

UNITED STATES-VIETNAMESE COOPERATION--
THE ICA PROGRAM SINCE 1955

An address by

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Mr. Chairman, Friends of Vietnam:

I am very grateful to General O'Daniel and the Secretariat of the American Friends of Vietnam for the opportunity to participate in this program this afternoon. In discussing the subject which the Chairman has assigned to me, I shall have the pleasure of recalling the four fruitful, memorable years I spent in Vietnam, and of reviewing for you the work of the United States Operations Mission to Vietnam of which I was the Director from October 22, 1954, until November 30, 1958.

These were dramatic and decisive years in the life of the Vietnamese nation and a period of great interest and personal satisfaction to me. I enjoyed especially the privilege of working in close cooperation with officials of the Vietnamese Government and of knowing personally many of the leaders of Free Vietnam, beginning with President Ngo Dinh Diem himself and including many others of the able, courageous, and devoted men who have saved Vietnam for the Free World.

The United States Operations Mission (USOM, as it is commonly called in Vietnam) is only one element in the team which, under the leadership of the American Ambassador, represents the United States in Vietnam. USOM's job is two-fold. First, it administers the financial assistance, largely in the form of imported goods and equipment, which has enabled the Vietnamese economy to survive the extraordinary strains and stresses of the past four years and to support the armed forces needed for national defense. Second, USOM provides technical assistance to the civilian sector of the Vietnamese Government and economy in the form of services of American and other foreign specialists, and training programs at home and abroad for Vietnamese students and officials. Other elements of the American official family provide material and technical help to Vietnam as do many private American philanthropic and religious organizations of which one must count among the most important the American Friends of Vietnam.

During the four years I was Director of USOM in Vietnam, American economic aid totaled \$983 million. This is a very large amount of money. Yet, it is less than the amount spent by the United States to provide military equipment and supplies to the forces engaged in the war against the Communists in Indo-China in the three years from 1951 to 1954 and only a little larger than the amount the United States agreed to provide toward the cost of fighting that war during its last year. I make this comparison to remind you that the cost of maintaining peace through giving aid to a strong and reliable ally is

certain to be less than the cost of a war. This comparison may also give you some measure of the level of economic activity associated with the conduct of the war in Indo-China and thus an understanding of the financial and budgetary problems which confronted the Government of Vietnam and those of the other Indo-Chinese States when they began their separate economic existences following the armistice of 1954.

Of the various purposes for which this large amount of money was used, Technical Cooperation took the smallest proportion (\$12 million, 1.2 percent), yet was in some respects the most pervasive and far-reaching in its benefits. Technical Cooperation funds have provided specialized assistance to supplement and assist trained Vietnamese personnel in many fields of civilian activity. They have financed the training of Vietnamese personnel abroad and have provided specialized equipment for demonstration and study. During the period at which we are looking today, USOM's largest Technical Cooperation effort was actually conducted by the Michigan State University group, whose work in the field of public administration and police administration is famous in Vietnam and is certainly known to most of you here. But the Technical Cooperation program covered a wide variety of other activities, touching in one way or another nearly every phase of civilian governmental activity and supporting the reconstruction and development projects financed by American aid.

At the other extreme, the largest proportion of American aid funds (more than 80 percent of the total, in fact) was used to provide what, in the lexicon of ICA, is called non-project assistance. I am sorry to inflict this particular bit of technical jargon on you today, but I know no way to avoid it if you are to understand clearly how American aid has been used in Vietnam and why it has taken the form it took. Non-project aid means money or credits to purchase commodities and equipment needed to enable the Vietnamese economy to operate at the level necessary to achieve our common objectives. Non-project aid takes the form of raw materials and fuel for industry, spare parts and new machines, as well as essential consumption goods. In Vietnam, non-project aid finances about 80 percent of the nation's imports.

The third form of economic aid provided to Vietnam, accounting for \$96 million in four years, we call project assistance. This is aid in the form of goods and services provided directly to government agencies or autonomous entities, such as the State Railways, for the purpose of building or rebuilding some specific enterprise of economic value. Project aid has included such varied undertakings as, for example, the provision of well-drilling rigs and trained personnel to teach and supervise their use, steel rails and bridges for reconstruction of the war-damaged national railway, trucks and tractors for land development, and equipment and medicines for government hospitals throughout the country.

