



**U. S. FOREIGN AID  
IN  
VIETNAM**

**PROPOSED FISCAL YEAR 1972 PROGRAM**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

## GENERAL NOTE

This is an excerpt from the Agency for International Development's Program Presentation to the Congress outlining the President's foreign aid request for fiscal year (FY) 1972.

The terms "foreign assistance" or "economic assistance," as used in this volume, usually refer only to economic aid programs conducted under the Foreign Assistance Act and exclude other foreign assistance such as the Food for Peace Program under Public Law 480, the Peace Corps and the Military Assistance Program, as well as other economic programs such as those carried out by the Export-Import Bank.

Figures for fiscal years prior to 1971 are actual commitments. FY 1971 figures are estimates made at the time this volume went to press in June 1971. FY 1972 figures are illustrative proposed programs based on the FY 1972 appropriation request and anticipated receipts and recoveries.

## PROGRAM SUMMARY

(In millions of dollars)

Economic Supporting Assistance	FY 1970 <sup>a/</sup> Actual	FY 1971 Estimated	FY 1972 Proposed
Commercial Import Program	238	270	300
Economic Support Fund	-	-	150
Land Reform	-	15	15
Project Program	116	101	90
Administration Costs	5	4	4
Program Support Costs	7	6	6
<b>Total</b>	<b>366</b>	<b>396</b>	<b>565</b>

a/ Excludes DOD reimbursable costs of \$54.5 million in FY 1970.

### U.S. AID OBJECTIVES

Within the context of overall U.S. objectives in Vietnam, A.I.D.'s goals are:

- to facilitate Vietnamization by helping the Government of Vietnam to bear the increased costs of the war;
- to prevent run-away inflation and severe economic dislocations;
- to assist the Government of Vietnam in caring for refugees, civilian casualties and other war victims; and
- to help improve economic, social and political conditions in both rural and urban areas as a prerequisite to modernization and longer run economic development.

### PROGRESS

During 1970 there was steady progress in turning over an increasing share of the responsibility for A.I.D.-assisted activities to the Vietnamese. As a result, A.I.D. was able to reduce its funding of projects by 30% compared with 1969 and to reduce the number of A.I.D. personnel stationed in Vietnam by 20%.

### THE ECONOMY

The most significant achievement during the past year was the dramatic reduction in inflation rates which resulted from GVN economic policies undertaken in September-October of 1970, combined with an adequate level of U.S. economic assistance.

Early in 1970, a spiraling inflation threatened to undermine the relative

economic stability enjoyed between late 1968 and mid-1969. Reform measures put into effect in October 1969 had proven inadequate to hold inflation in check, and the situation continued to deteriorate in early 1970 when retail prices rose by almost 25 percent in the first six months.

The GVN instituted a new series of reforms in September and October 1970 which, inter alia, changed the piaster-dollar relationship for certain transactions including personal conversions, increased various import taxes, raised interest rates on savings and loans, and required heavy deposits against import transactions. These measures proved remarkably successful – the Saigon retail price level was only a few percentage points higher in March 1971 than it was in July 1970. The establishment of a parallel exchange market at a new and more favorable rate of 275 piasters to the dollar for personal conversions of dollars to local currency also significantly increased the amount of currency being exchanged through legal channels.

## **PRIVATE INVESTMENT AND FOREIGN ASSISTANCE**

As a result of both improved security and the recent price stability, there have been encouraging signs of interest in new investment by both domestic and foreign entrepreneurs. An existing plywood plant is being modernized and a second plant is in the planning stage. Fishing boats are being motorized and much larger and more modern trawlers have been ordered. Ten large U.S. firms expressed interest in direct investments – mostly on a joint venture basis – in such fields as petroleum, glass, fertilizer, and cigarettes. Japanese entrepreneurs are actively engaged in joint ventures and are seeking new opportunities for investment, and the Japanese Government is providing assistance in the fields of power (\$4.5 million) and health (\$12.0 million) and is studying other potential projects. The Asian Development Bank recently loaned \$2.5 million to South Vietnam to expand the fishing industry, and the Federal Republic of Germany is lending \$5 million for construction of a slaughterhouse and fishing boats. The trend is encouraging and hopefully there will be an expanding level of economic assistance and private investment from other countries and multilateral institutions in the future.

