Vietnamese military capabilities will increase as much as they otherwise could. This in turn could influence the speed with which U.S. troops are brought home.

I would urge that adequate economic support be provided to Vietnam to enable the maximum increase in Vietnamese defense capabilities to be realized. If because of import stringencies, Vietnamese force levels are held below what they might otherwise be, Vietnamese military and governmental performance is impaired by declining real wages and morale, and the attention of Vietnamese leaders is drawn away from the war effort because of economic crises not only Vietnam but the United States will be the loser. U.S. economic support to Vietnam need not, and should not, be lavish. It should be related to Vietnamese defense efforts: large enough to offset the burden such efforts represent, and provided so as to promote as great an increase in these efforts as can be achieved. In my judgment these criteria imply an increase in U.S. economic support to Vietnam above current levels.

I know many people, both within and without the government who feel that now is the time to compel the Vietnamese to put their economic house in order, begin the slow and gradual climb back to reasonable economic self-sufficiency, and lay the basis for peacetime economic development. I disagree. U.S. interests seem to me best served by permitting the GVN to focus on the first-priority problem: the attainment of military self-sufficiency. Fundamental economic reforms with the political disruption they would inevitably entail, and with the limited effectiveness they could possibly have in the midst of war, should be postponed not because they aren't important but because they aren't important enough.

Before closing, I would like to comment briefly on the issue of domestic taxation in South Vietnam. Personally, I think increased domestic taxes in Vietnam are desirable. But I don't think this is an issue of great importance to the United States. Whether Vietnam finances their war burden via inflation or via taxation is an issue better left to Vietnamese leaders. We can determine the size of the war burden they are faced with through our economic assistance, and we can offer advice which will often be helpful, but we should, in my opinion, leave to them the responsibility for managing their own financial affairs. My own experience in Vietnam makes me confident they can discharge this responsibility effectively.

Finally, I would like to express to the Committee my belief that, by and large, the economic policies of the GVN in recent years have been well-intentioned and reasonably effective. There are certainly rich Vietnamese, many of whom have gotten richer. This is inevitable in a wartime boom -- and has happened in our country. But overall, the benefits of economic improvements in the period I am discussing have been widely shared. The passage of the land reform bill initiated by President Thieu, with very little U.S. input I might add, is not an aberration but a reflection of what I have found to be a generally responsible approach to economic and social issues, constrained by the exigencies of war and politics.

Thank you.

DEFENSE BURDEN AND IMPORTS IN VIETNAM, 1964-1969*

<u>Item</u>		<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
1. Armed Forces ^{1/} (thousands)		570	642	716	790	1000	1141
2. GVN Civilian ^{2/} Employees (thousands)	n.a.		126	136	117	114	135
3. Defense ^{3/} expenditures - billions of current piasters							
a. U.S.	--	8.5	28.0	38.3	38.3	42.4	
b. GVN	<u>16.3</u>	<u>32.1</u>	<u>44.3</u>	<u>59.2</u>	<u>82.3</u>	<u>109.7</u>	
Total	16.3	40.6	72.3	97.5	120.6	152.1	
4. Commercial ^{4/} imports - million U.S. dollars in 1963 prices	238	275	526	554	468	580	
5. Imports ^{5/} per "soldier" dollars	418	428	735	701	468	508	
6. "Price Index" ^{6/}	95	100	202	284	346	407	
7. Military budget ^{7/} expenditures per soldier index	79	100	123	157	176	200	

* The estimates in this table for items 3,4,5,6 and 7 are my own. They should be viewed as approximately correct, not as definitive. They are good enough for broad comparisons but not for fine calculations.

Notes:

1/ End-year data. Estimate includes regular, territorial, and para-military forces including the National Police.

2/ End-year data. Police excluded.

3/ This is my own estimate. GVN defense expenditures include MND budget plus Ministry of Interior budget. U.S. expenditures include personal conversions plus U.S. official piaster purchases.

4/ These figures represent payments for commercial imports. Current year values were deflated by the U.S. export price index. Non-commercial imports (AID project commodities, charity, and military assistance in kind) are not included.

5/ These figures are simply item 4 divided by item 1. Not all members of Vietnamese armed forces are full-time soldiers. Adjusting for this would increase each year's figure but not significantly affect the trend.

Notes (cont.)

6/ This is the GNP deflator used by AID. It is roughly consistent with the change in consumer prices. It can be used for estimating real wages, but is less appropriate for deflating economic variables other than wages.

7/ This is the MOND budget divided by the numbers of regular and territorial forces. Since it includes expenditures other than wage and salary payments, it is not properly a real wage index. Since the percentage of wage and salary expenditures has remained the same, it's not a bad approximation, however.