

The Postwar Development of the Republic of Vietnam: Policies and Programs

MARCH 1969

Volume One

JOINT DEVELOPMENT GROUP

POSTWAR PLANNING GROUP • DEVELOPMENT AND RESOURCES CORPORATION
Saigon New York

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1, TRAN QUY KHOACH

SAIGON

POSTWAR PLANNING GROUP

Vu Quoc Thuc, Chairman

DEVELOPMENT AND RESOURCES CORPORATION

David E. Lilienthal, Chairman

His Excellency Nguyen Van Thieu,
President
Republic of Vietnam

Mr. President:

We have the honor to submit to you and to the Government of the Republic of Vietnam this Report, The Postwar Development of the Republic of Vietnam: Policies and Programs.

The Report provides a framework of policy and action within which postwar development can take place. Programs are described - for agriculture, forestry, industry, the infrastructure, and for five geographical regions. These do not yet constitute operational plans ready for implementation. As a whole they represent, however, the first comprehensive attempt to create a design and a program for the transition from wartime to a peacetime footing in all sectors of the economy, and to make an objective assessment of the prospects for Vietnam in the years ahead.

The Joint Development Group has underway further investigation and study to identify more precisely the national and regional problems and potentials and to delineate in greater detail more explicit programs. This work will characterize the Group's activities in 1969 and 1970. In progress now are specific studies, for example, which are extensions of some of the subjects covered in the Report, leading to definitive programs on which direct action can be taken when conditions permit; these include policies for postwar employment, action plans for development of the Five Northern Provinces, and detailed plans for development of the Mekong Delta, to name a few.

His Excellency Nguyen Van Thieu, President

We believe this Report merits serious consideration as the basis for a statement by Government of the policies and purposes it will pursue when the war is over, or even before when circumstances in any particular section or locality permit. It provides:

- a) a basis for the continuation of our own more definitive studies;
- b) a foundation for comprehensive and fully operational plans; and
- c) a concrete basis for the invitation of international financial assistance.

Throughout the Report we have defined the objective to which Vietnam should aspire as the attainment of economic independence. We mean a situation in which the Republic, depending on its own resources and not upon concessionary foreign aid, will become a viable, prosperous community enjoying with self-reliance the fruitful exchanges of products, people and ideas with other nations.

We are firmly of this opinion: the depredations of war can be repaired and substantial progress toward higher standards of living and quality of life can be achieved in a comparatively short time. This presupposes the wise use and exploitation of resources, the adoption of economic policies that encourage growth and, above all, the participation of a hard-working people.

Our studies over the past two years, embodied in this Report, lead us to this conviction: Vietnam can achieve economic independence within ten years.

Respectfully submitted,

Vu Quoc Thuc,
Chairman,
Postwar Planning Group

David E. Lilienthal,
Chairman,
Development and Resources Corporation

Errata - Volume I
(first printing of report, 7 March 1969)

(26 March 1969)

<u>page</u>	<u>line</u>	<u>should read (changes underlined)</u>
1 (Summary)	1	<u>Modest</u> economic objectives over the next ten years are an
1 (Summary)	2	increase in per capita income by <u>one-fifth</u> and in GNP by 50 percent
1 (Summary)	24	Public expenditures <u>including</u> those concerned with defense will
1 (Summary)	25	have to be reduced from over <u>30</u> percent in 1968 to <u>20</u> percent in 1978 and
1 (Summary)	27	defense and security budget equal to 15 percent of GNP, is <u>initially</u>
7 (Summary)	7	hood is that potential markets exist and exports <u>at a high rate can occur in</u>
18 (Summary)	31	<u>The study</u> recommended that the first stage be implemented in the
18 (Summary)	32	northern part of the Nan Phan area. (Elim. remainder of line.)
18 (Summary)	33	It is also (Elim. preceding words.)
1	5	at least increase per capita income by <u>one-fifth</u> and Gross National Prod-
3	19	and to resume exportation of these products <u>after the war,</u>
8	--	(See Insert at p. 8 to replace Table 1.1)
10	17, 18	restored to at least the prewar level within <u>a few</u> years of the end
10	33	expenditures (<u>including</u> defense expenditures) as a proportion of GNP
11	1	must be reduced from <u>about 30%</u> in 1968 to <u>about 20%</u> in 1978, and that there
11	12	than 15% of GNP, <u>in early years and decreasing thereafter.</u>
11	16	tion of many tax sources <u>and an increase in non-tax revenues.</u>
25	10	that <u>within a few</u> years after the end of the war, rice production
26	16	able. In the chapter on Agriculture it is estimated that, <u>conceivably,</u> within ten years

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INTRODUCTION

THE WAR ECONOMY AND POSTWAR OBJECTIVES

Seldom have the postwar development prospects of a country at war received the attention that they are now receiving in Vietnam, so that the transition to a peacetime economy and the taking hold of policies for growth can be sensibly directed to the central issues. Without this attention to the postwar problems and the adjustments needed, the economy would likely flounder before it found its way. No report, however exhaustive, can hope to delineate in detail all of the problems nor how they will appear in the postwar, yet the specification of types of policies to meet major contingencies will go far to meet the needs for planning.

The problems occasioned by the war have been discussed in our Report of November, 1967, and in several working papers. They include the classical problems of a war economy such as inflationary pressures, distortion of spending patterns that reflects the concentration on military affairs, a large number of refugees that have fled to the cities for security, and the disruption of agricultural production.

On the other hand, unlike many other nations at war, Vietnam has some structural economic strength in improved port facilities, roads and other infrastructure that have been built during the war, a newly trained labor force, and an absence of large external war debts that must be carried into the postwar period.

The legacies of the war are not all negative; in some cases the strengthening of the economy during the war will ease the problems of the postwar. These elements are reflected in the recommendations and priorities that are described in this Report.

The postwar objectives are dictated in large part by the wartime conditions: the control of inflation and the avoidance of serious

deflation after the war; a humane and economically effective program to resettle refugees where they can survive and thrive; the re-establishment of conditions of security of persons and movement; and the reconstruction of agriculture. But in addition there are positive objectives to stimulate private and public investment in development projects, to prepare specific project plans in each of the various sectors so as to achieve a balanced and vigorous development effort, and to encourage the economy to attain a position in exports and imports so that it can continue its development programs without large amounts of external concessional aid. Programs designed to meet these objectives are described in this Report.

The objectives that are set forth for Vietnam are not overly ambitious. They define a position that includes both effective means to achieve growth and development, and equity in the dispersion of the benefits and burdens of the future. Above all, both the ends and the means are related directly to the capabilities of the country as they exist now and should exist after the war. The programs outlined in this Report, if followed in their essential respects, provide assurance, in our opinion, of the economic future of Vietnam.

Economic reconstruction and development will require determination and dedication to national purpose. But there are good grounds for believing that the characteristically hard-working people of Vietnam will appreciate why a crescendo of effort is necessary. Indeed, when it is demonstrated to them by appropriate decisions and actions that richer and more rewarding lives are realistic possibilities for them as well as their children, we believe that they will enthusiastically subscribe to this effort and participate in it. Assistance in the reconstruction and development effort will be needed but the policies and programs which will shape the future are ones which the Vietnamese nation will wish to achieve primarily by their own efforts.

