

DEVELOPMENT PROBLEMS IN VIET NAM

A Discussion and Definition of the Central Viet Nam Region

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I. RECOMMENDATIONS

A. General Recommendation - Regional Interdependence

To make Central Viet Nam (CVN) an integral part of the Vietnamese economy, regional interdependence among the CVN sub-economies and between CVN and the Delta should be promoted. Interdependence and a higher growth rate will come from a rational program of regional economic integration. The first step should be mobilization of local private capital in productive investments which will supply a large percentage of consumption and provide a surplus for regional export. Interdependence can be promoted by providing investment incentives in complementary industries among the sub-regions of CVN and the regions of the Republic of Viet Nam.^{1/}

Considering regional integration it must be remembered that CVN is neither a single geographic nor economic region. Geographically, it is divided into highlands vs. lowlands. Economically there are three main sub-divisions. The Da Nang, Qui Nhon and Nha Trang centered sub-regions are highly independent of one another. Apparently no one of the three has adequate aggregate demand to provide incentives for large investments (e.g., the market populations of the sub-regions are approximately: Da Nang - 2,800,000 people; Qui Nhon - 1,340,000 people; and Nha Trang - 1,560,000 people).^{2/} Without an adequate market nearby it is unlikely that an industry could reach competitive size for inter-regional and international trade. However, if the sub-regional CVN economies are combined through market integration,

^{1/} Attractive credit terms, import assistance and technical assistance can all be used as incentives. Tax incentives should not be overlooked either.

^{2/} Market populations do not necessarily indicate the level of demand because in a market economy without money there is no demand regardless of the population size.

the potential market population will be significantly greater (5,718,500 people) than that of any single CVN economy. If investment is encouraged in industries in which CVN has a competitive advantage (e.g., fishing, marine construction, produce, feed grains, and livestock) the combined size of the regional markets should be adequate to allow for growth to an efficient level of production.

The basic requirements for successful integration are actual competitiveness and potential complementarity. The economic regions of the Republic of Viet Nam are currently competitive because the dominant activity is rice production. Yet the regions are potentially complementary if rational investment incentives existed and transportation is improved. In CVN, Da Nang has the natural facilities to be the major processing/manufacturing area, while Qui Nhon is likely to become a major source of both raw and semi-processed material. Nha Trang can provide some raw material and is a resort area. The South will probably remain the rice producer. All will remain heavily agricultural, but strong efforts at crop diversification in CVN can enhance successful integration through developing greater complementarity, e.g., livestock, feed grains, forest products, and processed sea foods. By diversifying production in non-basic crops it may be possible to narrow and perhaps eliminate the development differential between CVN and the South.

Within CVN priority should be given to the Da Nang-Quy Nhon linkage (4,200,000 people) with the link between Nha Trang and the other CVN sub-regions to come at a later date. With improved road security it is likely that at least some of the provinces which seem to center on Nha Trang will re-orient to the South (Binh Thuan and, perhaps, Ninh Thuan to Saigon).

Rapid development will result from mobilization of capital in productive investment. The greater the percentage of total investment that comes from capital indigenous to a region, the more dramatic will be the impact in terms of counter-inflationary effects. Dramatic impact will tend to attract more investment capital. Enlargement of the market through integration will provide incentive to mobilize CVN piaster hoards into productive investment.

B. Specific Recommendations

Since the market mechanism is fundamental to the operation of an economy, the primary considerations in CVN are perfection and integration of the sub-regional markets. The CVN sub-regional markets are now highly imperfect.

1. Perfecting the Market

The greatest imperfection of the CVN market is lack of free entry stemming from poor information dissemination and restrictions.

a. Information Flow

The initial step in perfecting the CVN markets should be freeing access to the market. This can be done by first improving the flow of market information to include basic investment counsel as well as raw data. The mass media available enjoy widespread popularity, while expertise in investment is available through the GVN and USAID. Through the use of TV, radio, movies and publications, an awareness of market conditions can be developed in the CVN population. Initially, through closer contacts with the private sector by GVN technical personnel with U.S. advisory assistance, analysis and information can be disseminated, particularly regarding investments.

b. Restrictions to Trade

At the same time the information effort is being made, the GVN should make a thorough study of restrictions to trade and methods to remove them. Then a determined effort to implement the recommendations should be made. This is of central importance. If the flow of goods is blocked, the program has little chance of success.