One other technical feature of American aid, the counterpart fund, requires explanation at this point. On the one hand, many of the urgent problems with which the Government of Vietnam was confronted in 1955, and indeed is still confronted today, required the expenditure not of foreign exchange but of Vietnamese currency. On the other hand, the non-project aid to which I have referred could be, and in fact is, administered in such a way as to help meet this need for local currency. With very minor exceptions, all non-project aid goods are sold to the private sector of the Vietnamese economy for cash.

Receipts from these sales are, by agreement, deposited in a special account in the National Bank of Vietnam, from which they are transferred as required to the military budget or to other accounts of the Vietnamese Government. By this means, the local currency proceeds of non-project aid are used to support the armed forces and to pay some of the local currency costs of the many technical assistance and capital projects. In 1955, Vietnam was able to make only a small local currency contribution to projects. Each year, that contribution has increased--both in amount and as a percentage of the total--so that by 1958 it covered more than half of the piaster cost of aid-supported projects.

So much by way of technical preparation. Now I think we can usefully take a closer and more detailed look at the economic aid program. For this purpose, I should like to proceed chronologically. Without depriving ourselves of the precious advantage of hindsight, I hope I can, year by year, reconstruct in some measure the problems, conditions, and atmosphere of past years in Vietnam so you will better understand the decisions and actions that were taken.

First Year--1954-1955

Let us return now to the first year, October 1954 to October 1955. This was a period dominated by political and military struggle in Vietnam. It began in doubt and discouragement and ended with the National Referendum, a dramatic demonstration of political strength and popular confidence. In October 1954, the authority of the government was everywhere contested. Large areas of the countryside were still in Viet Minh hands, since, under the terms of the Geneva Accords, the Communists were not required to yield the last territories until the following May. Other large areas were in the hands of dissident sects, and the City of Saigon was controlled by the forces of the Binh Xuyen. On his side, Ngo Dinh Diem had little more than his own personal moral strength and determination--and, as we were to learn, a widespread, but then inarticulate, popular support.

In the circumstances, political struggle to establish the authority of the central government took precedence over all other objectives. The struggle, as you will recall, turned to outright warfare in the spring of 1955. After the brief, bloody, and decisive battle of Saigon, events moved quickly and the way was open to establish peace and freedom throughout the country.

Less dramatic and less well-known than the political and military developments of 1955 are the economic and financial problems which the new government also met and solved. It was not easy to make long-range plans when the future was so much in doubt, but much basic work was undertaken and accomplished. Through the means of joint working parties, USOM was able to participate in this effort. In fact, the basic shape of the American economic aid program, even as it is today, was fixed during this period by the problems with which the Vietnamese Government was then confronted.

To keep this discussion within reasonable limits, I can do no more than touch upon the most important problems with which the aid program dealt. In 1955, two broad areas were foremost in our concern and may be selected as representative of the work of that year. These were basic problems of the Government of Vietnam to which American aid contributed not only substantial amounts of money

but also a measure of technical assistance and advice.

The first of these areas I shall call, for want of precise designation, establishing financial autonomy. Remember the situation with which the new government was confronted. Before 1954, Vietnam had attained a degree of political autonomy as a member of the Associated States of Indo-China, but it did not attain financial autonomy until January 1, 1955. At that time, a newly established national bank assumed responsibility for issue and control of the national currency. Administration of customs and trade controls, and control of foreign exchange were assumed by Vietnamese administrators. The Vietnamese national army, which until 1955 was paid directly by the French Treasury, became the responsibility of the Vietnamese national budget; and, at the same time, the United States, through the mechanism of non-project aid which I have described above, undertook to provide the means with which to meet this obligation.

This is a point I should like to emphasize. When the Vietnamese authorities examined the budget upon taking control of their own financial affairs in 1955, they found normal revenues sufficient to cover normal civilian expenses. They found a separate military budget larger than their civilian budget but financed entirely by funds administered by French military finance authorities. As a matter of fact, these funds came largely, in 1954, from a grant of dollars made by the United States to France. At any rate, the first and fundamental financial problem of the new government was found in the fact that the budgetary structure of the country made no provision for supporting military forces, yet support of the armed forces was essential to the survival of the country.

Clearly, in a situation of this sort, the first need of American aid was to help solve this problem.