## **LAND REFORM**

On March 26, 1970, the GVN passed a Land-to-the-Tiller law under which tenant farmers will receive title to the rice lands which they are farming, up to a limit of 3 hectares in the southern part of the country and 1 hectare in central Vietnam. The former landowners will be reimbursed by a 20 percent cash payment plus bonds which may be redeemed in equal annual installments over an 8 year period. The purpose of this law, which should virtually eliminate tenancy on rice lands, is to give rural Vietnamese an increased commitment to the defense of their country, as well as in providing them with a fairer share of the economic benefits of their own labor. The GVN plans to implement the program over a 3 year period.

The program got off to a fast start. The GVN developed administrative machinery for implementation, and trained approximately 4,000 Vietnamese in land registration procedures. By the end of 1970, approximately 125,000 acres of rice land were distributed to nearly 40,000 new owners, and by March 26, 1971, it is expected that 500,000 acres will have been distributed to over 150,000 tenant farmers. Payments to former landowners have begun on a small

scale, but will be accelerated commencing in April 1971 as the procedures for handling these payments are worked out.

Reaction among new owners has been understandably enthusiastic, and the rapid pace of distribution encourages us to believe that the program will make a substantial contribution to the future security of Vietnam.

## **AGRICULTURE**

In rural Vietnam there has been a steady improvement in living conditions. When the final figures on the rice harvest which was planted late in the year are known, total production should rank among the highest in South Vietnam's history, and acreage planted in new rice varieties probably will have doubled over last year. During the same period, swine and poultry production were increased 30 percent and 20 percent, respectively, and agricultural credit was expanded by 46 percent. Field trials were planted in sorghum and corn, both of which appear to hold considerable promise as domestic animal feeds.

## **PACIFICATION**

There has been progress in political development resulting in increasing participation on the part of the people in the political process. Building a sense of national unity and cohesion requires, in part, the relaxation of power at the center and the transfer of responsibility to lower echelons of government. This process was started two years ago with local elections for village and hamlet representatives. It was later extended to include Province and Municipal Councils. Over the past year this process has been continued. Re-elections were held in over 1,000 villages and nearly 4,000 hamlets, with a very high-level of voter turn-out and a full slate of candidates for virtually all vacancies. At the Province level the re-elections for Province Councils saw 2,000 candidates compete for 554 seats. About 98 percent of all hamlets and villages now have elected officials.

Both village and province councils have been given authority over the use of funds granted by the central government to carry out public works projects selected by the people as having a high priority. The Ministry of Interior has reorganized some of its activities in order to give greater autonomy to provincial and district governments with respect to budgets and financial matters. The National Assembly has passed legislation reinforcing the Executive's efforts to grant greater autonomy to local government, and the GVN has drafted a simplified uniform tax system designed eventually to make local government virtually independent of national subsidies.

## **WAR RELIEF**

The Vietnamese have assumed a large share of the burden of assisting war victims during the past year, and on the whole they have performed well. Virtually the entire program of reception and care for over 200,000 ethnic Vietnamese from Cambodia was handled by the Vietnamese.

In July 1970 the National Assembly passed a comprehensive veterans benefit law providing pensions for discharged veterans and widows, children and parents of soldiers killed in action. All funds will come from the GVN budget.

The plan for joint utilization of ARVN military hospitals to treat civilian war casualties has reduced significantly both the number of third country nationals it formerly employed for this purpose and also the number of U.S. doctors and nurses. The Vietnamese capability in the field of health is being strengthened by A.I.D.'s assistance to the Saigon University Faculty of Medicine where last year about as many students were graduated from the School of Medicine as from any single medical school in the United States.

#### FY 1972 Program Assistance

	FY 1970 <u>Actual</u>	FY 1971 <u>Estimated</u>	FY 1972 <u>Proposed</u>
	(in Millions of Dollars)		
Commercial Import Program	238	270	300
Economic Support Fund	-	-	150
(PL 480 Title I)	(104)	(115)	(70)

Vietnamization of both the war and the economy can only be accomplished with an adequate level of economic assistance. As the South Vietnamese take on more of the fighting, they divert more resources from internal production to military expenditure. Beyond this the nation's foreign exchange earnings, from the purchase of piasters by U.S. military forces, are declining as our forces are withdrawn. Since these earnings now finance a large share of the imports necessary to offset the shift in domestic resources to the Vietnamese military effort, this loss must be compensated to prevent the economic situation from deteriorating. Economic assistance, by providing the external resources to help maintain relative price stability and adequate levels of personal consumption for the Vietnamese, is a vital aspect of Vietnamization.