2. Capital Mobilization Through Regularization of Money Flow and Credit

Lack of means to mobilize capital in CVN constrains the rate of development. Excess funds in CVN are largely uninvested except in huis because of lack of market and investment information and restrictions of the GVN as well as limited, rudimentary financial infrastructure. Increased information will mobilize much of the existing capital even if restrictions and shortage of institutional savings methods continue, but to assure rapid development through large scale capital mobilization regular, widely distributed injections are necessary. If people feel confident of a regular flow of funds, they are more likely to invest their savings and hoards in productive enterprises than if they are limited to purely short-term high return investments because of a lack of predictability. This regularization of injections can be completed through existing channels: GVN hiring; and attractive, formal borrowing rights for informal financial groups, i.e., huis.

a. GVN Hiring

GVN hiring should be directed at unskilled labor in public works projects. Reconstruction of destroyed towns and maintenance of secondary roads should have highest priority; port improvements should share the next priority level with urban utilities.

b. Regularization of Credit Through Legal Borrowing Rights for Informal Financial Groups

To increase capital mobilization and regularize credit, informal financial groups such as huis and tontines should be given borrowing rights

at commercial, agricultural and rural banks at attractive interest rates.^{3/} Initially their reporting requirements should be fairly limited to encourage participation.

3. Protein Production

CVN has a comparative advantage in livestock, feed grain and sea food production, as well as truck farming. The GVN should assist CVN merchants in direct, expeditious importation of capital and production goods. Commercial feed mills are a necessary adjunct. Private investment in feed mills should be given high priority.

4. Marine Construction and Fishing Industries

The fishing and boat building industries of CVN have significant potential. The import of marine equipment (motors, engines, radios, etc.) should be made as attractive as possible to spur investment not only by builders but by current boat owners. Credit to buyers should be given priority by the development banks.

Fishermen will require training in new methods and on the new equipment which a boat-building industry can provide. At the outset technical advisors may be needed, but outstanding students should be trained to take over as teachers.

5. Lowering the Cost of Capital Investment - Direct Imports to CVN

To lower the cost of capital inputs, direct imports to CVN are needed. Da Nang is the most likely choice as port of entry because of the presence of a fairly large business community, a significant urban market and deep water port facilities. The GVN should make a concerted effort to bring CVN businessmen together (perhaps in a series of seminars) and accept and process applications for import licensing from them in groups so that adequate volume is ordered to justify a ship's call at Da Nang.

6. Utilities

A study of projected energy and water needs in the Da Nang, Qui Nhon and Nha Trang sub-regions should be initiated as soon as possible.

^{3/} Special discounting rights at the National Bank could be used to encourage banks to lend to these groups. I will address the role of huis in a separate paper.

7. Tourism

For the tourism potential of CVN to be realized, an infrastructure must be developed. Da Nang should be made a stopping point for airlines. Gambling should be legalized in selected areas, e.g., Da Nang and Nha Trang. Investment in hotels and transportation should be encouraged in some areas, e.g., Hue, Da Nang, and Ban Me Thuot. A study of how to market CVN as a tourism center should be undertaken. A strong effort to improve sanitation and health among the service industries is very important.

II. BACKGROUND

Efforts in Central Viet Nam have been hampered by policies which did not consider the variables relevant to that region. This is particularly important because CVN has been a breeding ground for insurgents and national leaders (Ho Chi Minh, Ngo Dinh Diem, Vo Nguyen Giap, Pham Van Dong and Nguyen Van Thieu are examples). Policy shortcomings have been in part the result of lack of information on the differences between the Delta and CVN. This paper roughly defines the CVN economies, briefly discusses their status, how that status evolved, and projects it into the future.