This historic fact accounts for the emphasis upon military budget support which has characterized the American aid program in Vietnam. I might add that the cost of the military forces, and their size as well, was reduced drastically during the four years that I was in Vietnam, in face of the fact that, during much of that period, the military force was engaged in actual military operations against bandits and Communist guerrillas. Moreover, as my friend and colleague, General Myers, will tell you, the force has grown mightily in strength and effectiveness during the same period.

My first year in Vietnam was marked by another extraordinary undertaking of massive proportions and dramatic impact--the refugee movement--Operation Exodus. The whole world knows the story, so I will not retell it here. I should simply like to recall that it was a wonderful and unprecedented adventure, with work and glory enough for all the many people and organizations who took part in it. USOM's role was not the least and not the largest, but we did have responsibility for administering the United States Government funds which bore the bulk of the financial burden, \$55 million in equipment, supplies and counter-part funds. USOM's most significant contribution came the following year, when, by using an additional \$35 million of United States Government funds to finance, project by project, the establishment of the refugee population in permanent villages, we were able to help the Government of Vietnam to complete this vast population movement in only two years.

Second Year-- 1955-1956

The year which began in October 1955 saw substantial progress in every aspect of the American economic aid program in Vietnam. Of the many developments during the year, I shall mention only four. Of these, the most dramatic, and unquestionably the most successful, was the refugee resettlement program, which, as I have already mentioned, completed the job begun the year before.

This year also brought solutions to the problems of foreign trade administration and import licensing. Before 1955, when Vietnam was a part of the Associated States, her foreign trade was largely within the French Union. The only foreign currency available in quantity in Vietnam was French francs; and, as a consequence, most of the imports into Vietnam came from France. With the advent of full financial autonomy in 1955 and the allocation of American economic aid directly to Vietnam, the country was enabled to trade wherever it liked in the Free World. It was, in fact, obliged, in using American aid, to buy in the most advantageous Free World market.

Before 1955, most of the foreign trade was in the hands of foreign firms and foreign banks, some of which withdrew from business, and many of which were hesitant for a time to continue their operations. At the same time, many Vietnamese wished to enter commerce, and the Vietnamese Government naturally wanted to encourage formation of Vietnamese commercial houses. All these factors contributed to a period of uncertainty and confusion in the field of commerce, which lasted throughout most of 1955. One aspect of the problem was the springing up of some 20,000 so-called importers. In an effort to meet the demands of these new Vietnamese businessmen, licenses were allocated in such large numbers and small values as to raise prices and slow down the arrivals of merchandise.

This proved to be a temporary difficulty, however, for the Ministry of Economy, under the leadership of the distinguished Vietnamese statesman who is now Vice President of the Republic, established new administrative rules which brought order and equity to this important economic area.

The year 1956 also saw a rapid expansion in the project aid provided by the United States. Most important among the developments of this period were actions contributing to agricultural reconstruction. American aid helped to reorganize the administration of agricultural credit and contributed a capital fund of \$10 million in plasters for crop loans and other forms of rural credit. USOM provided technical assistance and administrative funds to the agrarian reform administration for the present wide-spread program of land reform. Assistance was given in creating an agricultural extension service, a college of agriculture, and in launching important projects in crop improvement and live-stock breeding. Importation of buffalo and oxen from Thailand and Cambodia was initiated to replenish the supply of work animals depleted during the years of war and civil disorder. In all, to refugees and other needy farmers 24,000 work animals were sold on reasonable credit terms.

The year 1956 also marked the beginning of major programs in the field of public works; most notably, the reconstruction of highways and bridges. Aid was also given for the improvement of waterways, civil airways, and

telecommunications. Indeed the story of USOM's contribution to the reconstruction and improvement of public works in Vietnam deserves more time than I can possibly give it today. I should like to say, however, that the highway program initiated in 1956 has been growing since that time and is only now reaching its peak. Through this effort, American aid has provided the Vietnamese Ministry of Public Works with a large, modern, coordinated supply of highway and bridge-building equipment, and shops and warehouses for its maintenance. It has developed quarries, precasting plants for concrete pipe and bridge members, and other accessory facilities for modern highway construction. The services of American engineers and an American construction contractor have been provided to rebuild three major roads and to train Vietnamese, so that when the first tasks are completed the Vietnamese Government can use the equipment we have provided to continue the large and long-range highway building and maintenance task which the country confronts.

