

Joint Development Group

Saigon, Vietnam

Report No. 1

REPORT TO THE PRESIDENT OF SOUTH VIETNAM

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The Joint Development Group is an organization whose purpose is the study of economic and technical planning for the long-range future of South Vietnam, with particular emphasis upon the post-war period. The group is comprised of Vietnamese experts, headed by Professor Vu Quoc Thuc, and American advisors supplied by Development and Resources Corporation, a private firm headed by David Lilienthal. In the course of its work, the Joint Group has produced a series of working papers, of which this paper is one.

A REPORT

to

THE PRESIDENT OF THE REPUBLIC OF VIETNAM

Mr. President:

As your term of office as President begins, the entire Post-war Planning Group wishes to offer you its most sincere congratulations.

While the work of our Group will not be completed before the end of 1969, we feel it incumbent upon us to inform you of the first conclusions we have reached. This report, naturally, is a preliminary and not a final one.

It is presented in four parts:

- I. The organisation and program of the Post-war Planning Group.
- II. General observations on Post-war problems.
- III. The findings, in summary form, of the enquiries we made in 1967 into the aspirations and resources of the rural areas.
- IV. Our recommendations concerning certain action programs which might be initiated in the period 1968-1971.

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PART I
ORGANISATION AND PROGRAM

PART I

ORGANISATION AND PROGRAM

A. ORGANISATION.

By the Chief of the Central Executive Committee's Memorandum 088/SVVT/HP/UV of February 2, 1967, we were awarded the honor of organizing and directing a group of specialists to be known as the "post-war Planning Group". The function of this group was "to undertake, in cooperation with American specialists, any studies necessary for the design of measures, programs and projects required to develop our economy and to stabilize our society in the post-war period, and to make recommendations concerning them to the Government."

The decision to plan for the period following the end of hostilities originated in an agreement between the Governments of Vietnam and the United States during the Manila Conference of 1966.

On the American side the task was assigned to Development and Resources Corporation, led by Mr. David E. Lilienthal, and is being carried out under the terms of a three-year contract between the Corporation and the United States Government.

On the Vietnamese side the task is being undertaken neither by a private company (such as Development and Resources Corporation) nor by a governmental agency, but by a group of private citizens whom we have gathered together for this purpose.

The activities of the Post-war Planning Group have been sustained by the Governments of Vietnam and the United States as follows:

1. The Government of Vietnam has provided us with office premises in a building at 128, Hong Thap Tu Street. USAID has provided us with all office furniture and equipment.

2. For the year 1967 the group has been given a budget of \$VN14 millions under the United States aid chapter of the national budget and in accordance with a Program Agreement between the two Governments. The source of this money is the Special Fund, and our expenditures are governed by the procedures normally applicable to the Special Fund.

The Vietnamese Post-war Planning Group is carrying out its work in the same three-year period as that assigned to Development and Resource Corporation.

Detailed discussions were held between us and Mr. David E. Lilienthal, during his first visit to Vietnam last February and again in the course of the summit conference at Guam. We agreed that the technical and administrative work of the Planning Group would be substantially carried out by the Vietnamese members, and that the numbers of American specialists cooperating with us should be limited. Some American specialists would be resident in Vietnam, but others would visit Vietnam, for a few months at a time, as the needs of the work demanded.

In the last eight months the number of American members of the group present in Vietnam has never exceeded 10. Vietnamese members presently number 55, consisting of 12 men of professional status, 38 research assistants and an administrative staff of 5. Only 12 of our Vietnamese members are full time workers, the remainder giving only part time services. The group is not,

of course, a permanent Government agency, and cannot therefore offer its staff the privileges and benefits which pertain to members of the public services. Moreover the salaries we have been able to pay have been inferior to the salaries payable in U.S. Government agencies and in private business. Our recourse has been to invite faculty members from the Universities and Technological Institutes, and to pay them for their services on an hourly basis.

Where special large scale surveys have been necessary we have recruited university students, for periods of from one to two months, as research assistants. As an example, last August and September we recruited 120 students from the Universities of Saigon and Dalat to investigate the popular needs and the resources of 576 villages in the rural areas.

B. PROGRAM OF WORK.

After eight months of working together and freely exchanging our ideas, the American and Vietnamese members of the group have reached a unanimous conclusion. It is that in order to serve the needs of the present situation we must interpret the term "post-war planning" in the broadest possible sense.

Since we do not know what the intentions of our adversaries may be, we cannot pin all our hopes on an early end to the war by means of a negotiated settlement. And even if we succeed in starting negotiations we should not hope that final agreements will be quickly reached. Our experience after the Geneva Agreements indicates that even after the war has come formally to an end we may still be attacked clandestinely by acts of terrorism, sabotage and ambush.

In these circumstances it seems most sensible for us to pursue our plans for economic development and the stabilization of our society in the relatively secure areas, in the cities and in those places where Village Councils have been popularly elected. In areas such as these, as far as economic development is concerned, we should consider that the "post-war" period has already begun.

Then in some cases our "post-war" problems are associated with existing war-time ones. An example is the situation of the refugees. Wherever military operations are undertaken to clear an area from the Viet Cong, there is an inevitable movement, sometimes of thousands of people, to other places. The relief of displaced persons is an obvious war-time and temporary problem; but their permanent resettlement, after a year or so, and whether it occurs of their own efforts or with the guidance of the Government, is definitely a post-war problem, one that is closely related to long-term economic development.

The reconstruction of the rural areas is another example.

Essentially this seems to be a problem for the post-war period, and efforts at reconstruction such have been attempted already have often met with violent sabotage at the hands of the Viet Cong. Rural reconstruction today consequently assumes the character of an effort at pacification, undertaken while a very brutal war is still raging.

The post-war Planning Group recognizes that existing governmental agencies bear the main responsibility for the implementation of development programs, and that its own responsibilities must therefore be limited ones. Indeed, it is incapable of assuming all the manifold functions assigned, for instance, to a Ministry or Directorate-General of Planning. Its concern is

purely with long-term development; and if it suggests early implementation of certain projects it is because of the close association of such projects with the long-term prospects for economic development.

The Group therefore intends:

(a) In the first place to set up strategies for development, in agriculture, in industry, and in the modernization of the infrastructure, such as can be applied over the next 15 to 20 years. In order for it to perform this function properly, a wide variety of basic investigations will have to be undertaken first - for instance enquires as to what the people of our villages really want and the resources they possess to achieve their aspirations; studies of the infrastructure: surveys of agricultural and industrial potentials, and of capital-output ratios in different sectors of the economy; and studies of the differing development possibilities in regions as diverse as the central lowlands, the central highlands, and the western provinces of the South.

(b) In the second place, to study those immediate problems which are capable of affecting the economy in the long-run and to recommend actions to deal with them. Examples of such problems include the refugees, the productive use of labor and installations surplus to military needs, stabilization of the currency, compensation for war damage, etc.

Three years is clearly insufficient time to study all and every conceivable post-war problem in depth, and so comprehensive a function is not within the Post-war Planning Group's ambitions.

PART II
GENERAL OBSERVATIONS CONCERNING THE POSTWAR
ECONOMIC SITUATION

PART II

GENERAL OBSERVATIONS CONCERNING THE POSTWAR

ECONOMIC SITUATION

PART A. Analysis of the present economic situation of Vietnam.

I. There could be no better demonstration of the effect of politics on an economy than the present situation of Vietnam.

After the Geneva Agreements of 1954, economic and social policies in 1955-56 were directed mainly to settling refugees from North Vietnam in uninhabited areas of the South. Owing in part to foreign aid and in part to increased productivity within these areas, there was a substantial increase in national income. In this early period of our independence, the activities of the Viet Cong were still relatively limited and had no harmful effects on the economy. From 1956 to 1963-64 the destructive activities of the Viet Cong continued to be on a small scale, and the Government of the Republic of Vietnam succeeded in building an impressive number of agricultural and industrial establishments. As a result, the economy steadily expanded. National income was 69 billion piasters in 1956 (as compared to 64 billion piasters in 1955), and rose to 101 billion in 1963 and to 115 billion in 1964 - valued at current market prices.

In this period the price index increased by a moderate twenty per cent, so real income increased by forty per cent within that period (four per cent per year). Economic growth at this time did not, however, result in a substantial improvement in standards of living, being largely offset by an increase in population. Since 1964, in a period of three years, this economic progress has been drastically disturbed by the intensification of the war.

The war in Vietnam is entirely different from previous wars and we should not expect there to be any comparison between its economic effects and those which could be deduced from other conflicts. Because the war is so different, post-war economic problems will differ from those encountered by Europe, Japan, or Korea. Our war is a peoples war, its character that of guerilla action and insurgency. It originated in the countryside and uses the countryside as its base in an attempt to isolate the urban areas. The target of political and military forces on both sides is the peasant. As the war increases in severity, it is the countryside which bears an ever increasing part of the burden - in its labor force, its economy, its social fabric. The displacement of millions of farmers from their homes and the resulting decrease in agricultural production are inevitable results of this special kind of war.

Since 1964, the increased numbers and activity of the Allied Forces have completely transformed the economic and social structure of Vietnam. In fact, despite the decline of exports from US\$ 83.3 million in 1963 and US\$ 48 million in 1964 to \$39 million in 1965 and \$21.4 million in 1966 and despite a marked decrease in production in the agricultural and industrial sectors, national income has substantially increased. From the records of the National Bank of Vietnam and the studies of Mr. H. Lubell, national income is estimated to have increased from 145 billion piasters in 1965 to 246 piasters in 1966 at current market prices.

The presence of Allied troops, which have increased from 20,000 in 1963 to 700,000 in 1967, has brought about a boom in the economy of Vietnam. The nature of this boom is not the same as that experienced

in Europe and Japan, although all such booms have some characteristics in common - those resulting from the injection of money from overseas into a local economy. Large numbers of troops have generated unusual prosperity in areas adjacent to their bases and in the cities. The economy of Vietnam may be said to have reached the full employment level. This is an artificial situation, arising from wartime manpower demands and from the demands for services of other countries' nationals temporarily living in Vietnam. Whether full employment is short term or medium term, its pressure is strongly inflationary.

Economic reform measures in recent years have been responsive to this temporary situation, and we can discern in the existing economy three clearly distinguishable sectors:

- 1) A sector created by the war;
- 2) A sector developed by the war;
- 3) A sector depressed by the war.

1. The sector created by the war.

This sector includes all economic activities directly related to the presence of allied forces on Vietnamese battlefields. Its principal characteristic is that it has been created by the presence of allied forces and that it would vanish if allied forces withdrew. The great majority of the allied forces are Americans, and the expenditures are from U. S. defense funds; and the sector can now be conveniently described as the "American sector".

Geographically the "American sector" extends to wherever allied troops are posted. It is the most prosperous sector of our present economy, the extent of this prosperity depending on the number of troops involved and the size and number of the installations created in order to fight the war.

It is this sector which receives the flow of money from overseas into the Vietnam economy, and in turn injects that money into the economic veins of the nation. Expenditures by Allied forces, and by Allied contractors and civilians providing services for the military provide an accurate measure of the sector's importance. In addition to direct expenditures, there are large imports of goods (P.X. for example) for military consumption, and these too have generated income for a large section of our population.

From official publications of the National Bank of Vietnam concerning exchanges of U. S. dollars and Vietnamese piasters, the amount of MPC exchanged for the Army is:

October to December 1965:	-	21.7 million MPC valued at 2.56VN\$
1966:	-	100,156,100 MPC valued at 11,814,080,000VN\$
January to October 1967:	-	91,820,000 MPC valued at 10,834,760,000VN\$

Expenditures in Vietnamese piasters by American military establishments in 1965 was 5.661 billions. In 1966, in addition to the 100 million MPC mentioned above, U. S. public agencies exchanged US\$260.29 million at the official exchange rate of VN\$72.7 and 80, i.e. VN\$18.8 billion. Up to the 15th of October 1967, the U. S. Embassy had exchanged US\$127.5 for VN\$10.2 at the rate of VN\$80 = US\$1.

In addition, American contractors operating in Vietnam have put substantial sums into the Vietnamese economy. From 1964 to the end of May 1967, the cost of military projects including, for instance, airports, ports, public buildings, and roads totalled VN\$90 billion. The salaries of the Vietnamese employees of the prime contractor, RMK/BRJ, alone reached over VN\$4 billions in the first ten months of 1967.

We have discussed so far only injections of money into the Vietnamese economy by the American sector in the form of salaries to employees and payment for services provided. We should add to this individual spending by American and other allied civilian and military personnel, and the cost of imports of goods by way of commercial aid and for P.X. provisions in order to obtain a true idea of the very important role the American sector is playing.

Many foreigners spend part of their income by exchanging U. S. dollars for V. N. piasters on the black market. Although the MPC rate has been fixed, the black market will always exist because there is a large difference between the official rate of VN\$118 and the black market rate of VN\$145, and also because of the special purchasing power of green and red dollars - their usefulness in purchasing low-priced P.X. goods.

Commercial Import and Food for Peace programs are continually expanding - from US\$121.7 million in 1962 to US\$135.2 million in 1963, US\$187.4 million in 1964, US\$291.1 million in 1965 and US\$414,7 million in 1966. (It is much reduced in 1967.) In the monetary sector, the increase in aid is not greatly different in its effects from the purchases of Vietnamese currency, because the amount of Vietnamese piasters generated is put into circulation mainly through the machinery of the national budget. Goods imported through A.I.D. financing and GVN financing (a great part of the foreign exchange for which is acquired by selling VN piasters) together with leakages of goods from the P. X. counteract to a large extent the huge flows of money thrown into circulation, and therefore reduce in part the inflationary pressure.

Such imports are mostly aimed at satisfying the demand for consumer goods, not at capital investment in the economy; the policy of importing consumer goods will achieve its object of reducing inflation and raising the standard of living of people in the monetary sector (as opposed to ^{the} non-monetary sector), but it will not assist the economy of Vietnam to equip itself to cope with unemployment when the war stops, or to maintain present standards of living and promote sound economic development when peace is restored.

This analysis of the American sector, although unsophisticated, at least demonstrates the great importance of the sector in the present economy of the country. The income it generates, through civilian, military and contractor organizations, or through the Government's budget, is now about 20% of the total national income of Vietnam. This primary income in turn generates secondary income, so that overall the sector may embrace almost half of our economic activities. If, for any reason, activities in this sector are reduced, there will certainly be a series of effects capable of doing serious damage to, perhaps paralyzing, the country's economic life.

The extent of the sector's influence can also be demonstrated by an examination of its demands on available manpower. Until 1965, the number of workers occupied in the sector was a negligible proportion of the total labor force. The following table gives the numbers of workers employed by U. S. military and civilian sectors and by American contractor organizations since 1964:

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Jan. - June 1967</u>
Military	2,910	13,600	80,692	
Civilian	1,400	1,600	2,562	
Contractor	3,300	36,400	1,126 (private construction)	2,429 (private)
			57,488 (military construction)	44,702 (military)
Total	<u>7,610</u>	<u>51,600</u>	<u>141,868</u>	<u>132,712</u>

Thus, the number of employees in contracting organizations fell by 13,000 between June, 1966, and June, 1967, while there was an increase of 4,000 in other sectors, giving an overall decrease of 9,000 employees in the period under consideration. The decrease occurred because of the completion of many contracts for military construction. There will be further decreases in the near future, and these will present difficult problems of an economic and social character; most of the contractors' employees are Vietnamese, who will continue to reside here, while the foreign workers (Koreans, Philipinos, Japanese, and Thais) will be repatriated when the contracts expire.

