



U. S. FOREIGN AID IN VIETNAM

PROPOSED FISCAL YEAR 1971 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) 1971.

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.

1-3

VIETNAM

PROGRAM SUMMARY (In millions of dollars)				
	FY 1968 ^{a/} Actual	FY 1969 ^{a/} Actual	FY 1970 Estimated	FY 1971 Proposed
Supporting Assistance ^{b/}	398	305	365	366
Commercial Import Program	160	130 ^{c/}	220	220 ^{d/}
Project Program	224	163	132	133
Administrative Costs	6	6	6	6
Program Support	8	6	7	7

a/ Excludes DOD reimbursable costs of \$34.6 million in FY 1968 and \$34.7 million in FY 1969.

b/ Contributions to interregional programs, except for the expanded Vietnam program expenses, carried under Program Support, have been deleted from this presentation and are now included in Interregional Activities.

c/ Actual licensing was \$205 million with the difference financed by unutilized funds carried over from FY 1968.

d/ Does not include a possible supplemental request of up to \$100 million to offset the increased costs of Vietnamization. See narrative.

U.S. AID OBJECTIVES

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

- to prevent run-away inflation and severe economic dislocations;
- to ease the suffering of civilians displaced or injured by the war;
- to assist the Government of South Vietnam to expand its protection and influence over more of the population -- especially in the rural areas;
- to assist in economic development to the extent possible and feasible under the constraints of wartime conditions; and
- to help the Government of South Vietnam improve its present range of social and economic services and to prepare a basis for planning its future development.

PROGRESS AND PROBLEMS

1969 was a year of significant progress on a variety of fronts. The number of refugees declined sharply; food production rose nearly to pre-war levels; security conditions improved throughout the country, and during day light hours travel by road was possible the length of the country from the demilitarized zone to Saigon and into the Delta. Despite rising budgetary expenditures associated with Vietnamese military expansion and the mobilization of over a million men, cost of living increases have been kept within tolerable limits. The Government of Vietnam continued to encourage popular participation in the political process at the village and hamlet level. More and more village and hamlet officials were elected, provided training in local government, given control over government funds for local development projects, and given responsibility for local security including the arming of a Peoples Self-Defense Force.

The Economy

The period of relative price stability which began in September 1968 continued during the first part of 1969. By May, however, prices had begun to rise and they continued to do so through November, leveling off in the last month of the year. In October the government took the significant step of substantially raising taxes on imports thereby helping to reduce the inflationary effect of rising government expenditures. The new taxes gave a one-shot boost to prices, but they should contribute significantly in dampening the inflationary trend in 1970. Although U.S. economic aid remained an essential instrument in helping to stabilize the economy, it is noteworthy and encouraging that the government felt itself in a sufficiently strong position to impose necessary tax measures in the face of considerable domestic opposition.

A number of factors contributed to the relative price stability in the first half of the year of which a temporarily reduced rate of government expenditures as well as a substantial increase in government import licensing were perhaps the most important. This higher level of imports was financed in part by a drawdown of the government's foreign exchange reserves, which declined by about \$50 million during the year.

During the second half of the year, greater military expenditures and a long-delayed wage increase to the armed forces and civil servants were a significant influence in driving prices up. For the year as a whole prices rose 32%, approximately the same rate of increase experienced in 1968. About a third of this increase occurred in the last two months of the year as a result of the imposition by the government of significantly higher duties on imported goods. These tax increases had the effect of raising the cost of imports on the average of about 50%.

Although the tax program was designed to affect imported luxury goods primarily and to minimize increases in the cost of living of the lower income groups, it had a radiation effect on all prices, some of it psychological in nature. Within two weeks of the issuance of the tax decree, the Saigon Retail Index was up 13% from the pre-decree level, but by the end of the year prices had receded somewhat from their peak levels, and had stabilized at about 10% higher than the pre-tariff increase level.