This paper is not intended as a final statement but rather as a rough set of parameters within which further research can be accomplished. In describing CVN economic evolution, heavy reliance on induction is required. The description of the past and a possible future provides the background on CVN and represents an attempt, within an economic context, to describe how the current situation evolved and what is likely to result from current policy direction.

CVN is tentatively defined as the area of the Republic of Viet Nam bounded by the DMZ, the Laotian and Cambodian borders, the China Sea and the southern borders of Darlac, Khanh Hoa and either Binh Thuan or Ninh Thuan Provinces. This is based on the centers to which provinces are most closely tied by transportation, and by the behavior of prices, relative to surrounding areas.

Da Lat, in Tuyen Duc Province of II Corps, appears to be linked more closely with Saigon than with any of the CVN centers because of good transportation and historic trade between the two cities. Bao Loc, in Lam Dong Province, immediately south of Tuyen Duc also is linked to Saigon. This indicates that the most southern provinces of II Corps are part of the closely Saigon-centered southern economy.

Economic activity in CVN is centered in Da Nang, Qui Nhon and Nha Trang. These three centers have some of the functions of economic centers, but Saigon is linked directly to each province for all items imported into RVN and is generally the dominant force.

Da Nang is the historic center for Quang Tri, Thua Thien and Quang Nam, and of the three centers is the nearest to a complete economic center. Quang Tin, now part of the Da Nang-centered economy, was not a province until 1964. Because of political and military considerations, Da Nang is now the regional center for Quang Ngai Province although that province appears to have been historically linked to Qui Nhon. Qui Nhon is now the center for Binh Dinh, Kontum and Pleiku Provinces. Nha Trang is the center of Phu Yen, Khanh Hoa, Darlac, Ninh Thuan and perhaps Binh Thuan Provinces. Phu Bon Province seems to be linked to both Qui Nhon and Nha Trang through Ban Me Thuat and Pleiku.

These three loosely defined sub-regions apparently evolved along similar lines, each composed of an urban and a rural sector. For exposition's sake the three sub-regions are termed a single regional economy and are discussed as an entity with separate discussions of each sector. It should be remembered throughout that there are at least three sub-regions in CVN.

The urban sector is made up of all major population concentrations in CVN. This effectively means all province capitals, autonomous cities and a few districts, such as Hoa Vang (around Da Nang) and Mai Linh (around Quang Tri). Most of these urban areas are really only a collection of heavily-populated villages which are physically and economically but not politically linked.

The rural sector is then the remainder of the region. For practical purposes, it is completely agricultural.

III. EVOLUTION OF THE CVN ECONOMY

In the migration of the Vietnamese people from North to South, the North became the industrial center and, with CVN, one of the two centers of government. CVN became the cultural and educational center. The Delta or the South became the center of agricultural activity. During the French colonial period the center of government moved to the South. CVN became the Annam Protectorate where only a limited percentage of investments were made during the French period. The partitioning of the Viet Nams in 1954 caused most of the industrial base to be lost and unnaturally split CVN, which had included the southern provinces of what is now North Viet Nam. Viet Nam historically exported food and imported manufactured items. After partitioning, until 1964, the Republic of Viet Nam continued as a food exporter, in spite of historical CVN deficits. Loss of the industrial base in the 1954 partitioning made the Republic of Viet Nam (RVN) even more dependent on capital goods imports.

CVN has not been a net food exporter in recent history. It is not generally suited to rice production, yet in a rice culture rice is produced, regardless of disadvantages, due to cultural values and knowledge that through traditional methods people have stayed alive. In CVN the ties of culture and tradition have always been stronger than in the South. As a result, production diversification which could have offset some problems of food production existed to only a limited degree.

The region was and is an importer of food and manufactured items from other regions of Viet Nam as well as from outside RVN. Payment for imports was derived in the past from limited piaster injections stemming from: the export of a narrow range of commodities (mostly raw materials), government expenditures and food subsidies, and remittances from former residents to relatives.