We must also consider the number of Vietnamese people and their employees, who depend, in one way or another, on the U. S. commercial imports, goods illegally acquired from P. X.'s, and the presence of the Allied troops.

Services supplied by Vietnamese contractors and individuals are various, including building construction, supplies, and others. Non-Vietnamese allied personnel have high, even, by our standards, luxurious standards of living, and supplying services to them has been very profitable for Vietnamese contractors. Those who have become wealthy in the past two years have generally done so by working as contractors in the American sector. It would be difficult to determine their number, for very few of them operate under licenses, and the majority have no legal standing.

Obviously the individual families who collect rubbish from American homes, do their laundry, or provide transportation, etc., are unlicensed. Each contractor will either engage people to work directly for him, or will make subcontracts with other families.

However, an examination of deposits with Saigon, Cholon and other City banks will provide a general idea of the important role played by Vietnamese contractors in this sector. In the Saigon-Cholon area, bank deposits have risen from VN\$ 8 billions in 1964 to VN\$ 30 billions in September 1967, most of the increase originating in the profits of the newly rich contractors. In other cities where allied troops are based and banking facilities are available deposits have risen similarly. In Da Nang, they have reached VN\$ 800 millions as compared to VN\$ 100 millions two years ago; in Nha Trang, where there were no banking facilities two years ago, VN\$ 250 millions. In the South, VN\$ 300 millions have been deposited in five newly opened banks and the existing bank at Can Tho.

The great influence of the American sector is also reflected by imports. These include all imports under the commercial import and food for peace programs and other forms of assistance financed by U. S. Government funds as well as imports financed by GVN-owned exchange. In fact, most of the increase in imports financed by the latter source originates from the spending in the American sector through the exchange of dollars for VN piasters.

For instance, total gasoline imports in 5 last years have increased as follows:

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Financed by VN	57.5	94.7	92.1	115.3	245.8
Financed by USA	121.7	135.2	187.4	291.1	414.7
	<u>179.2</u>	<u>229.9</u>	<u>279.5</u>	<u>406.4</u>	<u>660.5</u>

As a last example of the influence of the sector on the economy, we may mention the supplies which have proceeded from the U. S. Post Exchange and from U. S. military warehouses to Vietnamese consumers via the black market.

This illegal commerce is carried on either directly (by theft from Post Exchanges or warehouses) or indirectly, by Allied soldiers who re-sell to Vietnamese merchants after buying from their exchanges.

In 1966 the total value of P.X. goods sold was 156 million U. S. dollars or about US\$13 million a month. From January, 1967, to May, 1967, total sales were about US\$116 million, an average of more than US\$23 million a month. There is no way of accurately measuring the percentage of these P. X. goods flowing into the black market, but the quantities are presumed to be significant.

In sum, to determine the relative importance of this U. S. sector to the total economy we must take account of the following factors:

(a) U. S. Contribution to Vietnam National Income (Injections) - 1966

(i)	U. S. currency exchanged for official purposes	VN\$18.8 billion
(ii)	U. S. currency exchanged for personal use of U. S. civilians and military	VN\$11.8 billion
(iii)	Imports financed by U. S.	VN\$39.4 billion
	TOTAL	<u>VN\$70.0 billion</u>

(b) U. S. Consumption (Withdrawals)

(i)	U. S. military and civilian expenditure	VN\$27.5 billion
(ii)	U. S. military and civilian personal expenditure for goods and services	VN\$11.8 billion
(iii)	U. S. support of government and armed forces of Vietnam	VN\$14.1 billion
	TOTAL	<hr/> VN\$53.4 billion

or the equivalent of about VN\$70 billions on an average exchange rate of \$VN150 to \$US1.00.

The total national income in 1966 was estimated at \$VN246 billions, and of this no less than 28 percent appears to have originated in the American sector. But this calculation is based on a simple ratio between initial income and national output. On the assumption that initial income will generate substantial additional income growth, then it may be correct to say that the American sector now constitutes over half the entire economy. In 1960 total national income was only \$VN82.6 billions and it now stands at \$VN246.0 billions. During this period Vietnamese real production (in its narrow sense) has increased but little, though price levels have increased by over 70 percent.

We must remember that the American sector has also contributed investments of almost \$VN100 billions to the country's infrastructural development.

These investments include:

- 13 airports, 7 with 3,000 meter runways.
- 11 seaports, 4 of large capacity.
- a number of roads, warehouses, and houses, used for camps and offices.

Although we are now using these installations for military purposes, they will contribute valuably to future economic development.

2. Sector developed by the war.

This sector was not created by the participation of Allied Forces, and its activities will not come to an abrupt end when Allied Forces leave Vietnam.

Activities in this sector have, however, been stimulated by the influence of war; they have provided important support to military needs, and have grown in response to the American sector described previously.

The war in Vietnam has made very large demands on manpower, and an entire new labor force has been created to serve the war-time economy. This labor force has not participated directly in production (understood in its narrow sense) but many people have been gainfully employed as a result of the war, and individual incomes have sometimes been very high.

First of all, consider the governmental sector.

The Budget has increased from VN\$ 19 billion in 1962-64 to VN\$ 24 billion in 1965, VN\$ 40 billion in 1966, VN\$ 83 billion in 1967, and probably approximately VN\$ 100 billion in 1968. The increase in the budget reflects the intensity of war. About 60% of above budget has been used to pay soldiers' and civilians salaries. The rest has been used to buy equipment and materials, with a small allocation for development.

According to Ministry of Labor statistics, in 1960 workers of all grades numbered about 110,000 in the public services and there were about 150,000 soldiers. By 1966, the Government workers had increased to 330,000, of which 120,000 were in Saigon and the rest in the provinces: and troops of all ranks, both in the regular and in the regional forces, had increased to 520,000 men. The total manpower engaged in the public sector increased three-fold during this period, most of the increase coming in the latter part of it.

In the private sector, both industrial and commercial, there has been significant development, especially in construction and transportation. Ministry of Labor statistics concerning the labor force in these areas are as follows:

	<u>1960</u>	<u>1966</u>
Industry and handicrafts:	124,000	136,000
Construction:	50,000	204,000
Commerce, insurance, and banking:	206,000	220,000
Transportation:	145,000	363,000
Electricity and water:	3,000	5,000
Miscellaneous services:	35,000	60,000

In spite of competition from imports, domestic production of industrial goods and handicrafts has increased regularly, though in the last two years, the rate of increase has slackened. Taking 1962 as the base year (index 100), then the industrial production index was 132 in 1964, 158 in 1965, and 171 in 1966. The most marked increases are in food processing, beverage, cigarettes, textiles and clothing, paper and electronics.

There has been a large expansion in construction. In 1963, 245,000 m2 (square meters) of housing were constructed, and this increased to 497,000 m2 in 1964, 624,000 m2 in 1965, and 662,000 m2 in 1966. In transportation, with the concentration of population in big cities and in spite of Viet Cong sabotage on the roads, there have been large increases in road transportation services between cities and provincial capitals and also inside provinces. Seaway and airborne transportation facilities have also expanded considerably.

The distribution and supply services (particularly those concerned with imported goods) have developed greatly. In this area, we now reckon not only the large business enterprises holding import licences, but the thousands of small businessmen in open markets all over the country, apart from customs agents and labor responsible for discharging goods at ports.

Finally, the restaurant, hotel, and entertainment services have grown notably in the last two years, catering to the newly rich as well as to the Allied Forces. Real estate companies also have increased their business considerably.

This sector, enhanced by the war, has been taxed by the Government and has contributed substantially to the growth of tax revenues. Demands for goods and services in the rural areas have increased as people are introduced into the cash economy. There are potential dangers in the situation: unless the developing economy provides for sufficient production to meet these new demands, the result will be inflationary pressure.

3. Sector depressed by the war.

In this sector, activities have been reduced by the war.

In general terms it is true to say that it is the rural areas which have suffered from the war and the urban areas that have reaped its

benefits. In this sector, because of insecurity, the production of our farms, forests and fisheries has declined, and transportation services by inland water ways and by rail have been impaired or have ceased.

The importation of millions of tons of rice over recent years demonstrates the effects of reductions in our cultivated areas and farm labor. In addition, agricultural production has been depressed by the Government's use of defoliants and the effort to stop supplies of food stuffs to areas under Viet Cong control. More than 1,000,000 refugees have fled from insecure areas: and in these areas there is not now a labor force adequate for efficient cultivation. In 1960, rice production was more than 5 million tons; today, the most optimistic estimate is a little over 4 million tons.

Other agricultural production has suffered the same fate. The situation of the rubber industry is an illustration: 1960 production earned about US\$ 48 million in foreign exchange; in 1966, only US\$ 18,5 million. Earnings from rubber exports will continue to decline as the war continues.

Fishing has fallen off markedly, especially in the Central Region, where warfare is most intense, and where there are many allied military bases and seaports. On the other hand, there has been an increase in fish production on the South coastline from Phuoc Tuy southwards.

Forest production has been reduced because forests are commonly used as enemy bases. Timber production was 550,000 m3 in 1956, but only 365,000 m3 in 1963 and 263,000 m3 in 1966.

Coal production has fallen even more drastically, from 462,000 tons in 1956 to 106,000 tons in 1961 and 21,000 tons in 1966.

Inter-provincial road transportation activities and waterway transportation also have been adversely affected by conditions of insecurity.

The sector depressed by war is the rural sector. Although agricultural production has been only 1/4th of the national product in recent years, and today, probably accounts for even less of gross domestic product, it also is the sector that occupies a large proportion of the total population. Thus the political as well as economic importance of this sector should be considered carefully in every economic plan.

In summary, the war in Vietnam has wrought many important changes in the workings of its economy. From a self-supporting agricultural economy, it has changed, of necessity, into an economy controlled^{by}/war expenditures. Millions of country people have left their fields to come to live in the cities and, inevitably, have become accustomed to city life. This factor alone will be the source of profound changes when peace returns.

PART B.- Definition of Post-war Economic Problems.

As we observed in the previous section, the war exerts strong influences on every aspect of the economy. We will proceed to examine its effects on each of the three sectors already indentified.

- That created by the war.
- That developed by the war.
- That depressed by the war.

The war will not last forever. On the one hand, the efforts of the Vietnamese and Allied Armies are pacifying the South and destroying the military and economic capacity of the North. On the other there are nations and individuals who are trying to restore peace. We may reasonably hope that at least hostilities will diminish, and that the secure areas will be expanded.

The basic problem now is, to decide how to solve the economic problems which will face us when peace returns. By what methods can we convert a war-oriented economy to a peacetime one with the minimum of dislocation and difficulty and without adverse effects on future growth?

In each of the three sectors, let us consider what will happen at the end of the war, before giving our attention to a general plan of reconstruction.

I.- The Sector created by the war.

The establishment and existence of this sector is an important feature of the present Vietnamese economy. When the war ends, the income we derive from the earnings of over 600,000 Allied soldiers, and from vast expenditures on military construction will also end; and as the Allied withdraw from Vietnam, the sector will be utterly depressed. It now contributes 20 percent of our National income and absorbs over 50% of the National Budget, and it influences many other branches of our economy. The disappearance of the American sector will have abrupt and serious effects on the entire economic framework of the country, such as the following:

a) National income will decline sharply with the loss of earnings derived from military expenditures. In addition there will also be a decline in tax revenues and foreign exchange earnings. We will no longer be able to finance imports at the present level.

b) As the allied forces are first reduced and then withdrawn from Vietnam, many of the military installations constructed for them to satisfy war time needs will have no immediate economic purpose.

c) Workers for the allied army will lose their employment, and contractors who supply services and supplies will run into serious difficulties, resulting in additional lay-offs.

To recapitulate there are three main problems to be faced:

1. Finding work for the employees and workers previously in allied service and new activities for construction and supply contractors now dependent on military needs.

2. Converting to economic use the installations, camps, and equipment which our allies will leave behind when they withdraw.

3. Mitigating the effects of the cessation or reduction of economic activities in the sector which will ensue when allied military expenditures cease.

The first of these, re-employment, is the problem we must consider first. Although the number of workers in this section constitutes only a very small part of the total working population, much unemployment is sure to occur, and plans must be made by the Government for alternative activities to absorb surplus manpower. Even while the war continues we need to consider, in the light of available skills and capacities, the possible projects on which workers of all types can be employed; from this list we must select those projects most desirable, and then meld them into a general plan aimed at the revival and reconstruction of the economy.

Contractors undertaking construction for or furnishing supplies to the allies, may be expected to adapt themselves to the peacetime economy and to find new activities. They should be assisted to do this in three ways:

a) By giving them opportunities to participate in projects serving civilian and peacetime instead of military needs, for instance the rebuilding of the economic infrastructure.

b) By encouraging them to contribute capital to any joint enterprises that may be established in the cause of national economic development.

c) By making it possible for them to engage in new activities by employing qualified technicians released by the allied forces and the foreign contractor companies. These activities will be related to the projects selected to absorb surplus skilled manpower.

Three types of activity by the Government are envisaged to meet the problem of unemployment.

1. Recruitment for the Government services.
2. Employment in Government-owned factories or joint enterprises.
3. Assistance to private companies.

It will not be easy to find employment for all the workers, of very variable skills and grades, who have left their village homes to take temporary employment with foreign contracting organizations.

The majority, when the war is over may be expected to find alternative occupations for themselves, but for a minority work will have to be found. Opportunities will occur either in:

a) Vietnamese contracting companies supplying civilian instead of military needs or engaged in infrastructural projects.

Or, b) In the industrial sector after a short training period. Thus we can relieve the situation for some unemployed workers and also alleviate problems of job placement among those who have been displaced from and are seeking jobs in the industrial sector.

The second problem resulting from the depression of "the American Sector" is what to do with the bases, camps, airfields, harbours, factories, and, of course, large quantities of equipment and weapons that may be left behind when our a ies leave.

The problem is how and to what extent all these assets can be converted and used for peacetime purposes.

At the present time we do not precisely know what these assets amount to, and in any event they may be increased by the time the war is over. But one thing is certain: to the extent that these assets, established to support allied armies of over 600,000 men, can be used for peacetime purposes, they constitute a large reservoir of capital for the nation, and will contribute greatly to reconstruction and post-war development.

Because a detailed "change-and-use" program requires complete consideration during wartime and especially during an armistice, it requires highly detailed data. These have not yet been acquired; hence this simple and general report only points out some concepts which can be used as basic principles to indicate the direction of future plans.

a) The military installations left by the allies can be divided into three types:

- Installations which should be maintained: these will not have to be converted to peacetime purposes, and may be integrated with ARVIN installations. The disposition of these types of installations must be based on existing military needs and the possibility that even if peace is negotiated it may be broken at a later date.

- Military installations which lend themselves to conversion to peacetime purposes. The precise allocation of buildings and equipment will depend upon their suitability for use in factories, communications, transportation, commerce, administration, education, and social services.