War Relief and Support

During 1969 the refugee situation underwent several fundamental changes resulting from a decrease in military activities and improvements in security in the countryside. The number of new refugees fell from over 300,000 in 1968 to just over 100,000 in 1969. The number of refugees on the rolls decreased from 1,450,000 at the end of February to 270,000 at the end of December. Nearly 500,000 refugees returned to their villages, while about 600,000 were resettled elsewhere -- mainly on former refugee sites.

The work of the government's Ministry of Social Welfare was a significant contributing factor in refugee operations during 1969. Throughout the year staff improvement, greater experience gained since the enemy attacks of Tet in the spring of 1968, and the refinement and promulgation of policy and guidance all combined to make possible the achievements of 1969.

Progress has also been made in meeting the many health and rehabilitation problems in Vietnam. The ongoing program in plastic and reconstructive surgery, initiated by the Children's Medical Relief International under contract with A.I.D., was re-located in a new facility. With its supporting 120-bed convalescent unit, this Center is now capable of handling more than 1,000 patients a year and continues its emphasis on treatment of children under 16 years of age. The program for rehabilitation of disabled persons, including war victims, was enhanced by the opening of a new rehabilitation branch center at Qui Nhon and the re-location of the branch at Can Tho to a new facility. The overall production of the National Rehabilitation Institute has thereby been increased to approximately 800 artificial limbs and braces a month.

Assistance to accommodate the abnormal clinical workload expanded by war-injured civilians continues. Although the number of civilian war casualties rarely exceeds 11% of all patients admitted monthly to Ministry of Health hospitals, the additional workload severely taxes already overburdened staff and facilities. U.S. and Free World health assistance teams augment Vietnamese treatment capabilities in each of the nation's provinces. In general, civilian war casualty admissions reflect the ebb and flow of military action. Casualties during the last quarter of 1969 dropped to a monthly average of 4,000 compared to 6,700 a month during 1968.

In 1969 the government inaugurated ambitious plans to coordinate civilian and military medical treatment services, which will result in more efficient use of national health resources, especially manpower. Under this cooperative effort of the Ministry of Health and the Ministry of Defense, joint staffing and utilization of hospitals and district dispensaries are being carried out on a phased basis. Implementation of the first phase, which involves 13 provincial hospitals, has progressed ahead of schedule. Therefore, the implementation of the second phase, involving 12 provincial hospitals, was ordered in December 1969.

Pacification

The Accelerated Pacification Campaign, a special one-time, three-month effort begun in November 1968, was successfully concluded by the end of January 1969. The Campaign was designed to step-up the government's initiative in the rural areas following the heavy losses incurred by the enemy in the Tet offensive in Spring 1968. Virtually all the goals of the Accelerated Pacification Campaign were achieved, including bringing 1,000 hamlets into the "secure" category, organizing over one million people in a Peoples Self-Defense Force, and establishing effective local government in an additional 1,200 hamlets.

The momentum of the campaign continued throughout the year, and by December 1969 it was possible to record additional gains in terms of people in secure areas (nearly 90% of the population), elected local governments (94% of all hamlets and villages), expanded training programs for local officials (nearly 50,000 trained), and a large increase in Viet Cong defectors (47,000 compared with 18,000 in 1968).

Improvements in the countryside were readily discernible to veteran observers in terms of: (1) being able to reach most provincial capitals by road; (2) the return of nearly one-half million refugees to their villages of origin; (3) the results of the introduction of new rice seed varieties reflected in the largest rice harvest since 1964; and (4) the excitement of greater political activity at the village level manifested by increasing requests for government assistance for small projects planned and implemented by the villagers.

This greater initiative at the village level is the result of a comprehensive program involving: (1) the development and training of village councils; (2) establishing police stations in 1,650 villages manned by about 6,000 village police; and (3) the granting of central government funds directly to villages in support of their projects. During the year the Government of Vietnam's Central Pacification and Development Council played an increasingly important role in directing the course of the pacification effort. The government's financial contribution to pacification is expected to rise from about 2 billion piasters in 1969 to over 4 billion in 1970.