Economic assistance in the form of imported commodities is also an important element in creating the climate necessary for economic reconstruction and growth, without which Vietnam's move toward economic self-sufficiency would be impossible. The country's economic potential is great, both in terms of its rich agricultural lands and the vitality and resourcefulness of its people. With improving security and the economy can now begin to take its first real steps toward longer term economic development, but at this point this will depend in considerable measure upon the level of external resources made available to the country.

We propose several changes in U.S. economic aid in order for it to fulfill the multiple role of supporting South Vietnam's ability to take on an increasing share of the military burden, maintain price stability and to rebuild and expand South Vietnam's economy. First, we propose to increase the Commercial Import Program (CIP) from \$270 million in FY 1971 to \$300 million in FY 1972, which is the maximum level possible given the limitations on the kinds and sources of commodities which can be financed under this program. The CIP, as in prior years, will be used to finance essential imports such as cement, industrial raw materials, and capital equipment from the United States and from certain less developed countries. The CIP will continue to play an important role in meeting Vietnam's resource requirements and in holding inflation in check.

We also propose to use PL 480 Title I resources to the maximum extent possible considering Vietnamese requirements for commodities furnished under this program. However, these requirements will decline in absolute terms from FY 1971 levels (from \$115 million in FY 1971 to \$70 million in FY 1972) since we expect Vietnam to be self-sufficient in rice for the first time this year.

CIP and PL 480 alone will not provide sufficient U.S. support for the economy and the war in view of the rapid decline estimated for FY 1972 in Department of Defense expenditures. Therefore, we propose to establish an "Economic Support Fund" designed to provide a level of foreign exchange adequate to meet Vietnam's resource requirements. We are requesting \$150 million for this Fund for FY 1972 which is roughly equivalent to the estimated decline in Department of Defense piaster purchases during that period. Thus, while U.S. direct economic assistance will be increasing, the overall cost to the U.S. Government of providing commercial import financing will not necessarily be any higher than in FY 1971. The total cost of *all* U.S. expenditures in Vietnam will, of course, be greatly reduced from prior year levels.

The Economic Support Fund will be obligated in an agreement between the U.S. and the GVN. Under the terms of the agreement, releases from the fund will be determined by the level of resources which the GVN must devote to maintain its security, and the level of foreign exchange needed to assure progress in implementing the GVN's economic reform and stabilization program. Periodic reviews will be held to review GVN economic policies, since U.S. assistance can only be effective if these policies are sound. The funds will be made available for the unrestricted purchase of goods and services, which is the same basis on which U.S. dollars are now made available when used to purchase piasters. Releases will be made in monthly or quarterly tranches.

The Vietnamese and we have encouraged other nations to assist Vietnam with its foreign exchange requirements. Some additional financing is beginning to come forward in the form of project assistance, as mentioned earlier. We are continuing to encourage other countries to do more. However, based on our experience in Korea and elsewhere, other funds are most apt to be forthcoming when security has been restored and when economic development seems a likely prospect.

U.S. economic support requirements will probably increase further in FY 1973 as the U.S. troop presence is further reduced and piaster purchases decline accordingly. Over the long run, however, as the Vietnamese economy is restored to normal and as economic development picks up, we can anticipate a gradual reduction in U.S. assistance with the rate dependent upon the rate of Vietnamese economic growth and the level of assistance forthcoming from other nations and institutions.

## FY 1972 Project Assistance

(In Millions of Dollars)

	<u>FY 1970</u> <u>Actual</u>	<u>FY 1971</u> <u>Estimated</u>	<u>FY 1972</u> <u>Proposed</u>
<u>Project Program</u>			
Agriculture	5.5	6.3	5.9
Education	6.1	4.5	3.7
Industry-Labor	1.3	1.6	1.2
Logistics	6.0	3.5	4.3
Public Administration	3.3	2.8	3.1
Public Health	19.5	17.7	15.6
Public Works	10.5	7.5	8.0
Rural Development	9.2	2.2	1.5
Public Safety	11.9	11.5	10.8
Refugees	5.8	6.3	4.6
Technical Support	33.9	33.7	30.5
Miscellaneous	<u>3.0</u>	<u>3.4</u>	<u>.8</u>
Total	116.0	101.0	90.0
<u>Land Reform</u>			
<u>Financial Support</u>	-	15.0	15.0