- Military installations which should be abandoned, because they would not be useful if war reoccurs, because maintenance costs would be prohibitively high, or because the costs of conversion to peacetime purposes would exceed the benefits to be derived from this operation.

b) For installations of the second type a program of conversion will obviously be most important. It should be based on the comparative economic feasibility of each installation, and the priority which the interests of the economy as^a/whole places upon use for industry, transportation, commerce, administration, education or the social services.

c) We do not know with certainty what types of equipment will be available, or what condition they will be in. However, the following kinds should be inventoried and maintained, and can clearly be used for peacetime economic purposes:

- Equipment and machinery for public works.
- Equipment for communications and transportation.
- Equipment and machinery suitable for use in industry, agriculture, administration and public health services.

The third important problem posed by the disappearance of the war sector is to counter the depressing effects this will have on the national economy. At present, the Vietnamese economy has to meet inflationary pressures originating from the rapid increase of income cause by Allied expenditures and the high cost, (as compared with other national program, especially, the programs in the agricultural sector), of national defense. But when the war is over, and our Allies withdraw from Vietnam,

a recession may occur, starting with the depression in the "American" sector and the effects this will have on national income, and then spreading to other sectors of economic activity.

There is only one way to prevent such a recession and the economic dislocation and stagnation that would result - to spend on reconstruction and development at a rate sufficient to compensate for reduced allied expenditures and the lower costs of national defense.

It is not possible at this time to estimate what the level of development expenditures should be, because we do not know when the war will end or how reductions in allied expenditures will be carried out. Certainly, if we fail to anticipate the methods and processes of withdrawal, there will be a serious depression and the economy will have to make a painful adjustment to the loss of those economic activities which the war has engendered.

II. The Sector developed by the war.

The end of the war will affect this sector in many ways. We may expect the following to occur:

- Partial demobilization of the military and paramilitary forces.
- A reduction in Governmental services used to support the war effort.
- Smaller military expenditures under the National Budget.
- Reduced foreign exchange earnings.
- Difficulties for industries which supply military needs.
- Extreme difficulties for industries established because of the war.

- Surplus military installations and equipment, and
- Considerable unemployment in the sector, all of which will deepen the depression originating in the cessation of activities in the sector created by the war.

Apart from the need to counteract depression and to convert installations to peacetime purposes (objectives as valid in this sector as they were in the first) we note three other matters for attention:

1. Demobilization, and the adaptation of soldiers to civilian occupations.
2. Adaptation of civilians previously engaged in the war sector to peacetime occupations.
3. The solution of the aggregate economic problems which this sector is sure to encounter.

1. Demobilization.

At present ARVIN has 600,000 troops, and these will increase in number until an armistice is negotiated. A recent decree indicates that substantial additional mobilization will take place.

The absorption of a large proportion of our manpower in unproductive military activities is obviously a source of damage to the economy; and when the war is over, it will be urgent to return our soldiers to productive occupations. However, we must first consider how and in what conditions demobilization should be carried out. The answers will depend on two considerations which have not as yet been sufficiently examined.

- The first concerns the nature and durability of any settlement between North Vietnam and ourselves. South Vietnam's dispositions must take into account the intentions of its adversary, its own ability to withstand Communist-inspired harassment, its capacity to withstand renewed hostility, and the state of international security. All these considerations are relevant in deciding the strength of the armed forces we ought to retain.

- The second concerns the rate at which our allies will withdraw their forces when peace returns. They may withdraw partially, or completely, gradually or fast. All contingencies must be considered in the planning of our own demobilization.

We advance two principal hypotheses:

1. In the first case, there will be a complete withdrawal by the Allies, and A.R.V.I.N. will have to maintain large reserves in order to prevent the recurrence of war. On this hypothesis demobilization is likely to be limited to technicians whose skills will be important for peacetime enterprises and activities. However, the whole of the defense forces could be applied to reconstruction and development and especially for the repair and reconstruction of the infrastructure. The Army could also provide labor for the agricultural sector and for development works in the rural areas.

2. In the second case, the Allies will withdraw a large part of their forces but will leave some main force units to strengthen the ARVIN in case of renewed hostilities. In this event discharges could be granted to the entire national military force, except for a reserve sufficient to deal with emergencies, and discharges might be phased as follows:

First phase: The demobilization of public servants and technicians essential to development projects and of students who have fulfilled their military obligations.

Second phase: The demobilization of men capable of returning to the jobs they held before military service, and also of men who have received specific technical training while in the army.

Third phase: The demobilization of other men, after a period of suitable training. Our assumption is that general demobilization would enable about 400,000 soldiers to return to their civilian occupations. Among these, specialists, government workers, and private workers would return to their former jobs, and students would return to their schools. The rest would have to find work, and the Government should plan for post-war reconstruction so that their energies, no longer required for the war, can be used for peaceful development.

2. Conversion and employment of surplus civilian manpower.

In addition to demobilized soldiers, there will be civilian workers looking for employment, especially those now serving in military installations or in Governmental agencies which have expanded because of the war.

a) When peace is restored, civilian employment in military units or installations will be reduced to levels appropriate to the needs of a peacetime Army. It is possible that 70 percent to 80 percent of the workers now so engaged will be laid off; in peacetime, soldiers will resume responsibility for some tasks in military bases presently undertaken by civilian workers.

Surplus manpower to be converted to civilian activities will be of three categories:

- The men who will find work on their own account.
- Men with professional qualifications.
- Skilled technicians,

For the first category there need be no provision except, possibly, temporary financial assistance until they have found work.

For the second category a special program will be needed to help them adapt to peacetime occupations. Some will find work in public enterprises and private commerce.

For the third group, the Ministry of Labor should require large contracting companies to organize training programs. It should also assist them to obtain work in private enterprises.

b) During the war, branches of the public service have expanded: example are the security branch of the police force, the information services, the Chieu Hoi, and the services concerned with rural development. After the war the needs of such services for manpower may be sharply reduced.

- Police:

We may expect substantial reductions, especially in the Combat Units. Surplus manpower may be transferred to other public services, according to ability, or diverted to industry.

- Chieu Hoi and Information Services:

Chieu Hoi activities will end but the Information Services will still be required, and may, indeed, be expanded to serve rural areas newly liberated from Viet Cong control. It is suggested that surplus manpower from the Chieu Hoi service be transferred to the information services.

- Rural Development:

It will be most important in the post-war period to reconstruct the rural areas and stimulate agricultural production. In peacetime, the rural development teams may not all be suitable for this task. Essentially they consist of three types of men:

- The highly educated, who can be transferred to other public services, possibly to provincial administration, rural credit and cooperative organizations, and to the education services.

- Men with farm backgrounds who will return to the agricultural sector either as farmers or as workers in agricultural organizations and village councils.

- The poorly educated men from urban areas (or those who prefer to live in towns) who should be trained for industry.

3. Other problems of the sector developed by the war.

When the war is over, the situation in this sector, which has expanded under the influence of allied war expenditures, will deteriorate. The incomes of urban workers are unlikely to maintain their present high levels, and some will be in difficulties. A very complex and complicated situation will result, and it is not yet possible to suggest comprehensive solutions. We make suggestions concerning some of the most obvious problems.

a) Air Transportation: Because of the deterioration of the railroad and the insecurity of many of our inland waterways, we have resorted to an excessive use of transportation by air. This will not be necessary when peace returns. Air Transport services will encounter difficulties and may be seriously depressed. In order to mitigate the effects, we suggest that a program be prepared at once aiming at three principal objectives:

1. The reorganization of routes and facilities. Routes which are not commercially feasible, (particularly over short distances where other modes of transport are preferable) should be abandoned: on the routes retained services should be increased and improved; and the international routes, especially to neighbouring countries should be developed - by, for example, facilities for limited period excursions.

2. The popularization of air transportation by lowering Freight and passenger tariffs, so as to compensate for the loss of traffic on short distance routes by increased use of the longer ones. The replacement of foreign pilots by demobilized Vietnam Airforce Officers, and the conversion of some military aircraft to civilian use, (eliminating the need to rent foreign owned aircraft) might also be considered.

3. The improvement of management practices (in both administrative and technical branches) so as to eliminate surplus employees and to raise labor productivity.

b) Construction and related activities.

- The war, has created favorable conditions for the construction industry, and it has grown rapidly. Both ARVIN and the Allied Forces have kept the industry busy: Workers have been attracted to enter the industry

by the insecure conditions of the rural areas, and even foreign workers have been attracted in large numbers to Vietnam. There has been a serious housing shortage, further encouraging the construction industry. While the rural economy has been depressed, the urban economy has thrived, stimulating the construction of factories, hotels, bars and markets.

The prosperity of the construction industry has reflected favorably upon related industries such as cement manufacture, bricks and tiles, steel materials, porcelain articles, and wood.

Such favorable conditions may not continue after the war, and the construction industry will then encounter difficulties. They can be prevented by the preparation of projects to improve the economic infrastructure - well-organized housing programs, new factories, and like projects suitable for a National Plan of Reconstruction.

c) Bars, Hotels, and similar enterprises, attractive to free-spending allied soldiers and city dwellers, have also been stimulated by the war and will be adversely affected when peace returns and the Allied Forces leave. Many of these establishments will become unprofitable, and some of their employees will have to find new work. Our data (particularly concerning the numbers of people engaged in illicit and immoral activities) is not sufficient for us to do more than suggest certain remedies for this situation.

Some of the buildings used for these purposes may be suitable for purchase or lease by the Government and for used as government offices, schools, or official residences.

- Increased activity by the National Tourist Agency might attract more visitors from overseas and better use of the facilities available.

- Training and a job placement program will in any case be necessary for those employees of these enterprises who cannot find any alternative employment.

III.- The Sector depressed by the war.

The war has brought about an impressive improvement in the economy of the towns: but its effects have been adverse on an undeveloped rural economy which relied on two principal crops, rice and rubber, and production has declined seriously. The depression in the countryside affects the very base of our national economy, that is agriculture. It touches the incomes, living-standards, and way of life of a majority of Vietnam's population, and so emphasizes the disequilibrium between our cities and the rural areas. In zones of military activity hamlets have been abandoned, and altogether more than two million people have moved from their homes to take refuge in safer areas.

When the war ends the reconstruction of this sector, the rural economy, will be our most important problem.

There will, in fact, be three aspects of the problem, solutions for which must be prepared now:

- The rebuilding of the economic infrastructure.
- Reconstruction of such areas as have been devastated by the war.
- Revival of the rural economy.

1. Rebuilding the rural economic infrastructure.

The Viet Cong tactics are to cut communications, to control and consolidate their hold over the rural areas, and to isolate and surround the cities. As a result the economic infrastructure, even in comparatively secure areas, has been damaged or destroyed.

In order to counteract communist activities ARVIN, the allied forces and the Ministry of Public Works have attempted to repair and reconstruct the facilities destroyed, but the work of reconstruction has been limited and has concentrated for obvious reasons on the more secure areas.

The rebuilding of the infrastructure at the end of the war will be of the utmost importance, for the infrastructure is essential to productive activities in every sector of the economy.

There are five principal matters to which attention should be drawn:

a) Complete rebuilding of the road transportation system. National Highways, and national, provincial, and local roads all require reconstruction. Top priority should be given to rebuilding the National Highways.

b) The prompt re-establishment of the main Vietnam Railroad, in order to restore expeditious movement of bulk goods between the southern and northern areas of Vietnam: and the review of branch and minor railroads to determine whether it would be useful to reconstruct them and the priority to be attached to each

c) The opening of major inland water-ways, of great importance to transportation needs in the southern area.

d) Early completion of the Danhim hydroelectric plant and transmission systems between Krong Pha and existing lines.

e) The reconstruction of other hydroelectric systems destroyed by war or allowed to deteriorate because of lack of maintenance.

The rebuilding of the economic infrastructure will be the responsibility of the Ministry of Public Works. At this time we merely point to the necessity for preparing complete lists of the projects to be undertaken in each part of the infrastructure and then establishing a clear order of priorities.

2. The reconstruction of areas devastated by the war.

Rural areas have been subjected to heavy military pressure, and in many areas bombing destruction has been severe. However, the rural areas can generally be divided into three according to the degree of control which the government exercises over them.

There are comparatively secure, where damage from battle and troop movements has been considerable; and there are insecure areas, controlled by Viet Cong, which have become battlefields and destruction by bombing has been heavy.

Because the war situation is constantly changing it is presently difficult to define these areas. In general the areas controlled by the Viet Cong have suffered worst, but in the demilitarized zone and in the Montagnard villages of Central Vietnam damage has also been heavy.

When the war is over, the reconstruction of the damaged areas will be of urgent importance, not only because the normal life of all section of the nation should be restored, but also to destroy any remaining Viet Cong influence. There will be 5 main aspects of the reconstruction program:

a) The repair or rebuilding of hamlets destroyed or damaged by bombing, battle, or in other ways.

b) The resettlement of refugees who have not found homes under a program which would extend to all communities, accepting refugees, the same scale of assistance given to the refugees themselves.

c) The establishment and consolidation of administrative control of the hamlets.

d) The elimination of any remaining Viet Cong influence and particularly that of the Viet Cong regional coordinators.

e) The revival of rural economic activity by New Life type programs.

In this report, we offer only general recommendations for the reconstruction of those areas damaged in the course of the war. Each region and indeed each area in a region will need to be treated in the light of its particular circumstances, and programs may vary greatly from one place to another - taking account of differences in manpower, equipment and military requirements.

3. The revival of the rural Economy.

The reconstruction of areas destroyed by the war is a political and social problem, but the restoration of their economies is an equally important objective. Emphasis should be placed on increased productivity.

The key to the development of Vietnam in the future. We have differentiated between the reconstruction problem and the revival of the rural economy for this reason - while reconstruction concerns particular areas, the prosperity of our farmers is important to the entire nation. We emphasize a few important matters to be dealt with.

a) cleansing areas subjected to chemical defoliation for military reasons, so as to permit cultivation to be resumed.

b) The utilization abandoned farmland, including and the re-establishment of plantations which have been abandoned because of insecurity.

c) Aid to farmers of various types, including stock breeding, farm equipment, seed varieties and credit.

d) A program aimed at increasing yields per hectare and improving the distribution of agricultural produce.

e) Reviewing the land apportionment carried out by the Viet Cong and establishing farm cooperatives or other suitable farmer organizations.

The revival of rural economy is of course, closely associated with the reconstruction of sectors destroyed by war; both will be necessary if normal conditions are to be restored in our economy.

We have pointed out some of the important problems which we will face when the war is over.

If the war should come to a sudden end perhaps by a negotiated peace, these problems will have to be solved quickly and plans to do so must be prepared at once.

If the war should end in a gradual manner, then solutions will be correspondingly less urgent and more careful and detailed planning will be possible.

The Post-war Planning Group welcomes all suggestions from Ministries, Departments, Agencies and other Offices, concerning both the procedures of preparing such a general plan or any particular aspect of it. We conceive our task essentially as one of combining particular projects into a national plan of reconstruction. We do not conceive our task as one of implementing specific large scale projects, for implementation is the responsibility of appropriate government agencies and we would not wish to let our own responsibilities conflict with theirs.

In the course of its work, over the last eight months, the Post-war Planning Group, certain recommendations have been formulated by Vietnamese and American specialists and these are presented in this report. They are not highly detailed, but are fairly specific. These recommendations are for work for the period to be done in 1968 - 1971, covering the first term of office of our present President.