Another aspect of the pacification program involves the urban areas. In 1969, activities were largely confined to Saigon where a self-defense force was organized (275,000 members), 375 separate self-help projects undertaken, including the construction of over 1,000 low-cost housing units and 67 new classrooms, the school-age population enrollment increased from 69% to 73%, and 19 of Saigon's 28 dispensaries were renovated and expanded.

Public Services and Economic Development

The pacification program gives recognition to the fact that military security by itself is not sufficient. Though security is a vital precondition for government control, the people must feel that they have a voice in the making of decisions affecting their future, and that the future holds promise for economic, social and political advancement. Accordingly, the government sees economic development as a logical extension - and, in fact, an integral part - of its Pacification Program.

In Agriculture the government-initiated program of new rice varieties has received such widespread support that it has been taken over almost completely by the private sector. The goal of 500,000 acres in new rice this crop year (ending March 1970) will not only be met but may be exceeded by as much as 30%. The government continues to conduct research programs and train extension agents in order to take advantage of newer improved varieties of the "miracle" seed and adapt the new varieties to Vietnam's soils and climate.

Both the hog and poultry programs made significant progress during the year. Twenty-one commercial hatcheries of 5,000 egg capacity or larger have been established in the Saigon area and three in other regions. Animal feed production increased ten-fold over 1968 and vaccine production has more than doubled in the past year.

In the field of Industry, the private sector invested the equivalent of \$40 million in 1969 in a wide variety of industries including food processing, fishing, boat building, cement production, steel, plastics, et cetera.

In Education significant gains were noted: (1) the goal for the expansion of the elementary education system to enroll 85% of the school-age population is close to attainment and progress is being made in expanding secondary education; (2) training of large numbers of teachers is being successfully implemented; and (3) hundreds of new classrooms are being constructed annually.

In other Public Service fields electrical generating capacity installed in the metropolitan area of Saigon in 1969 provided an increase in total generating capacity of nearly 50%. Nearly all residences in Saigon now have access to potable water with low-income families being able to obtain water from public

fountains. There was approximately a 50% increase in telephone subscribers being served in Saigon; highway repair and restoration throughout the country totalled 700 kilometers including the restoration of 33 permanent bridges. The restoration of the railway proceeded on schedule enabling a 30% increase in cargo transported and a 240% increase in passenger traffic.

Tax collections were over 40% higher than in 1968. Even after deflating the increase by price rises during the year, revenue in real terms showed about a 10% increase. Customs receipts were double those of the previous year with only a part due to the increased volume of imports and higher rates; a significant portion reflects increased efficiency of collections.

A.I.D. has assisted the government this past year in laying the foundations for long-range planning. In May, 1969, the U.S./Vietnamese Joint Development Group completed a 600 page report which outlined a broad postwar strategy involving both reconstruction and development. The report also includes special sections on agriculture, employment, tax policies, export promotion, and development of the Mekong Delta. In addition, A.I.D. and the Vietnamese have jointly undertaken sectoral studies in the fields of health, communications, transportation, agriculture, manpower, as well as feasibility studies in selected industries. These studies should provide the government with a sounder base for charting its future and making the best use of all resources.

Major Problems and Assumptions

Despite the progress made during 1969, many problems remain. Security is better and the Vietnamese are shouldering a much heavier combat burden, but the enemy force structure is still intact. If he should decide to attack a particular area with major force, he could disrupt - at least on a temporary basis - progress now being made in pacification and development in that area.

There are also numerous problems aside from security. Although there has been some improvement, corruption is still serious. The Executive Branch of the Government still finds it difficult to staff its Ministries with competent people and manage its budgets in an adequate manner. The relationship between the Legislative and Executive Branches of the Government is still in the process of development. For example, the land reform bill introduced last July had not yet been passed by the Legislature as of the end of February, and the legislative branch has questioned the executive's power to institute the tax reform measures of last October.