THE JOINT DEVELOPMENT GROUP

At their meeting in Manila in October, 1966, the then Chief

Executive of the Central Executive Committee and the President of the United States agreed it was timely, even in a period of increasingly bitter and destructive warfare, to prepare for the progress and prosperity of Vietnam in peace. It was decided that an effort should be made, by Vietnamese and Americans working together, to examine the probable problems and opportunities of the postwar period, and to establish policies and programs for the rapid restoration and development of the Vietnamese economy once peace should arrive - whenever that might be and however it should come about.

The Joint Development Group is the result of these decisions. It has no official, recognized status in either Government, and consisted, at the start, of private Vietnamese citizens and a private American company, communicating freely with governmental and non-governmental agencies, but developing judgments and opinions which were their own and independent.

On the Vietnamese side the joint Vietnamese-American effort was assured by a Letter of Service, dated February 2, 1967, appointing Professor Vu Quoc Thuc, of the University of Saigon, to organize and preside over a Postwar Planning Group, and directing that Group "to undertake, in cooperation with American specialists, the studies necessary for the design of measures, programs and projects for the development of the economy of Vietnam in the postwar period, and to make recommendations concerning them to the Government."

On the American side, the effort was assured by an Agreement between the Government of the United States, the contracting agency being the Agency for International Development, and Development and Resources Corporation, a private company of which Mr. David E. Lilienthal is Chairman. The Agreement between AID and the Corporation stipulated, among other things, that the Corporation's work is to be "part of a joint planning effort with a group selected by the Government of Vietnam." No attempt was made by either Government to define or regulate the relationship between the Vietnamese and American components of this enterprise; the relationship has been allowed to develop naturally, Vietnamese and American specialists have collaborated closely on virtually every aspect of the work, office premises are shared,

and in practice a single joint group has emerged. Although there are, fortunately, numerous examples - outside the major sphere of military operations - of Americans and Vietnamese working well together for the common purpose, the peculiar close-knit partnership of the Joint Development Group may be unique.

The Organization of the Group

The Chairman of Development and Resources Corporation, with two members of his staff, paid a first visit to Vietnam in February, 1967, held preliminary discussions with Professor Vu Quoc Thuc, the Government of Vietnam and United States officials, and established a resident representative for the Corporation in Saigon. In the following months, the Chief of the Postwar Planning Group enlisted the support of a number of qualified professional men and research assistants (mostly, at the start, from the Universities), while a mission of five staff members from Development and Resources Corporation carried out a reconnaissance of Vietnam intended to reveal the principal areas of interest on which the Joint Development Group should thereafter concentrate its attention. This brief survey responded to a specific undertaking given by the Corporation in its Agreement with USAID, and the results were embodied in a Report submitted to the Agency on May 22, 1967. Problems were identified in the broad field of economic policy, and also in Agriculture, Industry, Manpower, Infrastructure and Institutional Development, and it is within these principal areas that the activities of the Joint Development Group have since been concentrated.

The size of the Vietnamese Postwar Planning Group has varied from time to time according to needs and availability, but generally it has consisted of 15 or 16 men of professional qualifications, and about 30 research assistants, graduate students from the University of Saigon. The majority of its members have found it impossible to provide more than part-time services to the development planning effort and from time to time members of the Postwar Planning Group have been lost, permanently or temporarily, to the military draft; and others have been called away to assume official appointments, including Professor Vu Quoc Thuc himself, who became Minister of State (though continuing to supervise the activities of the Group) in June, 1968. On the other hand,

fruitful cooperative arrangements have been established between the Group and the technical services of the Ministries, especially Agriculture and Public Works, so there has been no dearth of professional assistance and counsel. It has not been difficult to recruit additional research assistants to answer particular needs: thus, in August and September, 1967, 120 young men came forward from the Universities of Saigon and Dalat to assist in a socio-economic survey of some 600 villages throughout the Republic.

These surveys, based on a questionnaire designed by senior members of the Postwar Planning Group, constituted probably its most significant activity in the early months of its existence. It was intended to serve two purposes - to create popular interest and participation in a national development planning effort, and to reveal the primary topics of public concern. The results of the survey left no doubt where the public interest lies - in economic progress and the higher standards of living it will enable ordinary men and women to achieve, rather than in the rapid development of the Central Government's social services, though the latter are obviously not absent from the catalogue of popular desires.

On the American side, the Development and Resources staff of the Joint Development Group has averaged over the period some ten specialists a month with further contributions being supplied by Development and Resources consultants visiting Vietnam for periods of one or two months at a time.

Work Procedures

It was not intended - and with these limitations on staff it would not have been possible - that the Joint Development Group should undertake original studies of its own of all the multitudinous aspects of postwar economic development. On the contrary, it has been enjoined to make the fullest use of work done by others, since not to have taken such work into account would have resulted in duplication and waste. (A number of original studies have, of course, been undertaken, but these have relied upon information and data provided by the regular agencies of the Government.) Where it has seemed to us that subjects were adequately covered already by the Ministries or other agencies of

the Government or by USAID, our function has been to take cognizance of what is being done or what is proposed and to adapt it to the over-riding need for a realistic, balanced strategy for total national development. Consequently, the programs initiated or designed by both Governments have been used freely in the course of the work and are apparent in several Chapters of this Report. Where changes in emphasis and in priorities are suggested, it is because of the need to place specific sectoral programs in the context of the total national interest, for the Joint Development Group's judgment of priorities is based not on what is desirable in a particular sector of activity, but on what we believe it is practicable to expect the entire national economy to achieve in the first ten years after the war with the resources at its disposal. The resources, inevitably, will be more tightly circumscribed than the expectations.

This, in a sense, is the reason for the Joint Development Group's existence. The Report now presented is not a final definitive plan, capable of being used for national reconstruction immediately and without modification. In important particulars it still needs much elaboration and refinement, and changes in substance may also be indicated as events unfold. It does represent what we believe to be the first attempt for many years, perhaps the first attempt ever, to bring all the elements of economic development into context and to present to the Government of Vietnam a comprehensive view of the prospects as a whole. We believe it to be suitable for endorsement as the basis for a ten-year development program upon which Ministries and other Governmental agencies, with whatever assistance may be required from the Joint Development Group, can establish their detailed sectoral plans.

Working Papers

The method of work has been to identify particular subjects for study by the members of the Group, both senior and junior, and to encourage the latter to describe problems and suggest solutions in individual, published discussion papers. Over forty of these papers have been published or are in the final stages of production. A wide, at first almost a random, variety of topics has been covered. In a good many cases the published papers concern discrete and specialized subjects, possibly not of general importance to postwar economic development, but representing a deliberate effort to persuade the younger members

of the Group what political economy is about - analyzing the facts of a situation and seeking ways to improve it. In other papers - those, for instance, concerned with the Mekong Delta, Forestry, and Fiscal Policy, among others - the effort has been more pointed, and is concerned with the exploitation of available resources in particular areas of the country or with specific and significant issues of economic policy. Frequent reference has been made to these discussion papers in the body of the Report, for they contain much of the detailed argument on which our conclusions and recommendations are founded. In addition to these papers in the regular series, a special series of twelve other papers deals with various aspects of the development of the Mekong Delta.