Before presenting these recommendations, we first, in Part II which follows, describe the results of one particular investigation by the Post-war Planning Group: a rural survey carried out in 576 villages and all 44 provinces in the nation during August and September of this year.

The purpose of investigation was to ascertain the needs and desires of our rural communities. The results throw some light on the recommendations presented in Part IV.

PART III
SUMMARISED FINDINGS
OF
THE RURAL SURVEY
AUGUST - SEPTEMBER, 1967

PART III

SUMMARISED FINDINGS OF THE RURAL SURVEY ORGANIZED IN AUGUST AND SEPTEMBER, 1967.

A. AIM OF THE SURVEY

The first rural survey made by the Postwar Planning Group in September 1967 aimed at three main purposes:

- To provide data on the actual situation in rural areas.
 - To reveal the real aspirations of people in rural areas.
 - To provide material for the basis of a rural development plan.
- a/- The present situation in rural areas.

Previously, the present rural situation in Vietnam was only vaguely known. In a number of documents sent from provinces to the central government (i.e., to ministries or to the National Institute of Statistics), these documents being the basis of our study, there were numerous omissions and inaccuracies.

1. Incomplete rural information.

The data now available at various ministries were previously used only for accounting purposes, rather than for serious study. Data were presented in broad categories without necessary breakdowns and details needed for research. The collection of data was never designed for study and planning purposes. Research and planning agencies never studied and scheduled a fully detailed program specifying the information which statistical agencies should collect.

In other words, we were faced with the following situation:

- A lack of coordination between research and planning bureaus and statistical agencies.
- A lack of initiative and capability within the statistical agencies, most of which have a conservative attitude.

Consider a few examples. The consumption and demand of fertilizers and insecticides in villages; the amount of rice produced in individual villages; the number of refugees and immigrants in a village; or the average price of a hectare of rice land: these data could never have been found in the central statistical agencies.

2. Data not up-to-date.

Under the present administrative situation, data which have to be channeled from hamlets to villages, from villages to districts, from districts to provinces, and finally from provinces to ministries, are often delayed. Normally the lag is from six months to one year. We received the final rice production figures for 1966 in September, i.e. nine months late.

3. Inaccurate information.

Owing to political and security reasons, data such as: membership in political parties, damage caused by the Viet Cong, and the exact population in villages at the time of the elections, were not known.

From personal ambition, many officials, in an attempt to prove that they were fully qualified to carry out jobs assigned them by the central government, falsified certain information. They reported to the central agencies false information, such as overestimated increases in annual rice production, or inaccurate estimates of the security situation.

In some villages, corrupt officials have listed names of non-existent popular forces personnel in order to receive their pay. Therefore the population of villages and hamlets may have been distorted.

b/- The real aspirations of people in rural areas.

In spite of the existence of a village administrative body and a village people's council, the village representatives seldom dare to point out the people's aspirations. The reasons are:

Representatives do not know to whom they should refer for aid.

Generally speaking, village representatives, although respected by villagers, are poorly educated and do not know their rights. They are uncertain as to whether they have the right to speak to higher authorities. From their viewpoint, they ask: What is the use of disturbing higher officials? What will happen if the desires of the villagers are opposed to those of the district and province chiefs? Is the village official, considering his humble position, better off by remaining silent?

Discouragement due to bureaucratic procedures.

A number of requests forwarded to district or province officials remain unanswered, or are answered only after a delay of one or two years; even when a reply is made, it is often unsatisfactory.

Owing to the above factors, the majority of rural people's real aspirations are never taken into consideration by the central government.

The present survey was conceived as an answer to this problem.

c/- The study of a development plan.

To have sufficient information to formulate a rural development plan, we must know the situation and aspirations of villagers. An effective plan must be based on improving the welfare of the people in order to be accepted by them and to have their cooperation.

B. METHODS OF THE SURVEY.

a) Questionnaire.

The questionnaire includes a number of major questions, information on which was badly needed, and other minor questions suggested by Vietnamese and American experts. There are eighty questions, divided into two parts:

- Part I is concerned with the general situation in villages. These questions are on agriculture, fishery, animal husbandry, forestry, industry, social services, education, health, and infrastructure. Detailed information was requested only in agriculture; this was due to its important role in rural areas.

- Part II is concerned with the short-term and long-term needs of villages in each of the above fields. In this part, each village was asked to state three most important aspirations in order of priority.

b) Interviewers.

Interviewers were recruited among students in several colleges and universities. They then went to villages in order to carry out an on-the-spot survey.

There were 112 interviewers recruited from the following universities:

<u>University</u>	<u>Number of student interviewers</u>
- School of Political Science and Business Administration, Dalat.	100
- School of Law, Saigon.	6
- School of Civil Engineering, Saigon.	1
- School of Agriculture, Forestry, and Animal. Science, Saigon	3
- School of Natural Sciences, Saigon.	1
- School of Letters, Saigon.	1
	<u>112</u>

Interviewers were divided into groups of two, and each group was assigned ten to thirty villages, according to the terrain and importance of the area surveyed.

Interviewers were trained on interviewing methods for about one week by the Group. The training period was rather short, but this was because students had to be scheduled to finish their jobs before the commencement of the school year.

After being trained, interviewers were sent to villages to interview the village chiefs elected in the last few months. The survey period was about three weeks.

To prepare in advance for the interview, and to facilitate the work of interviewers, the Group had sent introduction letters to village councils two weeks before the survey date. stating the purpose of the survey. The Group also asked for permits in districts and provinces and requested aid for the interviewers in transportation and in the actual task.

c) Sampling.

The rural survey was carried out in conditions of insecurity and met many difficulties. On the survey technique, we could not obtain a sample which was statistically representative of the whole population.

In order to standardize the survey for the whole country, to achieve results quickly, and to avoid obstacles due to insecurity, and in consideration of our limited budget, we chose the village as a survey unit.

In Vietnam we have 45 provinces which are divided into 2526 villages (the 6 autonomous cities are excluded). In these 45 provinces, according to the information released by the Directorate of Administration, there are only 1268 villages located in relatively secure areas,

where elections for village councils had been held. 50 per cent of these villages were taken as the sample of this survey; that is, 634 villages. This half was taken by random sampling.

However, after the survey has been completed, we found that a number of the designated villages could not be reached because of insecurity or stoppage of communication. The number of villages surveyed was thus less than that planned (see results).

C. PROCESSING AND PRELIMINARY RESULTS.

Of more than 120 questions, we retained only 80 important ones which were answered correctly and seriously. A preliminary survey revealed many inadequacies in the questions asked and there were also many points which needed to be adjusted to the level of knowledge of village chiefs. In addition, the lack of experience of the students on surveying methods caused a loss of accuracy.

D. RESULTS OF QUESTIONS ON ASPIRATIONS OF THE PEOPLE IN RURAL AREAS.

In questions about major aspirations related to each field (security, commerce, agriculture, infrastructure, public health, education), the Chief of the Village gave his own opinions. We did not formulate "Yes" or "No" answers as has commonly been done before. Our method was effective because the answers could not be influenced by the opinions of those who designed the questionnaires.

Of course, in processing the survey, it took us much time and we encountered many difficulties in arranging responses. Sometimes there were ambiguities about principal opinions. However, direct survey by interviewing on the spot lessened the proportion of inaccurate answers.

In each field, the answers were classified into 10 types (this limitation was imposed by the punch card): 8 major answers, 1 "miscellaneous" for the insignificant answer (this did not represent a large number of villages), and one for villages which did not state opinions or declined to answer.

Security:

In 576 villages which were asked about aspirations on security, 249 villages wanted an increase in military forces in the village (more popular forces, regional forces, police or combat youth) i.e. about 43 per cent of the total sample. (Table X).

Next were 92 villages (about 16 per cent of the sample) which wanted to construct more installations for hamlet defense, such as outposts, new life hamlets, perimeter fences around the villages or along the mountains. Fifty villages (8.7 per cent of the total), requested more weapons and equipment, such as rifles, ammunition, barbed wire, steel pickets, or signal corps radios.

Other responses included: increase the security budget (0.5 per cent); eliminate corruption, such as bad village officials, rowdies, theft and robbery, arrogant soldiers (1.7 per cent); improve the standards of living and grant deferment to combat youth. (1 per cent); construct community houses (0.7); these were only a very small proportion. We note that only 10 villages (1.7 per cent) demanded peace; this number was relatively small compared to the total sample.

However, we could not say that the people did not want peace, since the security question had a different implication, i.e., what do villages need to help increase security in villages in an existing war situation. Because of this, we must be careful in analyzing the results.

We also found that there were 130 villages (about 23 per cent), which had no response to this question. A number of village chiefs were probably too cautious and did not want to answer.

In brief, we could draw the following conclusions on security:

- A majority of villages were not content with the present security defense in their villages. This number of villages could reach more than 80 per cent of the total.

- The people in villages feared the terrorism of the Viet Cong more than the disturbances of rowdies or corrupt village officials caused by the war (these were under 2 per cent).

- About 70 per cent of the total sample requested an increase in military forces and in equipment for villages and hamlets.

Education.

In education, 355 villages, nearly 62 per cent of the total, requested construction of more primary schools; 121 villages wanted to increase the number of teachers. (Table XVI).

Nineteen villages (3 per cent) requested repairs for schools; 9 villages wanted to be provided more school equipment such as tables and benches.

According to the above results, we found that the number of primary schools and teachers were not sufficient to meet the needs of villages. Nearly 85 per cent of the total sample requested help in this problem.

The above aspirations reflected accurately the present educational situation of the villages. Of 576 surveyed villages, only in 69 villages, about 12 per cent of the total, were there less than 50 pupils to a class. (Table VII).

In 185 villages (32 per cent), the highest number of pupils in a class was from 60 to 70; in 77 villages (13 per cent), from 70 to 80 pupils; and in 81 villages (about 14 per cent) it was over 80 pupils.

There were 21 villages in which the number of pupils were from 100 to 150 and 4 villages which had more than 150 pupils in every class.

Educational facilities in our villages are obviously seriously inadequate.

Health.

In 336 villages (or about 58 per cent of the total), there were requests for construction of more village health agencies; 87 villages (15 per cent) wanted to increase the number of health technicians, such as doctors, nurses, and midwives; 91 villages (16 per cent) requested more medical supplies such as drugs, ambulances, hygienic equipment, and dispensaries. (Table VIII).

These aspirations reflected the present health situation in villages. Of 576 surveyed villages, about 489 villages had no doctor; that was about 85 per cent of the total sample. The other 15 per cent of the villages which had doctors, coincided with provincial capitals.

About 40 per cent of the villages had no nurse and 15 per cent had no health cadres of any kind.

Agriculture.

225 villages (about 39 per cent of the total) asked to buy fertilizers, insecticides, and sprayers at official prices. 163 villages (28 per cent of the total) wanted to establish agricultural credit agencies, cooperatives, and unions; 8 per cent wanted help in irrigation or drainage (Table II).

In the survey of fertilizer prices, we found that in many villages the fertilizer price was very high compared to the official price; some villages did not have fertilizer distributing agencies and had to buy fertilizers elsewhere in the district and province. Therefore, sometimes they had to buy at a very high price from speculators. Nearly 70 per cent of villages found that the quantity of fertilizer which was provided to the village was not sufficient and 75 per cent said that insecticides supply was deficient.

There is an understandable desire to buy fertilizers easily, adequately and at official prices.

In the survey of the present agricultural situation, we found that 76 per cent of the total (437 villages) had no tractors, 49 per cent (279 villages) had no water pumps, and 77 per cent had no boat propellers. A number of villages wanted to be supplied with machines and agricultural equipment. This reflects the primitive cultivation methods of our rural areas.

Commerce and Supply.

362 villages (63 per cent of the total) requested establishment of supply agencies such as consumer cooperatives, branches of the Supply Commissariat, reserve warehouses, farmers associations, etc., and adequate supplies of goods and materials at official prices; these goods included rice, textile fabrics, insecticides, wheat, cement, steel plates, agricultural instruments, etc.

From the survey on supplies, we found that 90 per cent of the villages we investigated are not being supplied with goods and materials by the Government at official prices.

The other desires were to borrow money or to have better means of transportation, etc., but these were only a very small proportion of the total (Table XI.)

Social services.

In the social field, a large number of villages (242 villages, 42 per cent of the total) had no suggestions. Of this number, some villages did not understand the questions despite the assistance of interviewers. Some were cautious and wanted to avoid trouble; others were satisfied with the present situation and had no requests.

We found that 114 villages wanted to construct low-price houses and provide social service agencies such as social clubs, recreation places, rest rooms, public cemeteries, elders' rest homes, amusement parks and orphanages. 93 villages (16 per cent) wanted to create a relief fund and provide financial assistance to poor families. 55 villages (10 per cent) requested help for war victims such as refugees, soldiers' widows and orphans or those whose properties were destroyed by the war. (Table IX).

About 10 villages wanted to eliminate socially undesirable habits such as gambling, prostitution, rowdiness, and juvenile delinquency.

We found that 6 villages wanted to remove the difference between income of workers in U. S. agencies and farmers, and 4 villages wanted to reconstruct *pagodas* and temples.

Because the social problems were very numerous, we had 44 miscellaneous answers which could not be classified in any category.

Infrastructure.

In the field of infrastructure, many villages asked to have the road systems repaired, reopened or constructed. This was a large proportion (208 villages, or 36 per cent of the total).

Next came 146 villages (25 per cent) which requested electricity supplies and 93 villages which asked for water supplies.

In the part of the survey relating to electricity and water in the villages, we found that only in 10 per cent of the total were there fountains or tap water, and only 28 per cent were equipped with electricity. Most of these villages were located in or near cities and provincial capitals.

We knew that the aspirations of the villages which asked for electricity and water supply were legitimate. As for the road system, due to the lack of security and lack of prompt reaction by Public Works agencies, many roads are quite destroyed; this has damaged greatly communication and transportation from village to village. The economic life in many villages was impaired by this obstacle; hence the aspiration of

repairing the communication system in rural areas was legitimate and necessary to avoid isolation of those villages.

Major aspirations.

Each village was asked about three major aspirations according to the order in which the village wished them to be fulfilled. (Table I).

First priority aspiration.

In the answer on the "first priority", we found two major aspirations:

1. Help to increase production (94 villages, about 20 per cent).
2. Increase security in the village (79 villages, about 17 per cent)

The following aspirations have also been mentioned by villages:

3. Electricity and water (54 villages)
4. Roads, bridges, canals, dikes and dams (53 villages)
5. Better supplies (45 villages)
6. Health agencies (43 villages)
7. More agencies (43 villages)

We observe that help in increasing production is always a principal priority, either of the first, second or third degree. Better educational facilities, listed seventh in the overall picture, are high in the list of second priorities, and bridges, canals and dams, listed fourth as a first priority, are listed third among the second priorities. Power and water supplies are third on the priority I list but only fourth on the priority II list and come comparatively low among the third priorities.

Total aspirations without priority order.