For the years immediately ahead the most significant development affecting the A.I.D. program and the U.S. Government's involvement in Vietnam is Vietnamization of the conflict. The economic consequences of Vietnamization are two-fold: in the first instance an increase in Vietnamese troop strength will increase the

government's defense expenditures, resulting in larger budget deficits, increased demand for goods and pressure on prices. On the other hand, the government's ability to counter inflation through higher levels of imports will be constrained due to the fact the government earns less foreign exchange as U.S. forces leave. Therefore, the government will continue to rely heavily on budgetary and balance of payments assistance from the United States.

In developing the FY 1971 A.I.D. program for Vietnam, we have assumed that the Vietnamese will have to support armed services of 1 million men or more, and that the United States will continue its plan of phased withdrawal while providing necessary material support and logistical back-up. We are assuming that there will continue to be some appreciable level of new refugees and civilian casualties as a result of the war, but that there will be adequate security in the countryside to carry forward the pacification and development programs. Under these assumptions, we calculate that there will be a higher level of military expenditures by the government, a requirement for a higher level of external financing of commercial imports, and increased pressure on domestic prices in Vietnam.

Program Level

The amount requested in this presentation for Vietnam in FY 1971 (\$366 million) is virtually the same as the funds allotted to Vietnam in FY 1970 (\$365 million). The figure of \$365 million for 1970 is \$75 million less than the \$440 million requested of Congress one year ago. This reduction is attributable to: (1) delays in getting a Land Reform Bill passed (\$30 million); (2) a downward revision of 7-1/2% in our estimate of CIP licensing (\$240 million request for CIP reduced to \$220 million); (3) a shift of \$10 million to the Interregional category; and (4) a \$15 million reduction mainly in the Project Program.

The \$366 million request contained in this submission is Vietnam's share of the total proposed Supporting Assistance Program for FY 1971, which is made up of \$414.6 million in new appropriations--the full amount currently authorized--plus about \$60 million of expected deobligations and reimbursements. This request is \$108 million below the \$474 million contained in the President's Budget primarily because the budget figure assumed an estimated \$100 million separate request for Supporting Assistance authorization and appropriation to finance additional costs in Vietnam. More precise information will be required on Vietnamization costs, Department of Defense withdrawal plans, current import licensing trends, and movement of the government's foreign exchange reserves and domestic prices. The final decision, therefore, on whether we will need to go forward with that request has not been made as of March 1.

Discussion of each major goal, with emphasis on changes in FY 1971 over FY 1970 follows:

1. Economic Stabilization

	FY 1970 (\$ 000)	PROPOSED FY 1971 (\$ 000)
CIP	220,000	220,000
Project Program	3,150	2,440
A.I.D. Total	<u>223,150</u>	<u>222,440</u>
P.L. 480, Title I	<u>114,960</u>	<u>93,560</u>
TOTAL	338,110	316,000

This goal represents our concern with keeping price rises within bounds and preventing run-away inflation. With A.I.D.'s help, mainly in the form of permitting a level of imports greater than would be the case if Vietnam were limited to its own foreign exchange earnings, the country has managed to limit price rises over the past few years to a level (30% - 35% annually) which is politically acceptable and has not generated such strong demands for wage increases as to unleash an uncontrollable inflation. The local currency generated by the sale of CIP commodities in the local market helps make up part of the budget deficit created by expanded security expenditures.

In addition to its Commercial Import Program, A.I.D. provides some technical assistance in the fields of taxation, customs, statistics and manpower utilization which is helping the government improve its revenue position (total revenue increased over 90% in 1969) thereby countering, in part, the increasing level of government expenditures. As noted in the table above, at this time we are requesting the same level of CIP assistance as was required in FY 1970. This level may not be sufficient for the economic costs of Vietnamization, as explained above.

P.L. 480 Title I plays a role similar to that of the CIP in the stabilization program. Surplus U.S. 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. The drop in Title I imports in FY 1971 reflects a reduction in rice. This, in turn, is the result of a successful program begun in 1967 to make the country self-sufficient in rice through the expanded use of new, high-yielding, rice varieties. Barring unforeseen setbacks, self-sufficiency should be achieved by the end of calendar year 1971.