Relationships to Other Agencies

The Group has not pursued its task in isolation from other planning and policy-making agencies. That would have been a sterile exercise. Partly through the Chairman of the Postwar Planning Group, and partly by direct contact with department heads in the various Ministries, mutually helpful relationships have been established, and the recommendations now presented represent the ideas of other people as well as our own. The proposals for the Mekong Delta, for instance, are, in part, the result of the conclusions reached at a Seminar organized by the Ministry of Public Works and the Joint Development Group in November, 1967, which was attended by representatives from the Ministry, from the Joint Development Group, and from the National Institute of Statistics, the Directorates of Navigation, Highways, Fisheries, Water Supply, Agricultural Research, Rice Production, and many other government services, as well as from such interested agencies as the National Mekong Committee and Electricity of Vietnam. Relations with the Ministries of Public Works and Agriculture have been particularly close; much of the technical material used in the Report comes from those sources. The help of some of the extra-governmental agencies - the Agricultural Development Bank, the Industrial Development Center, the Development Bank of Vietnam, the National Bank, the Planning Division of Electricity of Vietnam and many others has been enlisted, and so has that of the Universities of Saigon, Hue and Dalat.

There have also been frequent discussions with agencies

external to Vietnam, some of which are potential sources of financial and technical assistance to Vietnam after the war, including the United Nations (through its Resident Representative in Saigon), the Food and Agricultural Organization and the Asian Development Bank. The International Committee for the Lower Mekong has been consulted on frequent occasions and has been kept informed; a flood control study of the river carried out in May, 1968, was made possible by the documents and technical services with which the Committee supplied us. The Chairman of the Postwar Planning Group attended the meeting of the Committee in Bangkok in January, 1968, and an American member of the Group attended a subsequent meeting at Canberra. Several embassies of foreign governments - including those of Australia, Japan, Canada and West Germany - have taken an interest in the progress of the work, and have been supplied with copies of particularly appropriate discussion papers.

The closest relationships have, of course, been maintained with the US Agency for International Development, especially with the Divisions of Economic Policy (which administers the contract between the Agency and Development and Resources Corporation) Public Administration, Engineering, Domestic Production, Labor and Industry. Much original data collected by the Agency and the findings of many of its wide researches have been used in the work of the Group. At all times the advice and encouragement of AID staff with their extensive knowledge of the country have been of the greatest assistance.

In November, 1967, a preliminary report was submitted to the President in which the Joint Development Group described the state of the economy in general terms, provided some tentative predictions concerning its growth after the war, and indicated certain programs - in water control, agriculture, industry and refugee resettlement, which it believed could be initiated even while the war was still being fought. The subsequent activities of the Group have not been limited to planning but have had something of a promotional character, especially in industry and water control programs. The events of Tet, 1968, destroyed our early hopes that something more constructive could be done immediately to alleviate the lot of the refugees.

The Continuing Function of the JDG

In 1969 and 1970, to the extent that the recommendations of the Report are accepted by the Government, the Joint Development Group proposes that these promotional activities be emphasized. Though the end of the war is clearly not in sight, at the time of this writing, it is at any rate a year closer than it was when we last reported. It is a matter of some urgency now that programs which exist on paper and in varying degrees of detail should be made ready for implementation. This requires not merely the elaboration, in association with the Ministries concerned, of the general ideas expressed in some Chapters of the Report, but appropriate allocations of technical skills, the establishment of suitable institutions to manage particular programs, and, above all, the assuring of infusions of external financial and technical assistance and of private investment necessary for a decade of growth. In each Chapter of the Report, an account is given of the particular tasks to be undertaken: the general objective also needs expressing, it is to convert plans into action and aspirations into realities.

THE REPORT

The Report is presented in two Volumes, with a separate narrative synopsis, bound separately. The study divides naturally into two main parts:

Volume I is concerned largely with policies, both economic and political in furtherance of economic growth and contains:

- Chapter 1 Framework and Growth Patterns of the Postwar Economy
- Chapter 2 Economic Policies for Growth
- Chapter 3 Monetary Policies
- Chapter 4 Fiscal Policy

Chapter 5 Manpower, Employment and Skills

Chapter 6 Institutional Development.

Volume II deals in the main with the development programs advocated for the main sectors and for the regions and consists of:

Chapter 7 Agricultural Development

Chapter 8 Forestry

Chapter 9 Industrial Development

Chapter 10 Development of the Infrastructure

Chapter 11 The Social Services, Education and Public Health

Chapter 12 Regional Development.

The separate synopsis has been produced for the benefit of those who may not wish to read the full Report but whose purposes may be fulfilled by such a condensation, or who, by reference to it, can pinpoint more clearly which sections of the Report they would wish to study in greater detail.

Both Volumes I and II also contain a greatly condensed precis of this summary which may be of some value in defining the scope and nature of the various Chapters and Sections.

Throughout the Report the rate of exchange used, unless otherwise specified, is VN \$118 = US \$1.00. In certain Chapters the order of costs of programs have been divided into Vietnamese piasters and foreign exchange requirements. In other Chapters costs have been quoted in US dollars and where no breakdown is given it may be assumed that there will be some local currency requirement which has not as yet been identified.

The Report is being submitted in Vietnamese as well as in English. Neither version, however, with some exceptions, is put forward as a direct and literal translation of the other, and the topics included have sometimes been given different treatment and varying degrees of emphasis depending on our relative interests in certain topics. This liberty of approach is inherent in the nature of the Joint Development Group; the Report is the result of a free exchange of opinions between Vietnamese and American members over the last two years, during which time, neither has attempted to impress particular viewpoints or dogmas on the other. In these circumstances it is worth emphasizing that as regards the general development policies and strategies to be adopted we have regularly found ourselves in substantial agreement. There are no differences regarding the essentials of economic policy and the development program; and there are no differences in our definition and concept of the objective to which Vietnam should aspire.

SUMMARY

VOLUME I

CHAPTER I - FRAMEWORK AND GROWTH PATTERN OF THE POSTWAR ECONOMY

Long run economic objectives over the next ten years are an increase in per capita income by one-third and in GNP by 50 percent. Initially, a reconstruction period lasting from two to three years will be required in which many of the distortions caused by the war must be corrected or ameliorated. Resettlement programs must be consolidated to strengthen rural society and to bring abandoned land back into production, as must educational programs to improve the productive capability of the young labor force. Transportation and telecommunications must be restored and self-sufficiency in rice should be rapidly achieved followed by the resumption of agricultural exports. The damaged production facilities of industry must be reconstructed, the production rate of declining industries restored and new ones established. To achieve these objectives, domestic and foreign capital must be mobilized and inflationary pressures moderated.

A minimum expansion plan for the economy would require a one percent annual increase in the per capita income and four percent in the GNP. The maximum growth path has been estimated at 6 percent in the first three years, and 7 percent in the subsequent seven.

Expansion of exports is the key to independence from concessionary foreign aid and a substantial increase is called for accompanied by a gradual relative decrease in imports. Although the deficit in the balance of payments may not be eliminated in the tenth year it should be at a level which could be financed by capital inflows, supply loans, and other revenues.

Public expenditures other than those concerned with defense will have to be reduced from over 20 percent in 1968 to 15 percent in 1978 and shift from consumption towards public investment. The maintenance of a defense and security budget equal to 15 percent of GNP, is however, postulated. Tax revenues will have to increase from 9 to 15 percent of GNP over the decade. To achieve the rate of growth envisaged, overall investment should reach at least VN\$600 billion, of which the Government will probably have to bear half. Heavy emphasis on the role of private enterprise envisages that the private sector will undertake all industrial and the major share of housing investment.

During the decade the amount of foreign aid required will be in the order of US \$2.5 billion.