If we summed up all the three priority aspirations, without distinguishing priorities (column 7 of Table I) we find the most important aspiration (increased production) still leading, leaving others far behind it. Overall we can classify the aspirations as follows:

- Help to increase production: 276 villages (60 per cent of the total)
- More roads, bridges, canals, dikes and dams. : 166 villages (36 per cent of the total)
- More schools and teachers : 164 villages (35 per cent of the total)
- Electricity and water : 164 villages (35 per cent of the total)
- Health agencies : 158 villages (34 per cent of the total)
- Better supplies : 127 villages (30 per cent of the total)
- Better security : 125 villages (26 per cent of the total)

Village aspirations, according to priority order.

To emphasize the priority of each aspiration, we proposed to weight the first priority aspiration by 3, the second priority order by 2, and the third priority by 1. In other words, we multiplied villages in column 1 (Table I) by 3, villages in column 2 by 2, and villages in column 3 by 1.

Classifying by scores, the aspirations would be in the following order:

1. Help to increase production : 554
2. More roads, bridges, canals, dikes and dams : 335
3. Electricity and water : 335
4. Health agencies : 305
5. More schools and teachers : 304
6. Better security : 303
7. Better supplies : 262
8. Social welfare : 153
9. Community houses and facilities : 108

Overshwhelming importance is attached by our rural people to increased productivity. Recognition of this fact by the central Government should be the basis for sound economic and social policies in 1968 - 1971.

TABLE I - THREE MAJOR ASPIRATIONS.

ASPIRATIONS	Priority: I (1)	Priority: II (2)	Priority: III (3)	Percent %I (4)	Percent %II (5)	Percent %III (6)	I + II + III (7)
- Help for increased production.	94	90	92	20,2	19,3	19,7	276
- Better security.	79	20	26	16,9	4,3	5,6	125
- Electrical power and water supplies.	54	64	45	11,6	13,7	9,7	163
- More roads, dams, dikes and drains.	53	63	50	11,4	13,5	10,7	166
- Better supplies.	45	45	37	9,7	9,7	7,9	166
- Health agencies.	43	61	54	9,2	13,1	11,6	127
- Schools and teachers.	40	60	64	8,6	12,9	13,7	158
- Construction of social and sanitary services agencies.	24	25	31	5,1	5,4	6,7	164
- Community houses and facilities.	12	9	15	2,6	1,9	3,2	80
- Miscellaneous.	22	20	52	4,7	6,2	11,2	36
Total	466	466	466	100	100	100	1,398

TABLE II.- NUMBER OF VILLAGES BY ASPIRATIONS ON AGRICULTURE.

No.	ASPIRATIONS	Number of villages	Percent
1	- Buying fertilizers, insecticides and sprayers at official prices.	66	11,5
2	- Need agricultural equipment.	225	39
3	- Establish agricultural, credit agencies, rice production cooperatives, farmers unions.	163	28,3
4	- Irrigation and drainage.	46	8
5	- Help to provide agricultural facilities, (distribute lands to tenants, rice seeds, etc.).	47	8,2
6	- Provide technicians.	18	3,1
7	- No suggestions.	5	0,9
8	- Miscellaneous.	6	1
	Total	576	100

TABLE III.- STUDENTS IN VILLAGES.

No.	NUMBER OF STUDENTS	Villages	Percent
1	None	51	8,9
2	100	17	2,9
3	100 - 499	112	19,4
4	500 - 999	142	24,7
5	1,000 - 1,999	156	27,1
6	2,000 - 2,999	42	7,3
7	3,000 - 4,999	30	5,2
8	5,000 - 6,999	10	1,7
9	7,000 - 9,999	7	1,2
10	10,000	9	1,6
Total		576	100

TABLE IV.- PRIVATE SCHOOLS IN VILLAGES.

No.	NUMBER OF PRIVATE SCHOOLS	Number of villages	Percent
1	None	310	53,8
2	1	137	23,8
3	2	52	9
4	3	28	4,8
5	4	22	3,8
6	5	8	1,4
7	6	5	0,9
8	7	2	0,4
9	8	1	0,2
10	9	11	1,9
Total		576	100

TABLE V.- NUMBER OF PRIMARY SCHOOLS.

No.	PRIMARY SCHOOLS	Number of villages	Percent
1	None	23	4
2	1	91	15,8
3	2	99	17,2
4	3	88	15,3
5	4 - 5	135	23,4
6	6 - 7	71	12,3
7	8 - 9	35	6,1
8	10 - 15	29	5
9	15	5	0,9
	Total	576	100

TABLE VI.- NUMBER OF TEACHERS.

No.	NUMBER OF TEACHERS	Number of villages	Percent
1	None	43	7,5
2	5	61	10,6
3	5 - 9	99	17,2
4	10 - 29	265	46
5	30 - 49	60	10,4
6	50 - 79	21	3,7
7	80 - 99	4	0,7
8	100 - 149	13	2,2
9	150 - 199	6	1
10	200	4	0,7
	Total	576	100

TABLE VII.- NUMBERS OF STUDENTS PER CLASS.

No.	HIGHEST NUMBER OF STUDENTS	:Number of villages:	Percent
1	None	39	6,8
2	50	69	12
3	50 - 59	125	21,7
4	60 - 69	185	32,1
5	70 - 79	77	13,4
6	80 - 89	42	7,3
7	90 - 99	14	2,4
8	100 - 119	14	2,4
9	120 - 149	7	1,2
10	150	4	0,7
	Total	576	100

TABLE VIII.- NUMBER OF VILLAGES BY ASPIRATIONS ON HEALTH.

No.	ASPIRATIONS	:Number of villages:	Percent
1	- Construction of village health agencies (dispensaries, maternities, hospitals).	336	58,3
2	- Increase health technicians (Public doctors, nurses, midwives).	87	15,1
3	- More medical equipment (drugs, ambulances, hygienic equipment, first aid).	91	15,8
4	- Preventive injections for domestic animals.	1	0,2
5	- Encourage the opening of pharmaceutical depots.	1	0,2
6	- Eliminate corruption and bad habits (drug theft, illegal payments for injections at public dispensaries, bad maintenance of health equipment).	1	0,2
7	- Miscellaneous.	6	1
8	- No suggestions.	53	9,2
	Total	576	100

TABLE IX.- NUMBER OF VILLAGES BY ASPIRATIONS ON SOCIAL SERVICES.

No.	ASPIRATIONS (Villages unit)	Number of villages	Percent
1	No suggestions	242	42
2	Create funds and provide financial assistance families	93	16,2
3	Help war victims (refugees, soldier's widows and orphans and defoliation compensation)	55	9,6
4	Construction of low-cost houses and necessary social services agencies (public inns; entertainment places, rest rooms, public cemeteries, elders rest houses, children's parks, orphanages)	44	18,8
5	Increase social cadres	8	1,4
6	Settle social bad habits (gambling, prostitution, rowdies, juvenile delinquency)	10	1,7
7	Construction of pagodas	4	0,7
8	Reduce the difference between incomes of workers with U.S. agencies and farmers	6	1
9	Miscellaneous	44	7,6
	Total	576	100

TABLE X.- NUMBER OF VILLAGES BY ASPIRATIONS ON SECURITY.

No. :	ASPIRATIONS	: Number of	: Percent
:	:	: villages	:
1 :	Want peace	: 10	: 1,7
2 :	Increase in military forces (more popular	:	:
:	forces, regional forces, police, combat.	:	:
:	youth).	: 249	: 43,2
3 :	Construction of village services	: 4	: 0,7
4 :	Construction outposts for hamlet defense	:	:
:	(construction of outposts, new life hamlets	:	:
:	perimeter fences around villages, along	:	:
:	the mountains, clearing of forests)	: 92	: 16
5 :	More weapons and equipment (rifles, ammu-	:	:
:	niton, barbed wire, steel pickets, signal:	:	:
:	corps radios)	: 50	: 8,7
6 :	Improve the standards of living, and draft:	:	:
:	deferments for combat youth.	: 6	: 1
7 :	Improve security budget	: 3	: 0,5
8 :	Eliminate corruption (bad village officials	:	:
:	hoodlums, theft and robbery, arrogant	:	:
:	soldiers)	: 10	: 1,7
9 :	Miscellaneous	: 22	:
10 :	No suggestions	: 130	: 22,6
:	:	:	:
:	:	:	:
:	Total	: 576	: 100

TABLE XI. NUMBER OF VILLAGES BY ASPIRATIONS ON COMMERCE AND SUPPLIES.

No. :	ASPIRATIONS	: Number of	: Percent
:	:	: villages	:
1 :	Supplies of goods and materials at official	:	:
:	prices (rice, cloth, insecticides, flour,	:	:
:	cement, steel plates, agricultural equipment,	:	:
:	fertilizers.	: 257	: 44,6
2 :	Establish supply agencies (consumer coopera-	:	:
:	tives, supply commissariat, reserve warehouses,	:	:
:	farmer associations)	: 105	: 18,6
3 :	Construction of markets, enlargement of	:	:
:	villages.	: 19	: 3,3
4 :	Credit to develop trade	: 15	: 2,6
5 :	Buying equipment at low prices and assistance	:	:
:	for handicraft (Palm leaves for conical hats,	:	:
:	sugar cane)	: 2	: 0,4
6 :	Transportation (airline services and secure	:	:
:	road travel)	: 3	: 0,5
7 :	Miscellaneous	: 6	: 1
8 :	No suggestions	: 167	: 29
:		:	:
:	Total	: 576	: 100
:		:	:

TABLE XII.- CREDIT AGENCIES

Order : number:	CREDIT AGENCIES	: Number of: villages :	Percent
1	Unknown, unanswered	25	4,3
2	No credit agency	334	58
3	Credit agency in existence	217	37,7
	Total	576	100

TABLE XIII.- SUPPLY AGENCIES.

No. :	SUPPLY AGENCIES	: Number of :	Percent
		villages :	
1	Unknown, no answers	17	2,9
2	No supply agency	443	77
3	Supply agencies in existence.	116	20,1
	Total	576	100

PART IV

DEVELOPMENT PROGRAMS 1968 TO 1971

A principal purpose of this report, presented to the new government at the start of its term of office, is to submit our suggestions and recommendations concerning those programs already identified and which we believe ought to be started within the next four years. They concern the following four subjects and areas of interest:

- the full exploitation of the water resources of the Mekong Delta, the first, and in terms of probable benefits, clearly the most important of a series of regional development programs designed to resolve the problems and develop the resources of each of our country's natural geographic divisions;

- the development of agriculture, in order to increase our production of food and other crops, to decrease our dependence upon imports, and eventually, to restore the export trade in agricultural produce which we formerly enjoyed;

- the development and implementation of a policy of selective industrialization;

- a program of organized and assisted land settlement, aimed in the immediate future at relieving the situation of the refugees, but having the long-term objective of applying the energies of surplus populations in some areas to the development of land and water resources in others.

In Part II of this report we describe in summary form the approach we recommend the Government to take towards each of these problems, concerning which we believe substantial progress can be made within the next four years. In each case we have prepared or have in preparation a substantial volume of supporting material and technical data, which, if our general recommendations receive the Government's approval, we will discuss with the appropriate services of the Government in order to produce final and concrete programs for early implementation.

There has obviously not been sufficient time as yet to prepare a full and complete development plan for the post-war period. Indeed, it may not be appropriate to do this under present circumstances. There are too many uncertainties in the future, particularly concerning the duration, extent, and character of military requirements and operations, to be able to predict the future path of development of the economy with any assurance. One can formulate a number of hypotheses as to the way military activities and requirement will change in the next four years. The war may continue and even increase in intensity and scale. Or the war may end, through truce or other negotiated settlement among the parties concerned. As a third possibility, the war may, through attrition and the grinding wear of conflict decrease to a lower level of violence. In each case, and in many others that one can imagine, the problems for development are different and we can deduce what those differences might be. However, rather than predict which of the alternatives is most likely, it is preferable to design a development program that is flexible and capable of meeting many contingencies. We are proceeding with our work on the basis of a variety of different assumptions, such as those described in Part I of the report.

This report does not cover all sectors of the economy; but it does, in Parts II and III, identify critical areas where long-term benefits are extremely promising and short-term benefits should be obtainable. In Part III we describe the subjects and problems concerning which our studies are not yet sufficiently advanced to warrant our submitting positive recommendations to you at the present time. In many cases, however, these are subjects concerning which some progress should be possible in the next four years, and as soon as valid conclusions can be drawn we will present our recommendations and suggest discussion.

We are prepared to assist the Government and its services in any way we can to insure a successful development effort in the future.

A successful development effort will necessarily embrace both economic and social change. It is through change that growth occurs, and if changes can be started in a number of different parts of our economy we believe that the accumulated effects will be considerable. No society in the world faces greater difficulties, for we are proposing to carry out a development effort while a war is being fought. Although the difficulties are great, we do not believe they are insurmountable, and we do believe that a successful program can be started now, one that will provide a visible demonstration of the kind of future we seek to create for our people.

We recognize the need for some first principles to guide our work. These principles are simple and are drawn from the traditions of our country. As the first and most important of these principles we recognize that development and growth must extend to all the people, not merely to a few. As the economy develops it will be possible to share the benefits of growth and to provide opportunities for individuals to develop in their own way and according to their own requirements and values. For there to be growth there must be change - changes in rights and privileges, and through such changes a more equitable distribution of the benefits of development. A most important objective of the development effort is social justice. The success of our efforts in the next four years - and in a much longer period to follow - will be measured by the extent to which we satisfy the needs our people spontaneously express - improved living standards for their families, adequate rewards for their work, schooling for their children, and most of all, peace. The last is indeed a problem that cannot be resolved except by the combined effort of all of us.

Secondly, if development programs are to provide the things which people want, then the people's choices must be voiced through popular institutions, particularly through the councils of the village and the province. No country has made, or can successfully make, all decisions at a central point. Support for a development program and responsibility for carrying it out must be broadly based if it is to succeed, and the burden of the programs should be shared as well as the benefits. Our suggestions for the next four years lie in this direction.

Finally, we recognize that major improvements will take time to accomplish. It may, for instance, take a whole generation before the great water resources we share with our neighbors are fully developed for the benefit of all the countries. In many cases we perceive what needs to be done better than we yet understand how to do it. But a start can be made, and we are confident that with faith in the future and the proof of development before us in certain things, we Vietnamese can successfully design our program for a better future.

PART I
ALTERNATIVE GROWTH PATHS, 1968-1971

In present circumstances, accurate prediction concerning the expansion of the economy in the next four years is clearly impossible. The main and most plausible alternatives can be described, however, and the differences between them examined. As will be seen, they vary considerably one from another in accordance with different assumptions about the military situation. In the least favorable alternative, the assumption is made that the war will continue to make heavy demands upon the resources of the economy; in the most favorable alternative, the assumption is made that the security situation will permit a greater concentration of effort and resources upon civilian developmental activities. The probable effect of three illustrative and plausible assumptions upon the country's net domestic product is illustrated by the chart.

(1) In our first alternative, it is assumed that the war will continue at approximately its present intensity. The outlook for the economy if this happens can be predicted from past experience. There will be few changes; demands will continue to be high upon resources and may even increase, including the demand for military manpower. While military and paramilitary forces presently constitute about 5 per cent of the total population, the demand over the four-year period will probably rise to from 5.5 to 6.0 per cent. There will be a corresponding increase in employment in the civilian government sector, because the public sector will be obliged to absorb responsibilities that either did not exist before or were assumed by the private sector. Migration from rural to urban areas will continue at approximately the same pace as has occurred in the past several years, consisting partly of the movement of refugees coming to the cities as

places of safe haven and partly of the response to the attractions of city environment. This will be accompanied by a general decline in the needs for labor for construction on public works (particularly those associated with the war effort), offset to some extent by an increasing ability to absorb the flood of people into commerce and services in the urban areas.