2. War Support and Relief

	FY 1970 (\$ 000)	PROPOSED FY 1971 (\$ 000)
A.I.D. Total	22,224	20,048
P.L. 480 Title II	<u>39,428</u>	<u>33,164</u>
TOTAL	61,652	53,212

Activities in this field consist largely of caring for those civilian victims of the war who have been made homeless or who have been injured. The former constitute the bulk of those being helped under refugee and resettlement programs. The latter are assisted under a program of greatly improved hospital care at the province level, and through the development of specialized services such as plastic surgery and the rehabilitation of the disabled.

The reduction in P.L. 480 Title II is based on the fact that about 500,000 refugees have returned to their villages of origin and many of these people are, or shortly will be, able to provide their own food. The reduction in A.I.D. funds reflects the continuation of improved conditions in this area. The FY 1971 funds are for 187 specialists who assist the government's refugee organization in all the camps and many of the resettlement areas, and for commodities, mostly roofing and tents. A.I.D. funding also includes support for about 450 U.S. and other Free World doctors, nurses and technical personnel, and over \$6 million in medical supplies and equipment.

3. Pacification

	FY 1970 (\$ 000)	PROPOSED FY 1971 (\$ 000)
A.I.D. Total	50,125	44,175

The word "Pacification" as used here refers to a specific program undertaken by the MACV Office of Civil Operations and Rural Development Support (CORDS) in conjunction with various Government ministries.

Security from the Viet Cong main forces and North Vietnamese units is provided by the Army of Vietnam (ARVN), by Free World Military Assistance Forces (FWMA), and by U.S. Forces. In militarily secured areas, Revolutionary Development (RD) Cadre Teams and National Police are placed in specific villages to help train the People's Self-Defense Forces, assist local governing bodies and assist self-help development projects.

The present emphasis is on strengthening the village, which is the basic administrative unit in rural areas. In keeping with this emphasis which involves giving villages greater responsibility, the RD teams now operate under the authority of the village chief. This enables elected village officials, in cooperation with the central government, to plan for the defense of the village and

draw up economic development projects for the village. This joint effort helps bring the people and Government closer together in the task of building a politically viable state.

Pacification and development programs are also required in urban areas where the massive influx of people from the rural areas has created serious social, political and security problems. At present the major effort in this field is taking place in Saigon, but in 1970 the government plans to expand its efforts to the other four autonomous cities.

Under the Pacification program, A.I.D. is involved primarily with Rural Development (including CORDS Technical Support) and National Police (Public Safety). A.I.D. provides about 575 Americans, over 300 Third Country Nationals and essential commodities to the Rural Development project. The decrease of nearly \$4 million in this goal in FY 1971 is accounted for chiefly by a reduction in commodities.

4. National Development and Planning

	FY 1970 (\$ 000)	PROPOSED FY 1971 (\$ 000)
A.I.D. Total	34,919	45,531

The goal is to help the Government of Vietnam operate more efficiently in improving economic and social conditions and in providing greater opportunities for popular participation in political life. Our aim is also to see that these tasks are undertaken with special emphasis at the village level and in close coordination with the Pacification Program.

National Development involves both the undertaking of active government programs of demonstrable benefit to the people and the creation of underlying conditions and situations within which local and private initiative can be released. National Development also involves preparing the factual, statistical bases now for future planning when hostilities have ceased.

Under this goal A.I.D. provides support for programs in the fields of agriculture, education, public administration, public works and public health (other than care of civilian war casualties).

The increase in the total funds for these activities is accounted for almost entirely by the Land Reform project. In FY 1970 we had originally proposed \$30 million as part of a U.S. contribution to a new program designed to abolish tenancy on rice lands. A.I.D.'s funds were to be used to meet increased import demands arising from a proposed 20% initial payment to landlords in cash (piasters). The Land Reform Bill has been passed by the

upper house of the National Assembly and is now under consideration in the lower house.