Third Year--1956-1957

The year which began in October 1956 was marked by particular progress in the field of public administration and financial reform. Indeed, a preparatory step for the measures initiated in 1957 was taken in July 1956, when the Government of Vietnam opened a limited access free market for foreign exchange transactions. To understand the importance of this measure, it is necessary to return once again to the early months of 1955. Within a few months after assuming responsibility for the administration of exchange controls, The Vietnamese authorities discovered that commitments previously made to business organizations and individuals authorizing them to convert piasters into foreign currencies for the transfer of profits and savings were rapidly depleting Vietnam's free foreign exchange. American aid was being offered in sufficient amounts to cover the essential import requirements of the country, but American aid could not be used to finance profit transfers and other invisible transactions.

Consequently, in May 1955, the Vietnamese Government virtually suspended all such transfers. This soon created serious dislocations. Accumulations of profits and individual savings which the owners were in the habit of transferring abroad tended to depress the value of the piaster and inevitably encouraged black market transactions. At the same time, complete inability to transfer legitimate business profits was recognized as inequitable and as discouraging to investment and business enterprise. Therefore, the Vietnamese monetary authorities created the free market in which authorized firms and individuals are allowed to sell piasters at a rate which has proved throughout the past several years to be approximately double the official exchange rate. This, however, has met most of the needs of the business community and has tended in the long run to strengthen the value of Vietnamese money in international exchange.

There remained, however, through 1955 and 1956 other sources of inflationary pressure, most notably the fact that throughout the first two years the Vietnamese Government was unable to maintain a balanced budget. Both the central government and the regional governments were given the right of overdraft on the national Treasury, and this they exercised in providing governmental services deemed essential.

Recognizing the danger of such a practice, the Vietnamese Government in 1957 developed, with the help of Michigan State University and USOM technicians, a greatly improved system of budget administration. In April 1957, new and heavier taxes were imposed on imports. The budgetary and tax reforms together put an end to deficit financing. In fact, the reforms were applied with such vigor that by the end of the year the Government had accumulated a substantial surplus. These corrective financial measures were not without hardship in the business community, but they restored stability and armed the Government with new resources with which to increase its development program.

About project aid this year much might be said. For example, in 1957, resettlement of the high plateau, a major element in President Ngo Dinh Diem's present economic program, was initiated by a land development project patterned on the methods and techniques of the refugee program. Equipment and supplies worth \$3 million and \$7 million in local currency were allocated to the land development project by American aid.

Also notable in the period was the number of basic surveys provided by American aid--surveys laying the foundation for long-range development. These included studies of the sugar industry, the electric power requirements of the country, the Nong Son coal deposits, the paper industry, and a comprehensive general industrial survey.

Fourth Year--1957-1958

Thus, the foundation was laid for increased American aid to industrial development in Vietnam, and this indeed became our foremost objective during the year beginning in October 1957. The year 1958 saw the initiation of the most important aid-financed project in the industrial field--the Industrial Development center. This is an autonomous governmental organization established to provide technical advice and assistance and credit for private industrial development. The USOM project provides administrative support and the services of a firm of American industrial engineers. It has also endowed the center with a capital fund of \$6 million and 120 million piasters.

But our most extensive support to industry has been provided through non-project aid. As I pointed out earlier, a substantial proportion of the imports financed by American aid has taken the form of spare parts and machinery for economic development. This has included equipment for dozens of small industries in Vietnam, and also for a few of substantial size. In fact, the use of American aid for this purpose has been limited only by the willingness of private investors to order and pay in piasters for new capital equipment and the willingness of the Vietnamese Government to grant the necessary licenses. By way of illustration of the use to which the non-project aid resources can be put, I cite the example of the jute weaving company in Vietnam. This private establishment, investing its own piaster capital, imported over the course of two or three years \$1½ million worth of new machinery with which it modernized and more than doubled the capacity of its plant. Many other small businesses have done the same thing without fanfare and without special governmental assistance. In addition, a newly-organized, privately-owned cotton spinning and weaving company is obtaining its necessary capital equipment in the same way.

Unfortunately, however, there are few Vietnamese-owned enterprises with the capital and experience to launch large undertakings. There are in Vietnam some foreign-owned enterprises with the means and willingness to undertake new investments, but it has not been easy for the Vietnamese Government to approve their proposals because of the already very heavy preponderance of foreign ownership of business in Vietnam. To find a way around this difficulty, the Government of Vietnam adopted the principle of the mixed company, in which the private owner holds as much as a 49 percent interest and may be given a managerial contract which will allow him to operate the business, for a temporary period at least, as an agent of the Government as well as in his own behalf. This has proved a satisfactory solution to industries in the fields of glass bottle manufacturing, sugar production, and lumbering, among others.