Despite high prices for CVN imports due to transportation and handling costs, there was no real investment incentive. Aggregate demand was too small to justify investments of efficient size. Nor was there adequate investment information. These circumstances and the low cultural esteem of commerce in CVN's Mandarin culture retarded entrepreneurial and investment skills' development. To quote one of the U.S. Mission's longest residents in CVN, the people existed in a state of "arrogant poverty."

A. Current Situation

CVN is now in a period of transition. The traditional social and economic order has been disturbed by the present military conflict. The impact of the war has started a process of rapid change away from the stagnation of the past. New classes have begun to emerge with new values and greater mobility. The social and economic orders are no longer identical. The social order is still traditional, but the economic order is now and dynamic.

The traditional order lingers causing fundamental problems. The rice culture remains even though the area is generally more suited to other production. However, this is slowly being accepted. The rural sector is still characterized by very small, subsistence producers hampered by fragmented land holdings.

CVN economic activity rose to a relatively high level during the post 1968 period. Trade in a wide variety of items increased significantly. However, trade was and still is constrained by a rudimentary marketing system which does not fully reach the rural sector. The region's markets are imperfect due mainly to restricted market information and unsophisticated analysis of available data.

Historically CVN's per capita monetization has been low. This changed after 1965 because of war-related currency injections. But higher per capita monetization was a short-lived occurrence and expertise in monetary affairs is limited. During the last half of the 1960's prices increased rapidly as Saigon exported its inflation to CVN. However, the available money remained largely uninvested because of: (1) poor dissemination of market and investment information; (2) GVN restrictions; (3) unavailability of capital goods; (4) security; (5) few savings institutions and lack of incentives to save in the existing institutions; (6) cultural values incompatible with commerce; (7) US/GVN subsidized entities which dampened investment propensities in some fields by providing goods at prices too low for private sector firms to be competitive.

1. Rural Sector

The rural sector of CVN has historically had the largest portion of the population but a small share of the money supply. The small money supply was not sufficient to support much activity. Thus, activity in the market was constrained by the problems of barter.

CVN agriculture has historically been near subsistence for the rural sector alone. Large food surpluses were rare, limiting exports to the urban sector. Some areas did have export items, e.g., lumber and cinnamon, but production and trade were small. Rural-urban intercourse and thus money injections into the rural sector remained low. Taxation, imports and other drains kept net money injections small.

A "vicious circle" existed in the rural sector. Investment was low causing production to be low and since production was low, wages were low and thus savings were low which kept investment low, etc.^{4/} Production thus continued to remain at or near subsistence. The rural sector saved in money terms because of cultural values and a desire for liquidity based on security considerations. There was neither incentive for nor a readily available means of institutional savings, so money not used for consumption was drained into immobile hoards. This reduced the money supply and velocity. Because of limited money availability and the low production which followed, the effective demand for manufactured goods in the rural sector was too small to induce entrepreneurs to invest. Goods were obtained

^{4/} Savings here is stated in the Keynesian context. However, lack of institutional savings methods caused funds to be siphoned off into immobile hoards, reducing money available for investment. All following references to savings refer to this hoarding unless stated otherwise.

in the cities, mostly through barter, necessitating an outflow of production. This made it difficult to save, which in turn held back investment, production and savings, as well as effective demand.

During the mid and late 1960's a large population shift from the rural to the urban sector took place within CVN. Large areas went out of cultivation, means of production were destroyed and rural labor supply decreased, causing production to drop off sharply. Injections of funds increased with large military and pacification expenditures. However, positive net changes in rural sector money supply were small because it became necessary to import food as well as traditional items and, with the population shift, much of the rural money supply went to the cities. This caused a further decrease in aggregate rural economic activity. However, there was probably a per capita increase in money supply because of remittances from newly-urbanized family members and consolidation of decreasing rural sector population into semi-urban secure areas. In some of these secure areas the marketing system began slowly to progress. But increased rural effective demand per capita stemming from higher per capita monetization was offset by decreasing population. Aggregate demand remained too small to provide an incentive for investment in the rural sector.