CHAPTER 2 - ECONOMIC POLICIES FOR GROWTH

The choice between public action or private initiative in the channeling of resources is over-riding importance. Whilst the energies of both the public and private sectors are needed to complement each other, an open economy leading to rapid and efficient development of resources and equitable distribution of the benefits of growth is to be preferred to central direction. Divestment by Government of some of its industrial investments is endorsed, and the need to free the private sector from controls and bureaucratic procedures is emphasized.

A deliberate program to stimulate agricultural growth is a necessity and the granting of priority to industry as a recipient of investment would be an error. Caution is needed in the planning of an import substitution policy. Considerable opportunities exist but there should be no overprotection of local industry.

The highest priority should be given to the development of export markets if economic growth is not be stunted or depend unduly on foreign aid. It is estimated that the ratio of foreign trade to GNP for satisfactory development should be 15 to 20 percent. A trade gap over a ten-year period of some US \$3 billion is projected but opportunities for earning foreign exchange through services and for private capital inflows are assessed and it is concluded that some US \$2.5 billion in concessionary foreign aid over the next decade will be needed. Development with price stability is unlikely and it is suggested that price increases should be kept within a range of 5 to 10 percent.

The benefits of expanding development regionally throughout Southeast Asia should not be overlooked during the concentration on national development.

CHAPTER 3 - MONETARY POLICIES

Postwar there will be an immediate need to replace direct regulation of economic activity, necessary in wartime for the control of inflation, by more normal fiscal and monetary measures. A strengthened financial sector will be essential for mobilizing savings and capital and incentives will be required for the expansion of commercial banking, although the four special financial institutions now providing credit and financial services will have to continue to take the lead in meeting the credit needs of industry and agriculture.

The level of loanable funds or bank credit which will be required to finance investment and increasing economic activity may need to rise to approximately five to fifteen times the amounts now available and it will be essential to encourage the growth of savings. To this end interest rates should be increased immediately to encourage the transfer of cash holdings to deposits and to decrease the liquidity of the monetary system. Expanded facilities for a money and capital market will be needed, as will a secondary market involving stock issues, home mortgages, and to accommodate the growth of insurance.

The over-valuation of the piaster should be remedied by a once and for all adjustment that can be maintained and that will contribute effectively to equilibrium in the foreign exchange market. A stable rate contributing to confidence and to incentives for development investment is essential for economic growth.

CHAPTER 4 - FISCAL POLICY

Fiscal policy in wartime is not concerned with directing resources to secure growth or with attaining revenues in a way that will not disturb incentives. Normal peacetime expenditures are postponed, fixed capital allowed to depreciate, and military expenditures directed to certain civilian programs. But military priorities do not equate with civilian requirements and some excess capacity is created. A special problem of adjusting from a wartime to a peacetime economy will be the decision to let some of this capacity be written off.

At present public investment is only five percent of total expenditures and private investment is equally low. The net investment rate must be doubled or trebled, and this can best be achieved by the transfer of funds from military expenditures to development programs.

Investment resources will have to be acquired from the private sector through an efficient tax system. The present system is ill prepared for peace and is basically unproductive, inequitable and inefficient. Consolidation and simplification are required; it should be based on income and wealth; contain a broad based tax on consumption and a selected excise tax system. It is suggested that the patente should be converted to a base of gross income for many taxpayers which could eventually be changed into a value added tax and that fuller exploitation of certain excise taxes should be achieved. A different structure is recommended for taxes on foreign trade. Not only should they provide a major part of Government revenues but also the appropriate incentives and protection to promote exports, to assist in import substitution, and the establishment of vigorous local industries.

Suggestions are made for ways to improve expenditure decisions through a better use of the budget. The basic shortcomings of the traditional (line item) presentation, the lack of forward planning, program selection, establishment of priorities and assessment of cost effectiveness are noted. It is recommended that progression to a program budgeting process should be initiated at first in one selected area of activity and then expanded when experience has been gained and trained staff become available. Proposals for greater flexibility, the control and limitation of subsidization of local authorities and for further delegation of Central Government developmental activities to provincial and village governments are made.

CHAPTER 5 - EMPLOYMENT, MANPOWER AND SKILLS

Redeployment policies will be required to meet possible reductions in the numbers of military personnel and in employment opportunities in war-related industries and for the rehabilitation of refugees. There will be problems created by natural population growth. No sizeable demobilization is forecast within five years but limited releases of Army personnel possessing particular skills will be necessary and it will be important to ensure the Armed Forces are used for economically productive purposes when not engaged in security operations and that they do not compete with or reduce the demand for labor in the civilian sector. The interruption of the industrial and service activities which support the war effort will lead to some redundancy but it is not considered that the problem will be serious. Some residual employment will be perpetuated and there will be alternative opportunities in growing service industries and in reconstruction activities. Proposals to streamline the civil service may not be a practical possibility in view of postwar expanded Governmental activities but surplus civil servants should readily find alternative employment in the regional development authorities and in expanding provincial and local Governments.

Numerically, the refugees pose the most serious problem but the probability is that 75 percent of them will return to their lands if sufficient financial assistance is given to them. The balance will need to find work in reconstruction and in the industrial sector generally or in Government sponsored public works activities.

The greatest demand for labor will be in agriculture and if the opportunities are fully utilized all refugees wishing to return to an agricultural way of life should be absorbed. Forest resources may also provide up to 60,000 jobs exclusive of the timber processing industries. Industry will not be a significant employment source in the immediate post-war period.

Although serious unemployment is unlikely, in the long run with labor availability growing at a probable rate of 300,000 a year the conclusion is inescapable that Vietnam must take effective measures to limit population growth or accept reduced standards of living.

CHAPTER 6 - INSTITUTIONAL DEVELOPMENT

Effective implementation of development plans will require a strengthened and broadened institutional framework. The Directorate General of Planning has been ineffectual and the National Planning Council denied the executive support necessary to discharge its functions. The establishment of an Institute of Planning and Development is accordingly recommended which would be permanent and apolitical. Its primary concern would be with internal development problems but it should have authority to contract with external agencies and to negotiate for grants and other forms of assistance. A Board of Trustees is proposed which would consider the merits and content of its research program.

Whilst most recommendations in this Report concern the functions of Ministries and can be planned and executed on a national level only, a policy of decentralization should be applied to many development activities. Regional organizational arrangements to this end are suggested varying in accordance with the requirements of the regions treated.

For full local development, local resources require to be mobilized by representatives of local institutions and the elected village councils will have a substantial contribution to make. Some legislative and administrative reform is recommended which will increase the capacity of these local authorities.

SUMMARY

VOLUME II

CHAPTER 7 AGRICULTURAL DEVELOPMENT

Increased production necessary to improve standards of farm living will be achieved partly by the better use of lands under cultivation and partly by opening new lands for development and settlement. Extensive opportunities for programs of the latter type exist.

Rice production should be aimed initially at equaling domestic requirements and although marketing prospects are uncertain the likelihood is that potential markets exist and exports may probably be resumed by the 1980's. In view of the importance of rubber to the economy it is recommended that all possibilities of revival and expansion be examined thoroughly. Tea will continue to be an important export item and there may be opportunities to increase significantly exports of peanuts, copra and processed cassava during the next 20 years.

The first priority should be given to increasing the outputs of those commodities already produced primarily for domestic consumption but which are in short supply; then to commodities that have been and still are being exported in some volume; and finally to products currently imported in bulk but which may have a production potential in Vietnam.

There are prospects for intensified, diversified and expanded crop production and there is a potential for important animal protein and fish production.

Applied rather than basic research is required postwar and soil surveys must be completed if future land development is to proceed satisfactorily.

