

Mr. James T. Smith
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VTC/FSI
AID, Washington, D.C.

Dear Jim:

Your proposals on the Economic Possibilities in Khanh Hoa Province have reached this office for review. They have been discussed with Mr. Megellas, DepCords and Mr. Midthun, PSA and we all agree that this area possesses many fine natural advantages and is ready for a modest development effort.

The primary base for this development will be agriculture and agriculturally associated activities. Included in this are fishing and forestry. One of the first facts to be understood and accepted is that for development now and in the postwar period, resources available in relation to those needed are going to be limited. Priorities for the allocation of these resources will be set at the national level and the choices made at that level may not agree with local desires. There will be keen competition for government and private capital so many areas that might appear to be ready with worthwhile development projects will simply have to get by on less or wait their turn. This is the prospect for Khanh Hoa though this is not meant to imply a bleak forecast because this area is fortunate in possessing many advantages and could expect to get a "fair" share of available resources. The basic point here is that though the opportunity looks good now it would be unrealistic to expect suitable financing from GVN and AID to do all that we would like to do at the sametime.

In any consideration of development two key aspects to consider are those of building roads and water resource controls because until these are adequate then increasing production on present land and opening up new land to absorb the surplus urban population simply will not occur on the scale desired. Obviously these are the type projects that only the government can reasonably handle. Local projects of dam construction are usually inefficient, inadequate and require major annual effort to maintain. If the GVN concentrates their efforts on roads and water controls then we will have to look to the private sector as the major source for funds to finance expansion of agriculture and related enterprises.

ADB has expanded its scale of operations and there is a system of district rural credit banks being established but both of these combined will still not have enough funds available to meet the needs of the small farmers, fishermen and businessmen who need credit. The development of hydroelectric capacity involves a large amount of capital and engineering

skills plus extensive preliminary planning and surveying. This is simply beyond the present capacity of GVN to undertake. A significant change in plans is now underway and that is to install transmission lines from the Da Nhim dam to the coastal provinces. Whether this will be adequate for the coming decade is not known because valid forecasts of power needs along the coast have not been made. We do know that without proper planning, power available will be out of balance with power requirements but at least some effort is underway in this area.

A group of Japanese chemical engineers visited the salt beds at Hon Khoi in the fall of 1969 and found the area to be in need of almost complete reorganization. There were more than 10,000 tons of low grade (86%) salt on hand with no market in prospect. We know that if they would modify the size of the salt beds and use improved techniques the volume of production and quality could be improved markedly. Since there is a Cooperative already formed and functioning there is a better chance for bringing about the necessary changes. There are other complications but the main point here is that major improvements could be made if the people are willing to invest the effort. Japan could be a market but they want a quality product at a competitive price and the Hon Khoi area can not meet either requirement without major change. Further effort is to be made to encourage the people of Hon Khoi to undertake the necessary improvements.

The question of whether to build a refinery and if so where, is another matter that would have to be decided after careful study of all the essential factors. A hasty evaluation would not indicate a favorable prospect for locating a refinery in the Ninh Hoa area but I should repeat this is a hasty judgement and I would hope and expect that this area would receive consideration along with other prospective sites if a refinery is to be established. The area was surveyed as a possible location for a pulp and paper factory but it lacked several important features which could be the case in thinking of building a salt refinery.

Fishing is making a slow but steady revival as restrictions on curfew hours and areas are being reduced. The market absorbs all the catch and at a good price. There has been a change since your departure. More fishermen own their boats. New boats are being built and motorization is expanding. Not that there aren't still some poor fishermen but overall they are much better off. GVN with U.S. support is increasing their assistance to the fishing industry. It is obvious that much of the current effort is being put into a continuation and expansion of inefficient and out moded equipment and techniques but this is the only approach that most of the fishermen are familiar with and there are increased returns to them though not the best return per dollar invested. It is also apparent that to take advantage of the great potential for fishing along the coast of Vietnam bigger boats properly equipped and operated by crews trained in the required

techniques are necessary. This aspect of fishing is to receive some GVN and U.S. assistance this year as well as the typical small fisherman. In fishing as in lumbering where there is a good profit to be made there is considerable interest by private investors so that the industry should continue to improve. Other aspects associated with fishing such as ice making, transportation and canning are receiving attention from private interests so there is reason to be optimistic about fishing even without much government assistance.