The Project Program will continue to decline in FY 1972 as the GVN takes over an increasing portion of these activities and as additional projects are completed. Brief discussions of each major sector, with emphasis on any change in FY 1972 over FY 1971, follow:

In *Agriculture* the emphasis continues to be on animal and crop production, credit and cooperatives. With the rice program well on the way toward meeting its ultimate goal, A.I.D.'s efforts in crop production will shift to the experimentation and development of other crops — especially those with export potential or import substitutability. Continuation of the training program will be required in the credit and co-op field with about the same amount of A.I.D. resources. The funding for the agriculture program will be reduced by about 7 percent and 70 people including the phase out of two agricultural teams from Korea and Nationalist China.

The *Land Reform* program will continue on an accelerated basis in FY 1972. We will provide technical assistance as well as \$15 million of financial aid to help cushion the import demand resulting from piaster payments to landlords. This \$15 million represents the third tranche of A.I.D. assistance to the Government of Vietnam in support of this program. These funds, along with two previous tranches of \$10 and \$15 million, will be utilized to finance imports as part of our total Commercial Import Program. The funds will be released as the GVN makes piaster compensation payments to former landowners.

In the field of *Education*, the emphasis will be shifted from elementary education and hamlet schools to higher education in order to improve the Vietnamese capacity to meet their own technical needs. The Scholarship Program, which offers a regular college program in the U.S. to qualified Vietnamese, will continue to support the 256 students who are presently enrolled in American schools and completing their degree work.

In the fields of *Industry* and *Labor* we plan to continue technical assistance at about the same level as FY 1971. We will continue to assist Vietnamese labor unions by a grant to the Asian-American Free Labor Institute, an affiliate of the AFL-CIO. In *Industry* we plan to continue to help the GVN develop policies and programs which will attract private investment and provide technical assistance in evaluating investment proposals.

In *Public Administration* we will continue to give advice and training to Vietnamese in support of (1) local government, (2) fiscal administration, (3) statistical services, (4) economic development planning, and (5) in-service training for civil servants.

Assistance in the field of *Public Health* remains our largest program. We will continue all FY 1971 activities at a somewhat reduced level of funding and staff. We will continue to help provide medical services for those Vietnamese civilians injured as a result of the fighting. We will continue to help the Vietnamese expand and improve their public health services and upgrade their medical school facilities with the aim of helping these services and facilities become virtually independent of foreign assistance over the next three to four years. We will use the majority of the funds requested to renew our contracts with the American Medical and Dental Associations, with the Children's Medical Relief International, the National Rehabilitation Centers, and for medical supplies and equipment to support the entire program.

In *Logistics*, we are scaling down our operations on nearly all fronts. FY 1972 will see the completion of our assistance to the operation of the ports, as well as a major reduction of our efforts in warehousing and internal distribution of commodities. We will continue to help finance spare parts for the national motor vehicle maintenance system in order to ensure the continued operation of government vehicles and other equipment needed for essential public works.

In the field of *Engineering and Public Works*, our funding requirements remain at about last year's level. We will continue to place emphasis on developing rural and urban water supplies, improving provincial roads, and keeping inland waterways in good condition by assisting the GVN's new Dredging Authority. We will continue to provide advisory services in telecommunications, electric power, and engineering and construction works in provincial and village self-help programs.

Under the *Rural Development program* in which A.I.D. contributes personnel, commodities and services to the Civil Operations and Rural Development Support (CORDS) program, there will be some reductions. This program, including assistance to ethnic minorities, constitutes a significant A.I.D. contribution to the Pacification program. A.I.D. will provide over 60 technicians, finance short term training for nearly 200 Vietnamese, and contribute part of the cost of 6 Navy Construction Battalion teams working on development projects. These Americans work at both the village and province level to help promote self-government and self-help through economic and social improvements.

Another major A.I.D. contribution to Pacification is the *Public Safety* program. In FY 1972 we expect to continue approximately the same level of support as in FY 1971. This program assists the National Police to (1) maintain and operate a nationwide police telecommunications system, (2) maintain a 100,000 man force, and (3) maintain and improve 42 correctional centers.

A.I.D.'s support of *Refugees* is scheduled to drop slightly in FY 1972 as the GVN continues to shoulder more of the burden. Funds will be required to continue the work of several American volunteer service agencies and for construction materials, primarily for those refugees in the process of resettlement.