Effective extension work and the improved village concept should be expanded. Training programs need to be implemented at several levels to meet the shortage of adequately trained personnel.

Substantial amounts of agricultural credit will be required for the production effort. An estimate is offered that by 1980 requirements will reach VN \$30 billion of which the public sector should probably provide as much as 50%.

Larger scale integrated units may have an important part to play and it is recommended that a limited number of such units, particularly in livestock and fisheries, should be established to determine their potential contribution.

Encouragement of the private sector to continue expansion in the provision of inputs and services to the agricultural sector is advocated, and Government involvement is considered unnecessary.

The fragmentation of large holdings, irrespective of the consequences on production and farm income is undesirable. Many crops cannot be grown economically and competitively other than on a large scale, and land reforms should not be carried so far as to make such profitable enterprises and potential employers of labor impossible. The solution to rural poverty in some areas may be found in an efficient farm labor force rather than in small tenant holdings.

The market structure is well attuned to the prevailing patterns of agricultural production and it is assumed that it will adjust to rapid changes in production provided restricting action is not present and credit becomes more readily available.

Future work will comprise the continuation of basic land capability studies, planning of specific package programs for representative areas from which pre-feasibility studies can be derived, an intensive examination of marketing, a comprehensive study of agricultural credit and a more definitive study of the livestock industry and of postwar fishery development.

CHAPTER 8 - FORESTRY

The principle interest of Vietnam in its timber resources lies in the promotion of wood based industries, recommendations for which are presented in Chapter 9. The importance of forest assets to the regions is described in Chapter 12.

Three specific subjects are discussed: a) cinnamon - a recommendation is made that traffic in cinnamon bark, prohibited at present, should be permitted and a profitable potential market exploited b) a policy of admitting greatly increased log imports from Cambodia to improve the supply of timber for the Delta is advocated c) a reorganization of the saw-milling industry is considered necessary to increase output and lower costs.

Procedures for licensing and taxing log production are cumbersome, subject to abuse and require overhaul. Credit is required which the Agricultural Development Bank should supply. Forest policy and forest taxation generally require revision.

The work program for 1969 includes an evaluation of the capability of the forests of the northern region to supply a plywood factory, a plan to rehabilitate the nation's forests, the definition of the policies and strategies of postwar forestry work, a program for the establishment of forest reserves and national parks and for the reforestation of the pine areas of Tuyen Duc and the Plain of Than Rang.

CHAPTER 9 - INDUSTRIAL DEVELOPMENT

The main effort in the postwar period of recovery needs to be directed to the reconstruction and repair of industrial installations, bringing into production half completed projects, and the revival of depressed industries.

The highest priority should be placed on the production of inputs to the agricultural sector at the lowest possible price although production should be delayed, or in rare cases subsidized, until markets are sufficiently extensive for production costs to be attained at or below the CIF price without duty. Production of most major basic commodities should be permitted only when production costs can approach world competitive prices without duties. In the manufacturing sector priorities should be placed on the categories in which costs can be reduced to the point where exports can be expanded rapidly. The choices are between high protection leading to high costs, and inefficient use of resources, or development in the key sectors of efficient, capital intensive industries based on high labor productivity and low input costs. The adoption of the second alternative is urged.

There is a tendency towards proliferation of small plants which, if faced with the free entry of competing imports, could not survive. The small plants philosophy based on profitability and high protection levels will lead to greater long-run foreign exchange costs and will be at variance with the primary objective of growth in foreign exchange earnings through efficient import substitution and enhanced exports.

Predictions are made of the shape and size of the manufacturing sector in 1978 and a projection provided which indicates that value added in manufacturing may then reach twice its present level. A forecast of capital investment requirements is made ranging from US \$108 million in 1970 to US \$304 million in 1977 with a total investment requirement in the eight year period of US \$759 million.

An analysis of opportunities in a wide range of manufacturing activities is offered and three projects are selected for immediate consideration: the production of nitrogen fertilizer; a project for manufacture

and export of long fibre bleached sulphate pulp; and a project to manufacture veneer and plywood for domestic use and export.

It is suggested that the role of Government towards industrial development should exclude control and regulation as deliberate policy which can only result in the reduction of incentives for the private sector and of necessary investment from abroad.

CHAPTER 10 - DEVELOPMENT OF THE INFRASTRUCTURE

The emphasis in the formulation of a postwar program in each of the infrastructural sectors is initially on repair of war damage followed by longer term programs over a 10-year period. Practical methods of incorporating as much of the infrastructure already developed by the Armed Forces is given special attention as is the establishment of effective procedures for operation and management. In highways, the suggested work falls into three phases: the re-establishing of communications within 12 months, a reconstruction phase lasting for two years and finally a development phase lasting from 1971 to 1980 involving some 42 separate projects which would rebuild all major routes in the southern half of Vietnam. On the assumption that foreign maintenance equipment will remain in Vietnam it is estimated that annual costs of maintenance will range from VN \$659 million in 1971 to VN \$818 million in 1978.

Although the reconstruction of the railroad has already been scheduled some doubt is cast on its future postwar viability.

Adequate deep draft port facilities already exist but some investment in additional port capacity at Saigon with channel improvements to the Saigon River and some repair, replacement and extension of the berthing area at Da Nang are proposed. There is a requirement for the development of a Delta River port and for the restoration of Delta inland waterways to usable depths for barge traffic.

Decisions on the ultimate disposition of the airport system and alternative peacetime uses of airports not needed for military operations are required and should be entrusted to a Postwar Airport Development committee.

Governments plans for the improvement of potable water supplies are endorsed and it is recommended that studies be made of sewage and storm drainage requirements for all major towns.

The PTT proposals for telecommunications development are also endorsed but it is recommended that more detailed information is needed concerning the possible civil applications of the military systems.

Appropriate and practical policies for Government participation in the reprovisioning and improvement of urban housing are necessary.

Existing power generating capacity is summarized, a preliminary power demand forecast presented and a general ten-year development plan outlined.

CHAPTER 11 - THE SOCIAL SERVICES: EDUCATION AND PUBLIC HEALTH

Planning in these fields must be related to the feasible and integrated with overall development policies. The capital costs of expansion are not unduly burdensome but the recurrent cost of maintaining and operating such installations already impose a severe strain upon the national budget and are steadily increasing.

The objectives of national education over the next decade appear desirable but the targets are ambitious and there is some doubt whether resources will be available during so short a period. Some fundamentals need examination; particularly whether the conventional system is responsive to the needs and opportunities of the society; the extent to which it can provide skills needed for the development programs scheduled; and the degree to which the communities served can contribute.

In the field of medicine recent development has been in curative rather than preventive facilities. A suitable balance must be restored for financial as well as technical reasons. Serious consideration must be given to the levels of recurrent costs and additional investment should be modified with regard to the extent to which military facilities would be converted to civilian use. A program of population control must be implemented if living standards are to continue to improve.

CHAPTER 12 - REGIONAL DEVELOPMENT

Section I - Introduction

National and regional interests in economic progress are complementary and substantial advantages can be gained from a policy of decentralization which should be applied to all programs concerned primarily with regional conditions and problems which need not necessarily be planned and executed at a national level.