In concluding this chronological review, I should like to say a word about what is really Free Vietnam's greatest industry--the production of natural rubber. Rubber is Vietnam's largest export. Rubber production has been maintained and, in fact in the past few years, has reached the highest levels in history. The rubber plantations are for the most part large and well managed, and they produce rubber of high quality. They are largely owned by well-established French companies. In common with other industries in the country, they have obtained chemicals, equipment, and other imported essentials through American commercial aid but otherwise have not benefited by American assistance.

In some newly independent, former colonial territories, enterprises of this sort have been the subject of hostility and discrimination on the part of the new nationalist government, and have even suffered expropriation. In Vietnam, this has not been the case. On the contrary, President Ngo Dinh Diem has recognized the economic importance of these enterprises to his country and, despite the risk of demagogic political attack, has given the foreign rubber plants positive encouragement and has even offered Government loans to encourage the maintenance and expansion of rubber production.

In breaking this review of the American aid program into chronological periods, I hope I have not prevented you from seeing the continuity which has characterized the program. Most of the undertakings I have described have extended over more than one year. They have been related to one another and to other projects which I have not even mentioned. For example, throughout the entire period, extensive and constructive programs were conducted in the fields of education and public health. Everything we have done has been worked out in concert with the Vietnamese authorities and has been designed to deal with problems to which the Vietnamese Government attached priority.

In one respect, Vietnam differs from many other countries which have received large-scale American aid in the past few years. Virtually all the financial assistance Vietnam has received from the United States has been provided by the Mutual Security Program and has been administered by the International Cooperation Administration. Vietnam has had no Export-Import Bank loans and no credit from the International Bank for Reconstruction and Development. In the four years about which I have been talking, Vietnam purchased only \$6 million in surplus agricultural commodities under Public Law 480, and it received its first commitment from the Development Loan Fund on February 9, 1959.

On the other hand, in the four years I have described so hastily, Vietnam received substantial technical and economic aid from France and has

the services of several hundred secondary and university level teachers from the French Cultural Mission. The United Nations and its several specialized agencies have supplied a variety of technical assistance; and aid, both economic and technical, has come from the donor countries of the Colombo Plan. Other nations, such as Italy, Germany, and the Republic of China, have sent technical missions and have offered scholarships or other forms of technical assistance. Although the United States has provided the bulk of the financial assistance during this period, technical aid from these other sources has been invaluable and has often been combined with American aid to make them both more effective.

How should one appraise the work of these past four years in Vietnam? If it is simply the effectiveness of American aid on which a judgment is to be made and the wisdom with which it is administered, I am hardly the person to undertake the task. I do feel qualified, however, to say a closing word about the accomplishments of Vietnam in those areas in which American Assistance played an important role. In the first place, Vietnam is a free nation today, stronger militarily, politically, and administratively than most people thought possible four years ago. In the second place, Vietnam has made the transition from colonial status and an inflated wartime economy to political independence and a normal level of economic activity without a fall in the standard of living and without loss of political or economic stability. In the third place, agricultural production has been restored and refugees equal to seven percent of the population have been received and resettled. Vietnam has been slow to return to the world rice export market because of increased domestic consumption, although actual production reached and surpassed prewar levels. In the fourth place, much of the physical destruction caused by the civil war and the years of occupation has been repaired. Fifth, a program of industrial development has been launched. Finally, the nation has been enabled to maintain the military strength required by the constant threat of Communist aggression.

In fact, so much has been accomplished in the past four years that one can easily forget that Vietnam remains a divided country, not enjoying the blessings of peace, but protected only by an armistice. The threat of subversion and violence within and of infiltration from without and the danger of actual invasion are ever present. This is why the Government of Vietnam is sometimes obliged to put considerations of security ahead of economic objectives and why defense continues to absorb such a large proportion of the total national budget and of American aid.

Many problems remain and some of mutual interest are yet to be resolved, but so long as Vietnam has a leader with the courage, moral strength, and determination of President Ngo Dinh Diem, the nation can face the future with hope and confidence. So long as these threats to national security remain, however, Vietnam will need the help of the United States and of her other friends in the Free World. If we can judge the future by the past, Vietnam will deserve our assistance.

End.