As a result of delays in legislative action, it now appears that FY 1970 funds requested for land reform probably will not be used. We anticipate, however, that a land reform bill soon will be passed, and in FY 1971 we are requesting \$15 million to support its implementation. This amount combined with funds set aside for land reform in prior years should be adequate, given the legislative delays, to offset the import demand generated by implementation of this important program during FY 1971.

In Agriculture there will be some decrease in aid funds as we are able to dispense with the services of many third country nationals. More and more Vietnamese in both a public and private capacity are assimilating the new agricultural practices and are helping to pass them along to other Vietnamese farmers. In Education there is a small reduction in total funds requested as we phase down direct A.I.D. support of elementary and agricultural education. We will concentrate our effort in secondary and higher education along with the continuation of the scholarship program. In Public Administration the \$1 million increase is mainly for a contract for extensive development planning studies and surveys in the Delta. For Public Health we have programmed an increase of approximately \$500,000 mainly in the medical education field where our goal is to help the government develop facilities capable of turning out well-trained doctors and nurses adequate for the country's growing needs.

In Public Works we have reduced our program in FY 1971 by nearly \$5 million with the completion of funding of large contracts in the fields of provincial roads and inland waterways and the reduction of commodities in an electric power project. In FY 1971 funds are needed principally for developing potable water supplies and general engineering services since these skills are in short supply in all four regions of the country.

The only other major item in this goal is A.I.D.'s contribution (\$1.1 million) to the government's National Information Services.

Division of Program Responsibility. For two of A.I.D.'s four goals in Vietnam--National Development and Economic Stabilization--A.I.D. has primary management responsibility. For the remaining two--Pacification and War Support and Relief--the major programs are under the direction of Civil Operations and Rural Development Support (CORDS) which in turn is under the Military Assistance Command, Vietnam (MACV). CORDS has responsibility for planning and directing all U.S. efforts in the Pacification, Refugee, Rural Development and Public Safety programs, all of which require an integrated military-civilian effort. All A.I.D.-funded activities, including those directed by CORDS, have been jointly reviewed by CORDS and A.I.D.

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. Some of these reimbursable projects such as national highways and railroad rehabilitation are planned and administered by DOD with A.I.D. assisting in implementation. Others, such as the police radio network at the village level, are planned and implemented by A.I.D. and CORDS.

U.S. Personnel. In keeping with the President's directive to effect cuts wherever possible in overseas personnel, A.I.D. has been able to reduce its American personnel in Vietnam by approximately 325 or 16% during FY 1970. This is the result of continuing reductions in the project programs, especially those war related activities utilizing large numbers of Americans in operational duties.

PROPOSED FY 1971 PROGRAM

(In millions of dollars)

By Program Goal

<u>Program Goals</u>	<u>FY 1969 Actual</u>	<u>FY 1970 Estimated</u>	<u>FY 1971 Proposed</u>
Economic Stabilization <u>a/</u>	133.6 <u>b/</u>	223.2	222.4 <u>c/</u>
War Support & Relief <u>d/</u>	26.7	22.2	20.1
Pacification	49.4	50.1	44.2
National Development	59.3	34.9	45.5
Technical Support	24.0	21.6	20.8
Program Totals	<u>293.0</u>	<u>352.0</u>	<u>353.0</u>
Administrative Expenses	5.6	5.5	5.8
Program Support AID/W	<u>6.1</u>	<u>7.7</u>	<u>7.5</u>
TOTAL A.I.D. ASSISTANCE	304.7	365.2	366.3

a/ Includes Commercial Import Program (CIP) but excludes P.L. 480 Title I.

b/ Excludes \$75 million obligated in FY 1968 but utilized for licensing in FY 1969.

c/ Includes CIP at \$220 million. Does not include a possible requirement of up to \$100 million for the financing of additional imports to offset the increased costs of Vietnamization.

d/ Excludes P.L. 480 Title II.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

OFFICIAL BUSINESS



POSTAGE AND FEES PAID
AGENCY FOR INTERNATIONAL DEVELOPMENT