Section II - The Five Northern Provinces

The development possibilities of the region are limited by the restricted base for agriculture, the relative inaccessibility of much of its timber resources and the extent to which military activities have caused the abandonment of large areas of land and swollen the refugee population to over fifty percent of the total of the whole country. Because the population is overconcentrated in the coastal plain, land holdings are uneconomically small. But some not inconsiderable development potential postwar can be identified. In particular there is an immediate opportunity for improved agricultural production and high priority must be given to the reclamation of lands taken out of cultivation because of the war. The most important of the improved inputs to agriculture will be irrigation, and over 440,000 hectares of irrigable land have been identified which would benefit from irrigation from storage dams, from salinity intrusion control and flood control.

Great potential is seen in the fishing industry and proposals are made for improvements in marketing and for rehabilitation of the industry through improved credit arrangements.

There are reasonably promising prospects for some industrial development and one immediate opportunity, a veneer and plywood factory, is suggested. The possible use of Long Son coal for thermal electric power generation and other limited industrial uses in the region is considered.

A profitable secondary industry in tourism has considerable prospects.

Proposals are made for the rehabilitation of many of the refugees either on their former lands or relocated on new lands provided by the irrigation and water control schemes recommended.

Although in other regions an argument is presented for a statutory Regional Development Authority it is probable that in this region, where no central unifying theme for development emerges, the co-ordination of development efforts by the Commissioner for Development will be sufficient.

Section III - The Central Highlands

Considerable increases in agricultural production and excellent opportunities for crop diversification seem possible. Irrigation is virtually non-existent and major agriculture improvements can be realized through the implementation of a series of small to medium-sized water control projects, which are identified. There are desirable opportunities for multi-purpose development and hydro-electric projects totalling over 1,000 megawatts have been noted. The natural grasslands suggest a potential for a substantial cattle industry and the prospects for forestry are good, particularly in providing the raw material for large scale production of pulp.

A program of assessed resettlement from other regions is recommended and an initial program serving the needs of 40,000 families is called for. Proposals are also made for improvements to the amenities and services in the small highland towns.

The establishment of a Central Highlands Development Board is recommended which would undertake the management of the forests, all land development programs, the construction of farm and market roads and the provision of town and village amenities. It is suggested that such a Board could act as Trustees of the extensive areas of unoccupied land in the central provinces.

Section IV - The Coastal Basins of II Corps

A tentative program for the development of the ten relatively small, separated deltaic areas of the region is offered, which concentrates on the control and utilization of the land and water resources. Some 400,000 hectares of potentially irrigable, cultivable land are identified and suggestions made for storage, flood and salinity control and drainage works which would bring this land into intensive, year-round cultivation. Fullest practicable utilization of many existing facilities in the design of these projects is advocated and an overall, average rough order of magnitude of costs equivalent to US \$1,300 per hectare is assumed as the capital cost requirement for implementation. A quarter of the total irrigable area might be brought into development in ten years at a cost of about US \$130 million; the entire scheme taking some thirty years.

Section V - Saigon Urban and Surrounding Provinces

Preliminary proposals for structuring the long-range development of the Saigon urban area and its ten surrounding provinces are put forward. It is concluded that although Saigon must retain its appropriate national role as the capital city of Vietnam and a secondary role as financial center, its growth must be slowed if the optimum relationship between it and the rest of the country is to be created. Some of its functions must be disbursed and its role de-emphasized. The development is advocated of competitive outlying areas, artificial satellite cities and dormitory type towns.

A brief discussion is offered of the variety of opportunities and challenges for future development contained in the rural provinces.

Section VI - The Mekong Delta

A preliminary appraisal is presented of a proposed Mekong Delta development program aimed at a massive increase in agricultural

production through the application of water control and other inputs. Six large pilot areas are identified and recommended for early intensified development. Protection against floods, improved drainage, control of salinity intrusion and supply of irrigation water during both wet and dry seasons are required. It is demonstrated that construction of upstream reservoirs in the capacities needed to effect flood control significantly in the Delta will take many decades and that flood protection works proposed would be far less expensive than any reasonable allocation of the cost of upstream projects. A system of by-pass and levees placed adjacent to the major rivers is proposed with a flood by-pass. Drainage of excess rainfall will be provided by a system of collector laterals and conveyance canals and salt intrusion controlled by structures in canals and the rehabilitation and provision of dikes along the sea coast and rivers.

To provide the necessary inputs local groupings of farmers primarily at the village level are proposed, to be called Local Development Associations. An Authority is also recommended to manage the waters of the river and to promote the design, construction and implementation of project programs for the control and utilization of its water resources.

Four development phases are identified; the first being flood protection facilities and initial drainage in areas presently subject to inundation to permit cultivation of single transplant varieties of rice; the second salinity control, initial drainage and irrigation in the rest of the Delta which will provide the capability for double cropping of single transplant rice; third, when upstream storage facilities are completed and the dry season river flow augmented, the provision of irrigation water to cultivate one crop of high yielding variety rice during the dry season, and one crop of single transplant rice during the wet season. The last stage of development provides for complete drainage and irrigation capability.

It is recommended that the first stage be implemented in the northern part of the Nan Phan area. It is also suggested that early implementation should be considered in the eastern portion of Cao Lanh where it would be possible to proceed directly to phase two.

CHAPTER 1 FRAMEWORK AND GROWTH PATTERN OF THE POST-WAR ECONOMY

The task of economic development post-war will be the exploitation of the natural and human resources of the country with the objective of achieving a prosperous economy and a stable society. Within a decade, systematic exploitation of the nation's economic potentials can at least increase per capita income by one-third and Gross National Product by 50%. GNP will grow faster than per capita income but per capita consumption will also increase. For some time the nation will have to allocate an important portion of economic resources to national security and defense and of economic products to exports in order to finance imports. With an appropriate set of policies, it is believed that the termination of dependence on foreign aid can be achieved within ten years.

A short period of reconstruction, which may last from two to three years, will be necessary for the attainment of these long-run economic objectives.

Reconstruction and Development Problems

The projects and programs proposed in this Report have been prepared under the assumption that peace will be achieved with territorial integrity. In other words, that part of Vietnam south of the 17th parallel will be the geographical framework for the implementation of development policies.

However, they would prove no obstacle to a decision to establish economic and commercial ties between North and South Vietnam should this become a possibility. On the contrary, the strategy for reconstruction and development of the infrastructure, of the economy, of industry, agriculture and foreign trade would need but minor modification to obtain the benefits which could stem from such an inter-regional economic relationship.

Programs require to be developed to correspond initially to a reconstruction phase to be completed within two to three years; and then to a development phase to be undertaken in the following seven years. There will, however, be no sharp line of division between reconstruction and development. The two phases are distinguished by the kinds of programs to be undertaken.

The Reconstruction Phase

The basic aim of reconstruction is to lay a solid foundation for long-term development. The economy cannot begin to grow rapidly until many of the distortions caused by the war have been corrected or ameliorated. The resettlement of refugees in particular will be a dominant problem at least in the initial phase of two or three years.

There are additional problems which will be caused by developments in the labor market. Before the War Vietnam had a serious unemployment rate. The war has brought about a state of full employment and, in many branches of activity, a situation of labor scarcity. An important portion of human resources has been absorbed by the Armed Forces and by war-related branches of civil activities. Between six months and a year after the termination of the war, it will be necessary to guard against a tendency towards a general decline in employment resulting from a reduction in or termination of war-related economic activities.