In such circumstances there will be some deterioration in productivity in virtually all sectors of the economy, particularly in agriculture which will be seriously affected by the shift to urban areas. Most other changes in the employment pattern are likely to be marginal, but may be significant nonetheless. Because of continued high-level military spending, the appearances of affluence will remain, but these would be highly artificial. By any measure the economy will become even more vulnerable than it is now. Though it is improbable that there will be any major breakdown, the economy will operate at substantially reduced efficiency, and net domestic product, as shown in the figure, will make only very modest gains.

(2) In the second alternative, it is assumed that the war will be brought to an end early in the four-year period, that a considerable measure of demobilization will be possible, but that this will take place without the benefit of contingency plans for the immediate post-war period. In this event, the economy will adjust as best it can, relying upon existing market mechanisms to absorb the manpower released from the military into the civilian sector. After 1968 demobilization would be rapid, with a possible reduction in military manpower from over 600,000 to about 200,000 in, say, 1970. The general economic tendencies will be toward deflation and stagnation, though these tendencies will be limited by the fact that the decline in military expenditures and expenditures on support activity will

be gradual, not sudden. In the absence of strong public policy, there will be increased evidence of unemployment, and less than full use of capacity.

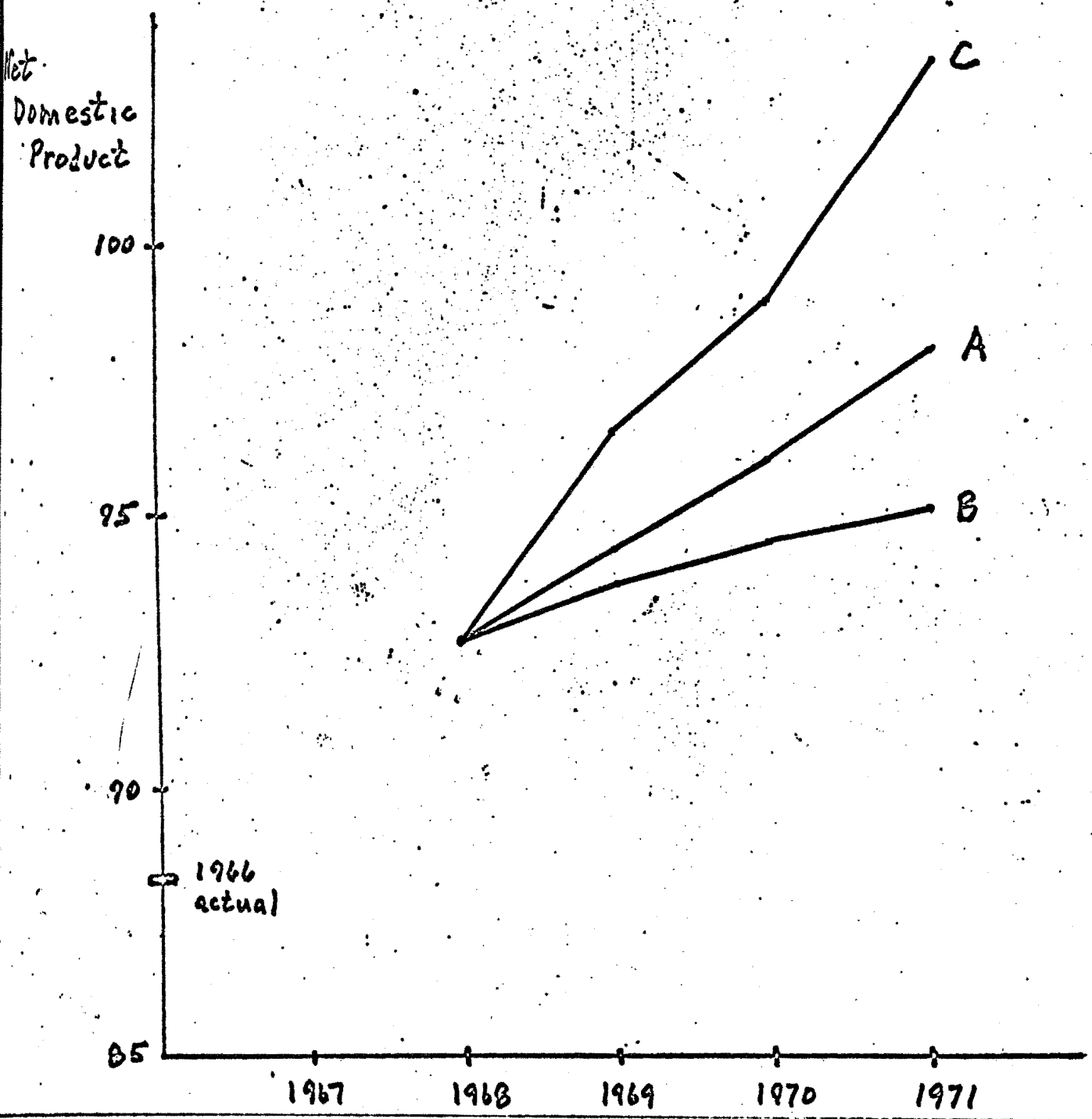
(3) In the third case we make similar assumptions concerning the end of hostilities and the rate of military demobilization, but with the significant difference that contingencies plans, public construction projects, expenditures in agriculture, etc., will have been prepared to soften the impact of demobilization upon the economy and to make the absorption of labor easier. There will be increased derived demand in the sectors of manufacturing, trade and services. The tendency of total employment to fall, which was quite apparent in the previous case, will be offset particularly in sectors such as construction and transport. In the most general sense, the contrast between this alternative and the previous one lies in the benefits that would accrue from a well-designed development program to absorb manpower released from military duties.

It is important to note that these three alternatives are not presented as predictions of what will happen in each case, but only as a reasonable estimate of what could happen under the varying assumptions we have used.

Our estimates of net domestic product in all three alternatives are shown in the chart. In the first two (i.e., either the war continues or it will end without development plans having been prepared), the projected figures are probably the best that the economy can hope to achieve. In the third case (i.e., the war ends and development plans go into operation), we have been deliberately conservative. (Indeed, with a well-designed set of development programs the economy might achieve a higher level than is projected.)

The differences between the three cases can be illustrated in various ways but perhaps one comparison will do. Under either of the first two alternatives, the per capita income in the country would fall, that is, on the whole economic welfare would worsen, while under the third alternative, per capita income would rise, though by a modest amount.

We have presented these three cases in order to help demonstrate that action by the government to prepare a development program will enable the economy to prosper and grow. We point out, however, that the model we have used is a simple and unsophisticated one, which does not lend itself to an analysis of the difficulties involved in control of inflation, balance of payments problems, and other essential aspects of the future economic scene.



ESTIMATED NET DOMESTIC PRODUCT UNDER THREE ALTERNATIVES:

- A. The war continues.
- B. The war ends in 1968; no development plans are made.
- C. The war ends in 1968; plans are made.

PART II

DEVELOPMENT PROGRAMS 1968-1971

We suggested previously in this report two considerations which we think vital to the healthy future development of our economy and society. The first is that there should be well-designed program for the full and proper use of our peoples' energies during the transition from war to peace. The second is the ever-present need to provide visible proof of the Government's concern for the well-being of our citizens, demonstrable evidence that promises are being borne out by action, that progress is really being made, that a future of fulfillment for our own and succeeding generations is not merely possible, but is actually in sight.

In this part, but only as first steps which must certainly be followed by many others (as fast as investigations can be completed and recommendations formulated) we identify four sectors in which progress is necessary and possible immediately. We describe in summary form what we think should be done now, and the nature of the long-term benefits that will follow. We have prepared, to the extent possible in the relatively short period of our studies, some supporting material which we think it would be useful for us to discuss with the appropriate technical services of government if our general conclusions should meet with your approval. It should then be possible to decide what available resources can be devoted to these programs in the next four years, and what additional resources, if any, should be sought from outside Vietnam.

A. REGIONAL DEVELOPMENT PROGRAMS

Each of our principal geographical divisions, the South, the Central Highlands, and the Central Lowlands, presents distinctive problems

and opportunities, and requires distinctive solutions and treatment.

In the Central Highlands and Central Lowlands, the resource investigations necessary to determine and develop the potential of these areas are presently incomplete, and, although some beneficial development activities can be undertaken in them in the next four years, comprehensive regional development programs will have to await the restoration of security. In the South, in contrast, the problems of development are better understood.

There are excellent prospects that present rice production on two million hectares in the Mekong Delta can be tripled, and that high value crops can be introduced and produced on a large scale. This obviously represents what must surely be the most important and promising economic opportunity presently available to us. However, this splendid potential cannot be realized fully until the water resources of the Delta are brought under control. Only with water control will it become possible to introduce successfully the agricultural, institutional, and other inputs in the intensity required for achievement of the stated goal.

Water control in the Delta will have two elements:

- the construction and operation of systems of dikes, channel controls, pumps and other facilities within the boundaries of Vietnam to provide for flood protection, irrigation, drainage, water transportation and salinity control; and

- the construction and operation of multi-purpose storage reservoirs upstream on the Mekong River, and outside Vietnam, to augment the low flow of the river during the dry season and to regulate floods.

Optimum development requires proper attention to both these elements, but partial development is obtainable by the construction of works of the first type without early provision of upstream storage. These works alone would permit the doubling of present rice production. The primary reason for upstream storage as well is that it would provide for the augmentation of dry season water supply for irrigation to permit extensive double cropping of rice and broad diversification to other desirable crops in the Delta. The required storage cannot be provided within Vietnam.

New analytical techniques for the solution of the complex hydraulic problems of the Lower Mekong River System, including the Delta, are now in hand. Advanced methods of producing high yielding rice are known and proven in other countries, and require only introduction and adaptation to Delta conditions. Delta conditions are suitable for the growth of other cash, industrial and forage crops. The emergence of a constitutional government in Vietnam gives hope for resolution of security problems and provides a timely opportunity for institutional and legal change. Coordinated planning for the development of the Lower Mekong Basin has been in progress for over ten years. All the signs are in favor of starting a comprehensive water resources program now, and if this is done there is excellent promise of success.

In view of the foregoing and after careful study of all available data, the Joint Development Group has concluded that:

1. Multipurpose water control systems which will permit a doubling in rice production over the next 20 years and in addition the introduction of new crops can be constructed in the Delta at reasonable cost. These facilities would provide protection against floods and salinity, control of water-

application to crops and drainage during the rainy season, dry season irrigation to permit double cropping in about 10% of the region within the limits of natural river flow, and improved inland water transport. Vietnam should immediately announce and undertake a long-range program for the planning, design and construction of these water control facilities for the entire Delta, and should aim at actual establishment of water control over a large area within the next five years.

2. Substantial further improvement in Delta conditions would result from the construction of multipurpose storage reservoirs upstream on the Mekong River. These would further reduce the flood and salinity hazards, provide sufficient dry season water supplies to irrigate and double crop the entire area (either in rice or in rice combined with other desirable crops), produce hydroelectric power and create more dependable navigation conditions in the main river channels. Vietnam should strongly encourage and support the joint activities of the riparian countries toward the early implementation of those upstream projects capable of achieving benefits for all the countries.

3. If water control is assured, it will become possible to initiate a comprehensive agricultural program designed to attain the production goals. This program would include improvements to irrigated and non-irrigated land, introduction of high yielding rice varieties, modernization of agricultural practices, increased use of fertilizers and pesticides, extension of credit

facilities, crop diversification as indicated by land capability and local needs, improvements in marketing processes, and adjustments in land tenure. It will also be desirable to promote and assist local associations of water users for the construction and operation of relatively large irrigated agricultural units within the framework of the main water control systems. This will permit the efficient management of water use and provide effective channels for agricultural inputs. To the extent possible, these units should be formed from existing administrative units, the areas of one or more village councils. Properly balanced attention to all of these factors will assure that optimum agricultural benefits will accrue to the farmers, the region and the nation, and these will amply justify the investment in water control facilities. Vietnam should establish a broad agricultural program to accomplish these objectives within the framework of water control plans.

4. The full accomplishment of the objectives of the proposed program will require many years of hard work. Nor is it possible at this time to predict accurately its final dimensions or achievements. Nevertheless, the time is opportune for a vigorous beginning, with which it will be possible to enlist the full support of the people of the Delta, the nation, the riparian countries and sources of finance and technical expertise. Vietnam should now create and empower a single agency - which we may call the Mekong Delta Development Authority - to plan and later to implement a Delta

development program, to initiate early discussion with Cambodia, Thailand and Laos regarding the possible scope and timing of upstream projects, to control the usage of water in the Delta, and to provide managerial, financial and technical assistance to water users' associations.

5. The initial program of the Mekong Delta Development Authority will include the preparation of a general long-range program for development of Delta water control and achievement of projected agricultural benefits; the initiation of an early action program to identify and prepare a substantial area for initial operation within five years as a first step in the long-range program; and encouragement, assistance and participation in a wide spectrum of activities designed to create support for and understanding of the program.

6. The problems and potential of the Mekong Delta are not exclusive to Vietnam but extend to a sizeable area in Cambodia. Although a partial solution to Vietnam's own Delta problems can be found within the national boundaries, a regional solution involving both countries would certainly be more effective and efficient for both. The mutual interest is enormous. In fact, it appears possible that the development of mainstream reservoir storage located largely within Cambodia could provide both countries with near optimum conditions for the development of irrigated agriculture over very large areas as well as substantial other benefits. Joint planning for joint

development is certainly an objective greatly to be desired, and we recommend the Government to take the initiative in encouraging and undertaking to provide support for such joint action from the outset.

B. THE DEVELOPMENT OF AGRICULTURE

In all countries the successful development of agriculture has proved a difficult task, but it is absolutely essential for the development of Vietnam. We have depended on agricultural products for much of our foreign exchange earnings and of course to supply the basic food for the people. These considerations will continue to be important in the future. The objectives for a development program are easily stated:

- Increase the production of rice in order to be self-sufficient, and also encourage diversification to higher value crops, particularly in some areas.
- Improve the efficiency of the system of distribution of agricultural inputs and the marketing of agricultural products.
- Improve the efficiency of land usage within a system of land ownership that is equitable and just.
- Establish and enforce a just system of tenancy contracts.
- Provide adequate and economical agricultural credit.

We know the benefits that would occur from programs to increase the supply of agricultural inputs and to lower their price. For example, it is estimated that we could increase the production of rice by fifty per cent with the proper use of fertilizers, but at present we are using only one-fourth of the amount that is required. An increased use of seed of

high-yield varieties of rice will also raise production.

The International Rice Research Institute has been successful in breeding a line of high yielding rice varieties (the IR-Series), some of which may yield as much as six tons of paddy per hectare, or more. These varieties however, will only produce consistently high yields with simultaneous use of fertilizers, careful scheduling of insecticides, water control, and availability of other inputs. We warn against the notion that these new seed varieties alone will solve the rice problem in Vietnam.