2. Urban Sector

Urban sector production was limited. It generally centered on basic processing for export to the South of raw materials produced by the rural sector, e.g., nuoc mam in Phan Thiet and lumber in Pleiku. Additionally the urban sector received money injections from government expenditures and family remittances to CVN from the South provided funds, but net money supply changes tended to be small. Since rural food surplus was small, the non-food producing urban sector had to import food as well as manufactured items from outside CVN. CVN total demand, much less CVN urban demand, was too small to induce investments even though prices per unit were relatively high. The urban sector hoarded liquid assets due to a high liquidity preference based on security. Of these hoards, what might have been channelled into productive uses was lost due to lack of institutional savings incentives and methods. Although the velocity of urban money supply was probably greater than in the rural sector because of greater trading necessity, it was still absolutely low. Even in the urban sector then, there were strong forces working against increases in investment and, therefore, economic activity. But there was enough effective demand to provide incentive for imports. Thus, a market economy developed in the urban sector, albeit an unsophisticated one.

The urban population shift of the mid-1960's created problems for the cities. Rural sector refugees and displaced persons came into the

urban job market. U.S. hiring, service industries and the Republic of Viet Nam Armed Forces absorbed some of the influx but there was always a high rate of unemployment.^{5/} For a time these formerly self-sufficient people had to spend their hoarded savings to live. They seldom returned to food production even when and if they did become productive.

Per capita urban money supply probably decreased even though aggregate money supply increased. Although large elements of the CVN population were entering the market economy, effective demand remained too low to support high levels of economic activity. During the last quarter of 1967 observations in Hue's market places yielded estimates of barter-based transactions as high as 50-60 per cent of total transactions. This was probably not typical for all of CVN but was indicative of the heavy regional reliance on non-monetized transactions which effectively dampened economic activity. With the low level of activity the private sector and the marketing system developed slowly.

3. Urban/Rural

Economic activity in both sectors tended to be depressed because of small increases in the availability of money. Both sectors of the CVN economies were faced with importing basic items. The urban sector imported foods and manufactured items while the rural sector imported manufactured items through the urban sector. On the supply side, increments to production probably tended to be offset by population growth. Thus, even in the urban sector the marketing system did not advance, while the rural sector's marketing system was primitive. A strong private sector did not develop in either.

Relief and development programs had less than optimal effect due to inefficient distribution.^{6/} While expenditures for these programs may have

^{5/} The new urbanites and many members of the rural sector were able to survive through their families. The Vietnamese family has been the basic economic unit and yielded a relatively small percentage of its members to the economy as production units. The traditional family/economic units from the rural sector reestablished themselves in the urban areas after the population shift and conducted an effective reguree relief program of their own. They yielded as many individual/production units to the economy as could be employed. The individuals employed provided sustenance for those family members who were unemployed in both urban and rural areas.

^{6/} Estimates of the money spent/money impact ratio of USAID/CORDS ran about 4:1.

substantially increased the aggregate money supply, per capita monetization and aggregate availability of money did not increase greatly as a result. Funds from relief and development programs were not widely distributed among those with high propensities to consume, which would have had a high multiplier effect on availability of money. Significant amounts were siphoned off into hoards and into capital flight. The economic impact from relief and development programs was low.

During the period from 1964 to the present, the price level increased substantially. Inflation in the southern economy (through which all CVN imports had to pass), increasing transportation costs (stemming from greater demand for transportation due to the need for more imports), and decreased CVN production linked with constant or increasing demand, drove prices up. The increase in CVN may have been less than that of the South because of government food subsidies, but it was large nonetheless. The import of consumer items into CVN under the stabilization program siphoned off funds and dampened the impact of increased money injections. These circumstances tended to have adverse impact on the level of economic activity.