The level of *Technical Support* projects which assist all USAID and CORDS projects in terms of personnel and common use commodities will be reduced somewhat in FY 1972 as the number of U.S. personnel in the Project Program declines. These funds provide administrative and management support to all our people working on the project program, including the expenses of maintaining their families in safehaven posts.

Funds required for administrative purposes and A.I.D./W support will remain at approximately the FY 1971 level of \$10 million.

#### PL 480 Program

	<u>FY 1970</u>	<u>FY 1971</u>	<u>FY 1972</u>
	(In Millions of Dollars)		
Title I (Sales )	104	115	70
Title II (Grants)	<u>39</u>	<u>26</u>	<u>15</u>
Total	143	141	85

**NOTE:** All figures are on a shipment basis.

For the first time since FY 1965 the Title I program excludes rice since, barring unforeseen circumstances, Vietnam will produce enough rice in FY 1972 to meet its needs. The Title I program will consist of cotton, wheat, flour, tobacco, corn, sweetened condensed and non-fat dry milk at about the same level as in recent years. PL 480 Title I commodities are sold on the local market and, like CIP goods, generate local currency proceeds, most of which help defray the piaster costs of the war.

Title II grant food to refugees, welfare applicants and school children is well below last year's level due to revised estimates of the extent to which these foodstuffs can be put to use effectively under present conditions in Vietnam.

#### REIMBURSEMENTS FROM THE DEPARTMENT OF DEFENSE (DOD)

A.I.D. will continue to participate in certain activities directly related to the military effort. For these A.I.D. will be reimbursed by DOD. In FY 1971 these reimbursements are estimated to be \$68.4 million. Some of these projects, such as national highways and railroad rehabilitation, are planned and administered by DOD with A.I.D. assisting in the implementation. Others, such as the police radio network at the village level, are planned and implemented by A.I.D. and CORDS with the DOD helping in the financing.

#### U.S. PERSONNEL

There will be a further reduction in the total number of American employees stationed in Vietnam. During FY 1971 the number was reduced from 1,830 to

1,646. During FY 1972 we expect to make a similar, if not greater, reduction. A.I.D.'s Washington staff working on Vietnam was reduced by over 15 percent in FY 1971 and now stands at about 175 people by comparison to 460 in FY 1968.

U.S. assistance, under the operational direction of MACV/CORDS, seeks to help Vietnam proceed on both the immediate problems of security and the long term institutional development of the police. The immediate problems must be met, but basic to all Public Safety assistance is the development of the police and correctional system to encourage the protection of the rights of all individuals. Skills in administration, supervision, training, budgeting and related support activities must be developed at the same time that the police participate in the very urgent tasks facing Vietnam.

As one aspect of Vietnamization, the Vietnamese National Police are called upon to carry a progressively greater burden. They must share with the Vietnamese armed forces the burden of countering insurgency, and provide for daily peace and order – not only in the cities, but throughout the countryside. It is planned to increase police strength from about 100,000 at present to 124,000 during FY-1972 to allow for assumption of a greater burden in the future. The U.S. plans to make commensurate assistance available.

The Vietnam National Police is a young organization, having been in existence only since 1963 as a nationally organized unit. Previously, the police were divided among numerous organizations with little representation outside of urban centers. The present task, and that for the future, is to select, train, organize and administer an increasing number of police throughout Vietnam. For the first time, Vietnamese police are to be assigned at the village level. Among the difficulties the Vietnamese police face is the full scale mobilization into the armed forces that denies them the pool of manpower from which they would normally recruit personnel.

A smaller, but nonetheless important effort is assistance to the Directorate of Corrections. The DOC is faced with the monumental task of providing a humane and adequate correction system and an equitable parole system. In addition, the United States is assisting the Combined Telecommunications for security and administrative purposes from Saigon throughout region, province, and district to village and hamlet levels.

For FY-1972, \$11,148,000 in Economic Supporting Assistance funds is proposed for Public Safety in Vietnam. In addition, the U.S. Department of Defense proposes to supply commodities, valued to \$21,679,000, funded from appropriations made to the armed services. Due to the active role of some elements of the National Police in paramilitary operations, DOD supplies and funds such commodities as small arms, ammunition, vehicles, body armor, barrier-type defense material and communications equipment for the Village Hamlet Radio System.

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