In areas of Vietnam where transplanted or directly planted rice (other than the floating variety) is now grown, substituting IR varieties for the best presently available local varieties would probably increase the average yield from two to at least three tons of paddy per hectare. This would represent a notable achievement in the five provinces of the I Corps area where present yields are in fact well below the national average. With proper fertilizer applications and good management under supervision, average yields could be as high as four or more tons of paddy per hectare.

Although there are now programs to increase agricultural production, these programs are often unrelated to each other. We recommend that these various programs be brought together and that a "program package" to increase production be started. The program package should include the following elements:

- increasing and stabilizing the supply of fertilizers, pesticides, pumps, machinery and seeds; and establishing a firm price for these;
- increasing the amount of credit available for loans and with a low rate of interest;
- encouraging the construction of warehouses and storage facilities.

- improving the distribution of information on farming methods and increasing the amount of technical training;
- encouraging the participation of the village councils and private business in programs for increasing production and improving the distribution of products.

The program package should be a determined effort to concentrate all of the individual programs for increasing agricultural production. The program package approach has been tried in other countries and should be successful here. It will, however, require active supervision of all programs by a single agency, either the Ministry of Agriculture or a separate Agricultural Productivity Agency established for this purpose.

The effort that is required should initially be concentrated in a few provinces or districts. We suggest that no more than four provinces be selected as centers for this activity, and we are prepared to suggest specific provinces. These provinces will become training and demonstration centers for the rest of the country.

The program for increasing agricultural productivity that we are recommending is not entirely new, but there are significant differences in procedures and particularly in the concentration and scale of effort from the programs that have been tried in the past.

We believe that too much emphasis has been placed in the past on technical assistance and execution of the program work by outsiders, and not nearly enough on self-help. It is not enough to induce farmers to work under instructions of a stranger. An effective package program will be a community affair; farmers and local leaders must get together and convince

themselves and each other of the merits of the program first. Technical assistance should be given at the village level by Vietnamese extension agents, not by foreign nationals. Our extension agents, must of course, be well-trained, and it is in this training that the assistance of foreign experts may be most helpful.

There are some additional policies that we offer for consideration by the government. These would help strengthen the program package mentioned above. First, a government transport insurance program might stimulate the building and operation of barges for the transport of commodities. Second, we suggest that the government consider incentive payments for the production of rice. This might take the form of an allowance of about \$VN 5 per kilo advanced to rice merchants who purchase rice and store or transfer it through approved (controlled) warehouses in the Saigon/Cholon areas. Such a program would be applicable primarily in rice-surplus areas. As production costs are lowered through improved practices, the incentive payments could be reduced. A separate marketing board might be required to administer such a program. Third, we suggest that the Agricultural Development Bank institute low-interest loans to merchants who will use these loans to purchase and store inputs (especially fertilizer) in the provinces. Loans should also be made under the same program for construction of warehouses. We believe that programs such as these will stimulate increases in agricultural production in our country.

C. THE DEVELOPMENT OF INDUSTRY

From the short-range point of view, industry's war-time role is being adequately performed today given the peculiar circumstances introduced by a massive inflow of foreign funds. A negligible portion of productive

industrial capacity is being diverted to the war effort, and where this does occur it is easily offset by parallel advances in the private sector. There is an active private sector, whose performance should be encouraged, and the investment rate in the first half of 1967 is quite creditable as is the growth of productive capacity.

In the next four years there are positive steps that can be taken to expand industry and to strengthen the private sector. This will have the effect of improving the overall economic performance of the economy.

The strategy to be followed in making investment decisions consistent with both long-run and short-run goals appears to be as follows:

1. Promote and approve those projects where present markets are adequate to justify economic size plants such as nitrogen fertilizer, flat glass, flour milling, cotton yarn, finished textile goods, an oil refinery, bicycle parts and tires, cement and cement products, agricultural based industries, food products, and wood and pulp products.

2. In those industries where economies of scale are particularly important at today's market sizes, care should be exercised not to permit installation of plants that are too small and not to permit too many plants to be built. Monopoly pricing can be controlled with greater long-run benefits to Vietnam by means of import duties and import policy rather than by a proliferation of plants. As a general rule, economies of scale are important in most sectors other than consumer non-durables, in most products not now produced in Vietnam, and particularly in larger projects involving investments of over 100 million piasters. The following sectors require special attention: chemicals, metal products, machinery, electrical and transport equipment and consumer durables. It is easy to point out errors in past and present investment policies in these sectors, but by and large most investment decisions appear to have been sound.

Economies of scale are well-established and it will not be a difficult task for us to recommend to the Government appropriate policy in each sector.

3. Projects should be postponed for some time if economies of scale are particularly unfavorable at the markets that are estimated for 1975, for instance: polyethylene, polystyrene, heavy steel flats and structural shapes, caprolactam and other raw materials for nylon filament production, newsprint, most chemicals and most mechanical and electrical machinery. Pulp may be an exception to this, since although the local market is modest the export possibilities are very good.

4. Projects should be postponed but promoted actively by lowering duties on those products where the 1972-1977 market would permit an economic scale of operation if the market can be developed. Examples would be rayon filament and staple, PVC (polyvinyl chloride), soda ash. Where there are competing domestic products, as in the case of textiles, special considerations are warranted.

5. As a general rule, at least for larger products, investments should be studied carefully to consider whether they should be postponed when the production cost without profit is more than about 20 to 30 percent above the C.I.F. price, before customs duty, from Japan, Taiwan or other sources.

6. Because of the overriding importance of the agricultural sector, investments should be postponed if they will result in a permanent increase in price of inputs to the agricultural sector. An exception might be agricultural tools or small power-driven tractors, where a subsidy might be needed to start production of items that would eventually be beneficial to the sector.

7. In processing loan applications and requests for exemptions, greater attention should be paid to domestic prices relative to import prices, with or without duty, and to economies of scale.

8. For those products where economies of scale are important in relation to market size, and where the entrepreneurs cannot raise sufficient equity capital for one-third to one-half of the fixed cost of the project plus working capital, there would appear to be three feasible possibilities:

(a) postpone the project until the applicants or a group of competitors can raise adequate equity; or

(b) for projects of overriding importance to the development of Vietnam increase the ratio of debt to equity capital permitted by the financing institutions (IDC, SOFIDIV, National Bank); or

(c) obtain the necessary additional equity capital from SOFIDIV or IDC.

In particular, it is possible now to identify projects which deserve high priority, at least for detailed feasibility study and possible early implementation. Perhaps the most important of these is a large ammonia-urea fertilizer plant which probably should be located close to the largest consuming market, that is in the Saigon or Mekong Delta area (possibly at Can Tho). A preliminary evaluation indicates that a large-scale plant would be feasible and profitable. What is needed now is a detailed plant location and engineering study so that the construction of the plant can be started without delay the moment security conditions permit. It seems evident that because of transportation costs the plant should be located in the principal market area and not at a distance from it. We firmly

recommend that the studies suggested be initiated immediately.

Second, the project for an oil refinery should be reopened and might be considered in conjunction with the fertilizer plant since the refinery could supply inputs. The elimination of the exclusive license for the plant and opening of it for competitive bidding might help speed the decision on the refinery.

Third, preliminary evaluations also indicate the feasibility of an increase in cement and clinker grinding plants; a flour mill; paper pulp, plywood and timber treatment plants, and selective investments in processing of food products. If the pulp and paper industry is properly planned and integrated, Vietnam could well become one of the low-cost pulp and paper producers in Asia, and the early errors of Taiwan and Korea could be avoided (errors often in production in small uneconomic size units with the wrong raw materials and non-integrated plants). The objective of the development of the pulp and paper industry should not be to conserve foreign exchange in the short run but to develop a low cost pulp industry in the '70s, based preferably on pine as a raw material, well-integrated with paper production and with wood products manufacture. The production of newsprint at the present time appears to be particularly undesirable. A long-range study is needed today, without regard for present security problems. Similarly, economic size wood products industries need eventually to be developed. The recent success of the Vietnamese plywood factory attests to the potential of the industry. Emphasis needs to be placed on:

- (a) integrating saw milling with pulp production;
- (b) relating paper and paper products to future pulp production;
- (c) sawn wood, treated timbers and processed wood products;
- (d) plywood; and

(e) improved furniture manufacture.

There are other specific programs that we recommend for serious consideration by the Government now. First, the establishment of procedures to channel the available credit on a more selective basis to the commodity-producing sectors (rather than say in commercial activities) while at the same time maintaining necessary aggregate credit restrictions. This might be accompanied by an increase in the effective interest rate which would have a salutary effect on savings. Second, we suggest continued emphasis on industrial development outside the Saigon/Cholon/Bien Hoa area, particularly through an active program for establishing industrial parks similar to the one at Bien Hoa and through selective profits tax exemptions for industry that will locate outside of this central area. Third, we suggest that the program for the Government to divest itself of ownership in industrial plants be accelerated by changing certain procedures. It may be impossible, and even undesirable, to try to get engineering and accounting valuations of these plants. The value to a new investor is the value of a "going concern!" That value is determined by the expected profitability of the plant. On a trial basis, we suggest that in a few cases a program of opening plants to competitive bidding combined with an "upset" price be tried and, if successful, expanded to other plants. Fourth, we recommend greater private sector participation in planning processes so as to obtain their ideas, understanding and cooperation in carrying out a development program. Such involvement could initially start with informal discussions with appropriate groups of associations of businessmen.

We believe that through these programs definite progress can be made to strengthen industrial development in our country.

D. POPULATION MOVEMENTS

In the view of the Joint Development Group, there is an urgent and compelling need for a program to alleviate the suffering of the refugees and to incorporate them on a productive and permanent basis into the economic life of the country. In the short-run, such a program essentially means re-settlement on new land wherever it can be found, but it is possible to make a virtue of this necessity and to begin to plan now for a substantial program of organized and assisted land settlement to open unused or underdeveloped lands as part of a long-run development effort. The prospects for developments in agriculture, different from traditional production, make it likely that upland areas can be efficiently brought into use and can absorb an increasing number of people from areas that are now over-populated.

The dimensions of the refugee problem are probably larger than the official figures suggest: for apart from the estimate of more than 700,000 people still living in temporary camps, among those who have been "resettled" or have resettled themselves there must be several hundred thousand more who have not yet been provided with the conditions in which they can earn their livings and support themselves and their families; and there are many more, now living in city slums, who have never been officially classified as refugees at all, though that is what they are. Here, if a permanent and satisfactory solution is not found to their problems, is a substantial segment of the population of Vietnam, at present apparently patient, but potentially, in the future, a source of serious economic, political and social unrest and dissatisfaction.

We recognize, of course, that not all the refugees displaced from their homes, and not all the soldiers who will be demobilized when peace

returns, and not all the surplus population of the northern provinces will need to be accommodated in the agricultural sector. Some can be provided with employment in new and expanding industries and in construction, and many farmers who have come to the cities and learned new trades will not even want to return to the land. A well designed development program will make provision for absorption of people into commercial, industrial, and public works activities. But the problem we face is still a very large one; and after taking account of all those who will find employment in new industries, and of many more who will return of their own accord to their former homes and farms when these are made permanently secure, over the coming ten years there may be from 100,000 to 500,000 families whose most promising future will lie elsewhere. It will lie in our presently undeveloped areas - possibly, though we think only to a very limited extent, in the Mekong Delta, as water control is achieved and new land can be improved and opened up, certainly in the upland areas which will hopefully offer opportunities for diversifying our agricultural production by the cultivation of new commercial crops.

This is essentially a long-term problem, arising from the maldistribution of population in Vietnam in relation to resources. We have concerned ourselves largely, up to the present, with the situation in the five northern provinces which form the I Corps area (though these are obviously not the only places in Vietnam in which population presses heavily upon the available resources). In the five northern provinces our belief is that even with peace and the utmost feasible development of agriculture, fisheries and forestry, the resource base is insufficient to provide an increasing population with the means to make a decent livelihood. Production of rice is not (and was not, even in times of peace) nearly adequate to satisfy local needs, yields per hectare are conspicuously lower than in the better-favored areas of Vietnam, and with a very large movement of refugees from the outlying districts

in recent years the population has become increasingly concentrated in the urban centers.

Certainly some development can take place in the northern provinces, and in other areas of the central lowlands which find themselves in a similar situation. No existing opportunity for development should be neglected. But the prospects are limited, and it is impossible for us to avoid the conclusion that unless a considerable redistribution of population takes place the regional disparities in income will be great and will tend to widen.

The urgency of the refugee situation requires that a start should be made now. It is important to show that a permanent solution exists for the refugees, even if we cannot hope, in present circumstances, to offer it to more than a few thousand families. It is also important that we should acquire practical experience of land settlement and development, and that we should erect the organizational and institutional structures capable of undertaking larger programs after the war. It is entirely relevant to our own situation to remark that our neighbor Malaysia started its highly successful land settlement program in order to secure its rural population from Communist influence. It has continued it, long after that danger has passed, as a measure of deliberate economic policy, putting its unused resources in land at the disposal of its under-employed and needy citizens.

We are all familiar with the history of previous resettlement programs in Vietnam. Between 1954 and 1960 many thousands of people, including some of the million refugees who entered Vietnam after the Geneva Convention were accommodated in the Central Highlands and in the Plain of Reeds. Some of the projects were well organized and well administered, and some have taken permanent root. Generally, however, the experience of that period was unsuccessful: settlement was far from being voluntary, and some settlers,

compelled rather than offering to abandon their original homes, had no heart in the movement from the start; some projects, particularly in the Plain of Reeds, were established on sites where natural conditions were difficult and discouraging. Even the successful settlements have in recent years been subjected to harassment by the enemy, and many, perhaps most, have been abandoned.

It is with this past experience in mind that we suggest some guidelines for a resettlement program:

(1) the movement of people must be entirely voluntary and stimulated by economic and social incentives. It is true that refugees have usually been reluctant to move across province lines, or to move, even inside provinces, far away from their homes. But some have expressed their willingness to do this, and if one project can be established many more will follow. At the start it will not be a bad thing that the numbers are limited, for we have not yet either the staff or the financial resources to deal with mass movements;

(2) the sites selected for settlements must be in areas which are reasonably secure or can be made and kept reasonably secure. There is no point in inviting refugees to expose themselves to the very dangers from which they have fled;

(3) the sites must be where soil, climatic, and topographic conditions indicate that the settlers will be able, by appropriate practices and cropping patterns, to prosper and create good lives for themselves and their families; and allocations of land must be sufficient to allow families to grow. Many of the present attempts to resettle refugees have unfortunately been on sites with poor soils and little water, or in the neighborhood of military bases where, although temporary employment is available, a permanent

living is not;

(4) no settlement project should be started without previous negotiation with the people claiming an interest in it. Whatever advantages are offered to the settlers - in land, housing, technical assistance in agriculture, credit, equipment and supplies, etc. - the same advantages should also be offered to the people among whom they are going to be living. The objective of settlement is the objective of all development - the better use of resources in the service of the people;

(5) the costs of a resettlement program will be high, but although initially they may be justified on humanitarian grounds, the program should be planned so that ultimately the costs are justifiable on economic grounds. We have examined one case of a possible settlement project, in an area not necessarily typical of the localities in which most settlement will take place, and came to a very tentative conclusion that the costs would approximate about \$VN 100,000 for each settler family and about \$VN 40,000 per family for the present inhabitants. Such sums are, as a matter of interest, considerably less than Malaysia has been spending for similar purposes;

(6) to a very considerable extent, assistance to the settlers and others should be by loan repayable over a reasonable period of time and at reasonable interest rates. Communal facilities such as schools, health centers, and roads, on the other hand, should be at the direct cost of the Government;

(7) obviously the organization and administration of a large land settlement program will demand a governmental or quasi-governmental agency with a fairly large staff of professionally competent men and women. But the management of individual prospects should be entrusted to the greatest extent possible to the communities concerned, and at the very least both the settlers and the original inhabitants should be represented on project

management committees.