One need only to walk along the beach to think of Nhatrang as a tourist area. In the period of time since your departure there has been a major expansion of hotel accommodations and a refurbishing of those hotels already in operation. To evaluate the full potential of Khanh Hoa as a tourist attraction it would require a comprehensive survey of the area and then to see how it would fit into any national tourist development scheme. Some tourists could be handled with little additional preparation though perhaps not on a Hawaiian Hilton level. With so many other well established tourist areas in southeast asia any rapid expansion of tourism in Vietnam does not seem likely. When peace comes there will be time to develop this potential.

There are many unknown factors in the area of manpower because it has never been adequately surveyed but even without more definitive data some things seem apparent. The effects of the U.S. reduction are not going to have the feared drastic effects of creating mass unemployment. The reduction is gradual which gives time to help those effected. There has always been a certain level of attrition. Many are being absorbed by the Vietnamese armed forces, others are going into private business since there is a shortage of workers in building, mechanical and clerical skills for the private sector. Certainly many will encounter inconvenience in the transition of employment. For many it will mean less income but looking at the picture as a whole the situation doesn't look as gloomy as anticipated.

Many of those who came in from the countryside to become urban dwellers will choose to remain even though to us the conditions under which they live seem undesirable.

It will be sometime before the cities can provide services in adequate amounts that we take for granted in U.S. cities but in the context of life in Vietnam it is not an impossible situation and will work out in time.

There are still adequate amounts of good land available. The GVN is making a major effort in land reform so the prospects are much brighter for some landless family in the city who would like to return to the farm. They will obviously not get a prime piece of land near one of the coastal urban centers.

Those choosing to return to farming will probably in most cases be able to do so but not without much hard work, inconvenience and a lot of pioneer spirit. Past history of the Vietnamese shows that they are capable in meeting this kind of challenge.

Development of large scale cattle raising in Khanh Duong district has great potential but at this time I would hesitate making any predictions. To indicate to you that anything is possible I would cite that there is a major proposal for development of sugar cane to include a refinery in Phu Yen involving about twenty five million dollars. Another scheme for Pleiku would involve a billion piasters to establish a diversified agriculture complex. Foreign investors are showing more interest in Vietnam and as you know there in Washington, AID has a loan guarantee system in operation. We are in close touch with USAID Industry in Saigon and receive consideration in their contacts with potential investors and development schemes. Certainly there is far more that could be done in "pushing" the possibilities of the area but there are some forces at work already.

Perhaps the most significant change to occur since your departure is in the local "money circles". Where before they were interested mainly in quick turnover with high rate of return, we now find substantial interest in long range solid investment opportunities. Inhibiting factors are the lack of sophisticated banking and investment institutional systems and a shortage of people with essential management skills but in spite of the obstacles businesses are expanding, new ones are being started and many potential investors are looking for opportunities.

You realize that the Vietnamese society is in a transition stage from the traditional systems of the past so though opportunities may exist the means to take advantage of the opportunities are not in a position to respond as rapidly or on a scale that we would like to see.

We must realize that if local development is to claim a portion of national resources it will have to fit into the total picture of development of the country. To those with special interest in particular areas it will require a necessary adjustment in their thinking and actions.

Your continued interest is appreciated as are suggestions from those who can look at and think about this area from a different perspective than those who are involved on a daily basis. Together we can hope that the end result will be successful.

Sincerely

LAWRENCE M. FLANAGAN
Economic Advisor