The post-war economy, therefore, will present many special and difficult problems: on the one hand, there is the need to accelerate reconstruction, both to achieve economic recovery and to maintain employment at a high level (even though this level may not be as high as in war-time). An excessively high employment level is often the origin of the increase of inflationary pressure. On the other hand, both deflationary and inflationary pressures should be avoided. The difficulty lies in the fact that the effort to maintain a high employment level to avoid social instability will be constrained by the need to minimize inflationary pressures or, at least, to avoid adding to existing pressures.

A human resource recovery strategy will aim at two objectives in the reconstruction phase: first, resettlement programs must

consolidate and strengthen rural society and bring back into production land that has been abandoned during the war. The whole refugee problem will clearly be a costly and complex affair. Second, educational programs to encourage and support a higher rate of school attendance are needed to improve the quality and productive capability of the young labor force.

In infrastructure reconstruction must start with projects aimed at restoring the transportation and telecommunications networks to normalize economic transactions between production and consumption regions.

The key to agricultural recovery is the rapid achievement of self-sufficiency in rice to be followed by resumption of exports of agricultural products. In 1968, the value of exports was insignificant compared with the pre-war level of US \$80 million. In 1968, 90% of imports were financed by American aid and by the sale of Vietnamese piasters to the allied Armed Forces and to foreign contractors for expenditure in Vietnam.

In order to achieve self-sufficiency in agricultural products and to resume the exportation of these products within two to three years, an agricultural restoration fund in foreign exchange as well as in Vietnamese piasters will be needed amounting to nearly VN \$4 billion, or eight times the budget of the Ministry of Agriculture and Agrarian Reform in 1967.

During the reconstruction phase, three major tasks in the industrial sector must be accomplished. The first is the reconstruction of damaged production facilities; the second to restore the production rate of industries which have declined because of warfare; the third is the inauguration of a number of new industries, including industries approved for establishment during 1965-1967 to lay the foundation of long-term development.

Industrial reconstruction, the repair of the infrastructure and the restoration of agriculture, have to be planned regionally as far as is feasible in order that the nation may have firm regional foundations on which to base economic development. In other words, war wounds sustained by all the regions will have to be healed and production

facilities in both rural and urban areas will have to be renewed before the commencement of the development phase. Within the framework of regional development during the immediate post-war reconstruction, the five northern provinces deserve priority in the planned allocation of funds because they have been damaged the most by the war.

An early start is also envisioned for the agricultural development of the Mekong Delta, for which detailed plans for water control are now in preparation. Other regional development plans are being considered for the Central Highlands, the coastal lowlands of the II Corps Tactical Zone, and for the provinces surrounding Saigon.

The accomplishment of the planned objectives of the reconstruction phase depends on two major economic factors: the ability of the economy to mobilize domestic and foreign capital to finance the plan, and the extent to which inflationary pressures can be modulated.

The Economic Objectives and the Problems Associated with Long-Term Economic Development

Within the framework of the overall goals, long-term development must aim at the following economic targets:

- 1) The mobilization of all of the people into a production force which is development-oriented and recognizes the need for effective economic action;
- 2) An increase in per capita income and consumption; with the proviso that per capita consumption will not be able to keep up with increases in production since savings must be marshalled to support the rate of growth of the economy;
- 3) The maintenance of a high rate of employment in an atmosphere of relative price stability;
- 4) A reduction in the gap between the standards of living and the wealth of the different social classes and of the different regions by a redistribution of income through taxation and expenditure policies;

- 5) Raising the rural standard of living by increasing agricultural productivity and purchasing power in this sector, by land reform, by programs for rural electrification, and by the establishment of regional centers to achieve gradual integration of rural and urban life;
- 6) The provision of enhanced educational facilities for the future generation. Hopefully compulsory primary education can be attained within ten years and technical education improved to extend the population's capacity to participate in the general economic growth process; and
- 7) Ending the dependence on concessionary foreign aid.

It is unlikely that all of these objectives can be attained simultaneously. In the ordinary course of development there may be conflicts among two or more of the objectives and compromises will have to be made with achievements in one direction partly offset by sacrifices in another direction. While we recognize that such compromises may be inevitable, it is nonetheless valuable to set forth the full range of the objectives. Growth may be limited by a restricted natural resource endowment (though this is uncertain), by an inability to stimulate the motivation for development strongly enough, or by extraneous elements, but we assume that such elements will not be dominant.

Development Paths of the Post-War Economy

Rates of economic growth - It is precarious to try to predict the exact path that the economy will follow in the post-war period. Much depends on the way the war ends and the speed with which resources can be transferred from military activities to development programs. But some guidelines are required now and should be refined in the coming year.

We have assumed a "minimum" and a "maximum" expansion path for the economy. These are not extreme values in the usual sense of that term; the minimum path assumes that growth occurs, though admittedly the economy might actually decline if no steps are taken to initiate

development. Similarly, the maximum figure might be exceeded with a determined effort to increase investment and exports.

The minimum figure is one that permits about a 1% increase in per capita income in this period. In a rough pragmatic way this sets the floor for economic performance consistent with political stability, and it is also consistent with average past economic performance. The maximum figure is essentially set by limitations on the rate of investment (both public and private) and on the rate of growth of exports. Some further aspects of these limitations are discussed in Chapters 3 and 4.

An adjustment in national income expenditure patterns to shift resources in a major way will be required and can be illustrated in the following figures:

Expenditure	Recent Experience (% of GNP)	More "Normal" Pattern (% of GNP)
1. Consumption (public plus private)	100-105	80 - 90
2. Investment	5-10	10 - 15
3. Exports	0-5	10 - 20
4. Imports (negative item)	20-25	15 - 20

The percentage figures shown are typical of the past few years. The sum of all four (with imports as a negative) adds to 100% of the Gross National Product.

The changes in the economy necessary for a post-war adjustment to a development path are of two major kinds: 1) a relative decrease in consumption and an increase in public and private investment (i. e., an increase in savings); and 2) an increase in exports, probably combined with some relative decrease in imports through import-substitution investment. The first adjustment is needed in order to get the investment in production that will lead to a growth in income and employment and absorb resources released from military uses. The second is needed to provide a growing volume of foreign exchange so that in ten years or so the economy can continue to expand and dispense with concessionary aid.

If the lowest growth path is the target, GNP will increase at the rate of 4% in the reconstruction period and 5% in the development period. This is the growth path that has to be achieved to meet the needs of a growing population and to improve somewhat the standard of living of each person; the minimum growth path is also feasible given present resources.

In the minimum path GNP will increase by half (52%) over ten years. The estimated sectoral composition of GNP for the two assumptions is shown in Table 1.1. The origin of this growth lies in the increase of agricultural production, industrial production and in the early but limited expansion of exports. Though the rate of growth of the industrial sector will be higher, agricultural production will remain the most important component of GNP. Agriculture in the long run will be diversified and industries will use agriculture and forestry products as bases for expanded output. The production pattern of the nation after ten years will be a shift of the structure of output and an increase of the ratio of commodity output to the GNP.

The path of maximum growth has been estimated at 6% in the first three years of the plan and 7% in the subsequent seven years. These are growth rates which would not cause serious inflation because the industrial sector should experience a sudden upsurge and agricultural production would double. It is also assumed that the world market for agricultural commodities would be favorable and with high and stable prices.

Income and consumption - When the war ends, development plans will have to cope with an annual rate of population growth of at least 2.6%.

At this rate of population growth, if the minimum growth path is achieved, average per capita income will increase in the first three years at an annual rate of over 1% and in the next seven years at the annual rate of over 2%. In total, after ten years, average per capita income will increase 20%.