The Joint Development Committee would welcome an opportunity to discuss these guidelines with you and with any of the governmental services you intend to designate to be responsible for what is certainly a challenging and formidable problem. In the meantime we propose to continue our investigation of possible specific projects, including the identification of suitable areas and sites for settlement projects, for it is only by grappling with specific cases that we can hope to formulate a detailed program and then turn the program into action. We are sure that this is a subject which merits the Government's most serious attention, and we will be glad to apply our own efforts and enlist those of others to procure some positive progress in the very early future.

PART III

OTHER TOPICS UNDER INVESTIGATION

We recommended in the previous part the Government's support for action programs in four specific areas where some immediate benefits could result and some early progress could be made towards long-term development objectives.

Quite clearly these present recommendations do not amount to a comprehensive development program, but only to what should be done concerning the problems which at the present time we--and others-- think we understand best. There are many other areas in which partial and still incomplete enquiries have been started and are continuing. Some of them are as important, perhaps more important, to our future than the four topics which presently lend themselves to action. In particular cases, through our own efforts and those of our friends, some useful development is already taking place; in others there will be a continuing need to keep subjects under review throughout the transitional period between war and peace and for many years afterwards.

We think it appropriate to list these subjects at this time and to present to you such preliminary thoughts as we have been able to develop concerning them.

A. AGGREGATE ECONOMIC POLICY

Many of the most critical current policy problems in the country, such as the control of inflation or the management of import

programs, do not strictly come within the scope of responsibility of this group, for they must be solved by appropriate ministries and other agencies of government. However, in the longer run and because they vitally affect development programs, they must be considered by our group. Our work in this area has started slowly and at this point we are prepared to offer for consideration a few preliminary suggestions on public finance and monetary and fiscal policy.

Over the past year savings have been discouraged because of inflationary pressures and the low return on savings. As a method of stimulating savings, and thus of discouraging spending, it appears sensible to consider a substantial rise in the interest rate. As mentioned earlier in this report, it does not seem likely that this would have serious effects on new investment, and if such a rise were accompanied by easier availability of credit to commodity-producing sectors, the total effect on the economy might be entirely beneficial.

There are two other policy proposals in inflation control that others as well as this group have found attractive. The first concerns a proposal for the selling of government bonds to the public as well as to the commercial banking system. With an appropriate interest rate and perhaps with other features that might guarantee in part the purchasing power of the sum invested in a bond, there is a reasonable expectation of the success of such a program. The second proposal has already been acted upon and is now in operation, that is the withholding of personal

income tax. It is rightly argued that in normal circumstances this feature is both equitable and an effective way to deter spending. However, in present circumstances this program falls primarily on salaried employees in large establishments (and notably government employees). There is some danger that without corrections the program will result in placing the major burden of the tax on a small part of the economy.

At the present time the Government's revenue comes almost equally from three sources: taxes and duties; foreign aid; and borrowings from the National Bank. And two-thirds of expenditures are on military and defense needs. In the future, as and when the war ends, and demobilization occurs, the strains on Government revenues and expenditures will be great. On the expenditure side the share going to defense will decrease, but may not be immediately shifted to other agencies concerned with development programs. To increase the ability to shift resources it would, for example, be prudent to start on a series of public works projects and to carry the preliminary plans to the point where the projects might be implemented at rather short order.

On the revenue side there will be a need to consider the various sources of revenues, and most particularly, that part which comes from foreign aid. In the future how much aid will be required to support a viable and growing economy? What may be expected in foreign exchange earnings under different programs of export promotion and import substitution? These and similar problems require attention now so that contingency plans can be designed to the greatest extent possible.

As a most material aid to effective planning of revenues and expenditures, we recommend that the Government take the first steps now to establish program budgeting procedures so that the costs and benefits of major program elements can be properly evaluated. This topic has already secured some attention within our Government, and we believe that it would greatly help the Government to make the necessary decisions.

B. INSTITUTIONAL DEVELOPMENT AND THE ENCOURAGEMENT OF LOCAL RESPONSE

The subject is not the exclusive interest of the Joint Development Group, and it is in fact receiving a good deal of attention from various agencies both inside and outside the Government. However, the whole-hearted cooperation and participation of the public in national development is extremely important; obviously none of our plans will succeed unless they respond to people's desires and needs, and are enthusiastically received by those they are intended to serve. We believe that there are enormous stores of energy and competence lying dormant in our villages--and it is our business, as it is everyone's, to inspire them to action.

Our interest in local government and local response is derived from these considerations: first, there is no doubt that there are certain kinds of development which can be administered more efficiently at a local level--a region, a province, or a village, as the case may be--

than by a national government, and these kinds of development would positively benefit from a decentralization of responsibility. Secondly, we are concerned by the mounting volume of capital investment, desirable though it may be, in projects of purely local significance, hamlet schools and village health centers, for instance, without regard to the future burdens of maintenance and operating costs. If such projects do not, in fact, truly respond to local priorities, and if the burden of maintenance cannot, for one reason or another, be undertaken by the communities concerned, then it will fall upon the national government. It will be a heavy burden, one that will require the diversion of scarce resources from other, possibly more urgent and deserving projects. Finally, the decay and disappearance of our traditional forms of local self-government, without, until very recently, any attempt to replace them, is obviously a serious weakness in our modern society. It has separated the Government from the governed, exposed the latter to malign influences, and deprived the basic units of the society--the villages and hamlets--of their right and duty to initiate the activities most responsive to their needs.

We therefore welcome the reforms introduced into the administration of local government in late 1966 and early 1967, and the elections that were held in some 980 councils last April. Our feeling is that it may not be too soon to introduce further reforms. These might be in the direction of eliminating some and reducing others of the controls which the Government still exercises over the administration by a

village of its affairs: of relieving the villages of some of the expense they incur for the maintenance of central government installations of transferring to the villages some of the items of revenue which they now collect on behalf of the Government; and, in return, of investing the villages with some specific and exclusive functions which presently fall upon the Government.

However, it would not be appropriate for us to offer recommendations aimed specifically at developing the institutions of local self-government. This is not primarily our concern, but that of the Ministry of Interior, and important progress has already been made in recent weeks in at least one of the directions suggested in the preceding paragraph--we refer to Decree 041/67, diverting to the use of the local authorities the land tax revenues previously collected on behalf of the central government. We welcome this initiative also; hopefully it will assist local authorities to undertake the kind of developments in which their constituents are chiefly interested, but which are beyond the reach of their presently meager resources.

Our interest in the development of local self-government--and other forms of communal activity--is in their relationship to the development effort. As mentioned previously in this report, the enquiries we addressed to so many of the newly elected village councils were directed principally to ascertaining what the local priorities really are. The replies we received leave no doubt that the spontaneous, preponderant interest of our rural people--still the great majority of the nation--

lies in the kind of measures that will help to improve their standards of life. In many cases the recommendations we have made will involve, and in some cases they will be heavily dependent upon, public participation in a variety of local forms--Water-user associations in the Mekong Delta, the use of village councils and Tenant Farmer Unions for the administration of agricultural development programs, and popular representation on the management committees of land settlement projects. We do not believe there will be a need for the Government in all cases to create new and consequently artificial organizations to achieve these purposes: we do believe, on the other hand, that there is a need for all of us to demonstrate our confidence in the people's capacity to organize themselves and to act efficiently in the service of their own economic self-interest.

We ask at this stage whether something should not be done to stimulate popular choices in economic development at other and higher levels than the villages and hamlets? Sympathetic and understanding administration by the provinces is essential if village councils are to discharge their development functions with proper independence and efficiency. It does not appear to be practicable in present circumstances to contemplate the establishment of completely elected provincial authorities, even though these were accepted in principle by the previous government; but it may be practicable to contemplate at least a first step in that direction. We envisage the election (not necessarily by the ballot-box, but by any convenient and less formal procedures) of Deputy

Province Chiefs charged with the administration of local development programs. We see the incumbents as local men, bringing to the task of development, surely our most important interest once peace returns, local knowledge, understanding, and interest. These are the most important ingredients for success, and they are ones which even the best of appointed officials cannot adequately contribute.

C. TRANSPORTATION

Our group is continuing to examine transportation and the programs for improvement. Our studies include:

An assessment of the present modes of transportation; their adequacy and condition.

Preliminary suggestions as to modes of transportation which should receive priority in development and the stages which may be involved, taking account of growth projections in the various areas emerging from our studies in other fields.

There are five major areas: the Delta, the southeast region extending between Saigon and Dalat, the coastal region from Saigon to Hue, the Central Highlands, and Saigon and its suburbs. The primary function of a national transportation system is to provide the principal integrated means for efficient social and commercial communication between and within these areas. This criterion sets the pattern for major transportation corridors in the country.

The existing transportation system consist of the national and

provincial highway systems, the railroad, the inland waterways, maritime and coastal shipping lines and ports, and air transport. Air transportation appears to be reasonably adequate, especially for the more normal needs of a peace-time economy.

In reviewing the other transportation programs of the Government, the Joint Development Group's continuing study involves testing certain tentative conclusions, region by region, as bases for appraising these programs.

Commerce and communication in the Delta and between the Delta and Saigon will continue to be divided between the inland waterways and the highway system. Both modes will be strongly affected by the Delta development program we are recommending. Although the waterways are ideally suited for the transportation of rice, the major export from the Delta, they are unable to compete with highway transport in speed and convenience which are more important to the movement of people and other products. The inland waterway routes are adequate to meet projected needs and their condition is reasonably good, considering the lack of maintenance in recent years. The highway network, however, is in need of major reconstruction to standards required by present wheel loads and traffic volume. Because of the economic importance of the Delta, and the prospects for economic development in the region, dredging of its waterways and reconstruction of its highways should have high priority.

The national transportation program in the southeast region

should be largely directed toward improving the integration of the region with the national system. Since distances are short and the economic potential of the area does not indicate a high volume of bulk product flow, highway transport will be the more desirable mode, with first priority being given to highway reconstruction between Dalat and Saigon and Phan Rang. If this is done, continued maintenance of the rail connection between Dalat and Phan Rang may not be economical.

The present transportation system serving the long narrow coastal region between Saigon and Hue consists of three modes: highways, railroad and coastal shipping. The highways are now in poor condition, and the railway is virtually inoperative. Major expenditures would be required for their reconstruction. Because the land routes are presently ineffective, the major emphasis recently has been upon coastal shipping (which is somewhat hampered by deficiencies in port facilities) and air. The Group believes that the national transportation program should include an improved highway system and, perhaps, improved port facilities for coastal and maritime shipping to serve the region. Reconstruction of the railroad in the region may not prove economical.

The national transportation program for the central highlands area should consist of improvements to the existing highway system in the area and to the several major highway connections to the coast. As security conditions improve, and the development possibilities in this region can better be assessed, for example, in forestry, the priorities

for this part of the national program should be reviewed.

The national transportation program will have significant effects on metropolitan Saigon. But transportation is only one aspect of the development program for this region. The Group intends to consider the development of the Saigon/Cholon region in all its aspects.

The current program for secondary roads in all regions appears to be aimed at the decentralization of construction and maintenance activities and the provision of equipment, construction materials and technical assistance at the regional and provincial levels. The Group believes that this is a desirable trend.

D. ELECTRIC POWER

The development of a modern and economical electric power supply to meet present and future requirements deserves a high priority in the program for the future development of Vietnam. As a source of energy, electricity has many uses: it can be used to bring light to the homes of our people in the towns and the villages, to lighten the burden of work of the home and the farm, to encourage the shop-keeper and the industrialist to expand their operations, to permit much wider use of TV and radio for educational purposes, and to light the streets of our cities and towns. Some progress has been made in these directions in Vietnam, but much work remains to be done.

A program has been devised for a very substantial expansion of production and distribution facilities in the Saigon/Cholon area. It

would provide by 1972 four times the amount of electric power that is available now, in 1967. Service would be extended to over a million people (some 200,000 families) in the capital and neighboring communities who are not now enjoying the benefits of electricity. Requirements for power in the Saigon/Cholon area and its vicinity are expected to continue to grow rapidly after 1972, and these will have to be met.

Outside the Saigon/Cholon area, in the central regions and in the south, electric service is high on the list of development priorities of the people, as evidenced by responses to our inquiries in the towns and villages of these regions. Programs are needed now for the provision of a modern, efficient, electric power supply, which will be capable of being expanded, as security returns and power requirements grow, to serve not only the communities in these regions which now have electric service, but also the neighboring communities, large and small, which are not receiving service. This would mean that, at as many as three locations in the south there would be modern steam-electric generating plants, with associated transmission and distribution systems which would greatly expand the limited number of people who presently have electric service. Such systems, when established, could bring service within a few years to at least a million people who do not have it. Programs now under consideration will be reviewed by the Group in the light of these criteria.

In the central regions, immediate increments of power supply should be provided so that more of the people of these areas too can

have modern electric service. Perhaps this can be expedited by the use of diesel generators similar to those being employed in the Saigon/Cholon area.

In the central regions of Vietnam, and at relatively nearby locations on the Mekong River, there are substantial potential sources of hydroelectric power which can be developed on a multiple-purpose basis and which may prove to be relatively low cost future sources of electricity for Vietnam and its neighbors. As the power systems of Vietnam develop, and as security returns, these potential hydroelectric resources can prove very important to our economy.

The availability of modern electric power supply at reasonable cost is an important factor in industrial development. As our investigations of industrial opportunities continue, this relationship will be given consideration.

To the fullest extent consistent with sound business principles, modern electric power supply should be made available soon in secure areas, and expanded widely as security returns, so that our people can utilize this modern source of energy in their daily lives. The economic and social benefits to be derived from carrying out such programs, on a high priority basis, justify full Government support.

E. METROPOLITAN SAIGON

Current conditions in Saigon are abnormally influenced by heavy military activities and other economic and social disruptions occasioned

by the war. Amelioration of these conditions is the subject of numerous Government programs of varying effectiveness supported by USAID and other agencies. The Group does not consider these short-range activities as falling within its purview, but does take very seriously the need to plan for the orderly transition from the present situation to the longer term situation which will prevail after the cessation of hostilities. As its initial effort in this direction, the Group will undertake an analysis of the various sectors of the urban Saigon picture, to attempt to project for each the facilities and services which will be required under peacetime conditions and subject to the effect of long-range development programs.

The program of self-help that was started in District 8 and that has been extended to other districts is one deserving of the greatest support by our Government. Although such programs by themselves cannot hope to solve the difficult problems of housing, sewerage, transportation, and education, they are a means to make some progress and to make known the needs of the people, and for that reason alone they should be encouraged and strengthened through financial and technical support.