The US/GVN effort usurped some normal functions of the private sector by importing basic commodities or by subsidizing their import by semi-public bodies. This has had unfavorable impact on private sector development.

IV. PRODUCTION

If the current policy direction is not changed, assuming a lower level of hostilities, CVN faces urban and rural crises that are potentially greater than those of the mid-1960's. Given the political volatility of CVN, it is unwise to ignore these possibilities.

The newly urbanized population in many areas is being encouraged to return to subsistence farms. One of the basic assumptions behind this is that a farm of given size which produced at subsistence before with local rice will be a surplus producer with the new rice varieties. However, there will be many surplus producers in the rural sector and CVN as a whole could be at or near surplus production within three to five years. The more efficient rice-producing southern economy should be beyond self-sufficiency by that time also, while the CVN rice farmer will face a new kind of subsistence, one with a surplus of unmarketable rice. The farmer then will be without a regular source of money income just as he was before. But he is now familiar with a monetized, market economy and its benefits. If he is less able to obtain Hondas and water pumps when he is back on his land experiencing a rice culture's cornucopia, the degree to which he is WHAM-ed^{7/} may well diminish as frustration and discontent grow.

^{7/} Won Heart and Mind.

The much abused "revolution of rising expectations" will be manifested in a less than desirable manner.

The marginal farmer will then be faced with four alternatives:

1. Remain on the farm out of the monetized market economy and watch his surplus rot.
2. Remain on the farm out of the monetized market economy and reduce rice production.
3. Remain on the farm and diversify his production.
4. Return to the urban sector.

Alternatives one and two will probably result in discontent. Alternative three, if left until the problem is actual rather than predicted, will result in at least a period of discontent and frustration as the rural sector re-orientes its production and drastically alters its habits. This will throw additional strain on currently taxed technical resources within CVN. In addition, the change of habits within a culture has historically caused ferment and unrest. Such a situation is susceptible to subversion.

The fourth alternative is indicative of a problem which is potentially more volatile than those discussed above. If the farmer returns to the city where, during the war, he experienced Doi Song Truong Gia, the sweet life, he will find first that the jobs that were directly related to the U.S. presence are either greatly diminished or gone. Next he will find the labor absorbing lucrative services sector, which was based on U.S. presence, gone. The entire job market will be greatly reduced. This returned ex-rural urbanite probably will not starve because of the rice glut his relatives and friends have in the countryside, but with numerous fellows packed together into urban slums which are likely to be much worse than those of today, the ex-farmer is likely to be caught up in a ferment which makes the insurrectionist's task one of simplicity and ease. The end result can and will probably be social upheaval involving frustrated ex-rural dwellers who become even more frustrated residents of urban slums.

The manifestation of frustration in rural areas has proven to be difficult to deal with. However, urban unrest is proving to be of even greater trouble throughout the world. In the current and foreseeable context of U.S. and GVN policy, both the urban and rural manifestations are unacceptable. The rural sector is not likely to go up as quickly or as violently as the urban because the population is less dense and the marshalling of forces will be more difficult. Banditry and insurrection may become

serious again, but will be minor compared to what the densely population urban sector is capable of producing. If a historically combustible CVN city such as Da Nang, Hue, or Ban Me Thuot begins urban rioting over economic and social problems fundamental to almost everyone, it is not impossible that literally tens of thousands of people will be in the streets.^{8/} Recent experience in the western world has been that even 10,000 people can cause a modern police and military force noteworthy problems. In Viet Nam, where the rioters are likely to be using modern military weapons better than those of many national armies, the problems which arise are likely to be more difficult to surmount. The most efficient economic means of avoiding the doom portended above is to actively encourage diversification of rural production and to immediately place highest priority on stimulating private investment in productive enterprises.

^{8/} Da Nang played a central role in the Buddhist Struggle Movements of 1963 and 1966. Hue was involved heavily in violent upheaval during the struggles and Tet of 1968. Ban Me Thuot was the center of Highlander uprisings in 1958 and 1964 and is currently a center of discontent because of excesses and inequities of the land reform program.