In ten years, the overall standard of living will improve but the nation will require the sacrifice of the consumption of a portion of the fruits of economic progress and development. The sacrifice required

Table 1.1

Estimated Value of GNP in Productive Sectors - 1969 - 1978
(US \$ millions)

	<u>1969</u>		<u>1978</u>	
	Minimum	Maximum	Minimum	Maximum
1. Agriculture	834	866	1,251	1,299
2. Industry	313	326	627	652
3. Infrastructure	203	211	491	604
4. Service	178	185	294	362
5. Government				
Production	671	697	736	907
6. Other Sectors	1,024	1,064	1,509	1,373
TOTAL	3,226	3,321	4,910	6,047

(Revised 26 March, 1969)

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Table 1.1

Estimated Value of GNP in Productive Sectors - 1969-1978
(US \$ millions)

	<u>1969</u>		<u>1978</u>	
	Minimum	Maximum	Minimum	Maximum
1. Agriculture	834	866	1,251	1,541
2. Industry	313	326	627	772
3. Infrastructure	203	211	491	605
4. Service	178	185	294	362
5. Government Production	671	697	736	907
6. Other Sectors	1,024	1,036	1,509	1,859
TOTAL	3,223	3,321	4,908	6,046

consists of the relative reduction of consumption, and an increase of savings and capital investment, to facilitate the self-financing of the national budget, and to meet the need for expansion of export trade to replace foreign aid. Although the 2.6% population growth rate is assumed to apply initially, measures to restrict the birth rate may have to be considered to lower the population growth from 2.6% to 2%. Many countries have not been able to improve the standard of living of their people despite refined plans because population increases at a rate faster than the rate of expansion of the economy or the rate of productivity improvement.

The balance of payments - In the growth process, the expansion of exports plays a very important role and it is a key to ending dependence on concessionary foreign aid.

In the last ten years, Vietnam's dependence on foreign aid has manifested itself in two ways: on the one hand, the revenues in piasters are used as a partial offset to the budget deficit; on the other hand, imports are required in large volume to sop up excess purchasing power and thus to offset inflationary pressures. Both conditions should change in the post-war.

To attain independence from foreign aid, an increase in exports and a gradual relative decrease in imports is called for. In 1968, imports were valued at about US \$750 millions, composed mainly of consumption goods while exports were insignificant (US \$20 to \$30 millions). Nearly half of the imports were financed by foreign exchange through the sale of Vietnamese piasters to allied Armed Forces and foreign embassies. The remainder has been financed by US aid. Clearly when the war ends, the allied Armed Forces are gradually withdrawn, and the foreign contractors reduce their level of operation, the main source of foreign exchange used to finance imports will dwindle. For that reason and because of the necessity of reducing consumption, the value of imports should decline relatively in the ten-year period, and the greatest effort to expand exports will be needed.

However, it is neither feasible nor desirable to reduce imports below a certain level relative to the GNP because a high and sustained growth rate requires imports of capital goods, raw materials and certain consumer goods that cannot be produced locally. The two major

estimates of import level that have been suggested are:

- 1) The value of imports should decline from the present level of US \$750 millions (1968) to US \$450 to \$550 millions beginning in 1972, when the reconstruction period has terminated and the sale of piasters can no longer be relied on as a source of foreign exchange. In the reconstruction phase to 1972, imports have to be maintained at the relatively high levels indicated until exports can expand and domestic production of import substitutions can take place. In ten years, imports as a percentage of GNP will decline from 20% to 25% to about 15%; and
- 2) The value of capital goods as a percentage of total imports should increase from 20% to 30% to 50% to 60% after ten years.

For exports, several phases of expansion are foreseen. The export of rice, rubber and other subsidiary agricultural products will be restored to at least the prewar level within two to three years of the end of the war. Their value will be increased gradually by the increase of agricultural exports (both traditional and new products) and by the increase of exports of industrial goods based on forest and other products. The potential for exports is discussed further in Chapter 2.

The value of exports should reach at least US \$250 to \$300 millions and, with a determined effort, could climb to over \$400 millions.

In the tenth year, it is quite possible that the deficit in the balance of payments will not be eliminated completely; however, the deficit should be at a level of about US \$100 millions and can be financed by capital inflows caused by foreign investors, supplier loans and other revenues. Economic independence in the area of foreign trade must be understood as the ability to finance a deficit by long-term loans rather than by grants or other concessionary aid. Economic independence does not imply the exclusion of all capital movements.

Public expenditure and taxation - It is estimated that public expenditures (excluding defense expenditures) as a proportion of GNP

must be reduced from over 20% in 1968 to 15% in 1978, and that there must be a shift from consumption expenditures toward public investment. At present, because of the war, the national economy has a large defense budget as well as a sizeable fund to support war-related activities, and an administrative system which has been growing in recent years to meet security and defense needs.

The maintenance of a large budget in peace-time, even when financed by taxes, is still a source of inflationary pressure because taxation beyond a certain point becomes itself a source of inflationary pressures. However, because of the uncertainties of post-war Vietnam, the maintenance of a defense and security budget is postulated equal to no less than 15% of GNP, a level experienced by other countries in the same predicament.

Tax revenues as a percentage of GNP will have to increase from 9% in 1968 to 15% in ten years (from VN \$40 billion to more than VN \$80 billion). This increase will require the application or modification of many tax sources.

There must be provision for a shift in the structure of tax revenues in the ten years. Internal revenues, particularly income tax revenues, as a percentage of total revenues will increase.

Investment and the financing of investment - To achieve a rate of growth that would increase GNP by half in ten years as suggested previously, it is estimated that overall investment in the next ten years has to reach at least VN \$600 billion. The investment output ratio in the first three years is expected to be slightly higher than the ratio applicable to the later years because of important reconstruction expenditures in the early years.

The Government will probably have to bear more than 50% of the total investment required, although the stimulation of private investment is a key objective. Government investment will be made in areas of social overhead and, consequently, in areas where private enterprises cannot be interested. Much of the investment made by the Government will go to three main infrastructure areas: irrigation, agricultural extension, and education.

Because heavy emphasis must be laid on the role of private enterprise in long-term economic development, it is envisaged that the private sector will undertake all industrial investment and the major share of housing investment.

The amount of foreign aid needed in the ten years prior to economic independence will be on the order of US \$2.5 billions (Table 1.2). As development proceeds, foreign aid will finance more investment requirements rather than consumption and will make an important contribution to public investment.

In the long run, the encouragement of saving and mobilization of capital within the country are essential to the achievement of economic growth within the framework of economic independence. Three types of measures should be implemented to increase savings, and to stimulate investment:

- 1) Revision of laws governing investment to make it easier to undertake new ventures, and the establishment of a security market;
- 2) Revision of the interest rate structure to stimulate private savings, and the establishment of an organized money market; and
- 3) Taxation changes to raise Government revenues available for public investment.

The participation of foreign capital coming from nations of the free world will be necessary. At present it is difficult to estimate the volume of such foreign capital but contacts with financial, economic and development interests abroad in the course of the preparation of this Report reveal an interest on the part of foreign investors in the post-war development of Vietnam.

Additional details of the means for achieving a successful expansion path through appropriate economic policies are provided in the succeeding five chapters.

Table 1.2

Minimum Investment Ten years - and Financing Sources

	<u>US \$ billions</u>
Total Investment	5.5
Internal Saving	3.7
Foreign Aid to Finance Investment	1.8
Total Needs of Foreign Aid, including Import Consumption Financing	2.5