

STATEMENT OF
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BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE

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VIETNAM AID PROGRAM - FY 1970

Mr. Chairman, Members of the Committee, I appreciate the privilege of appearing before this Committee today to present A. I. D. 's FY 1970 program for Vietnam.

Assessment of Past Year

A year ago, when this Committee had occasion to consider A. I. D. 's program in Vietnam, we were deeply concerned about the effects of the Communist February offensive. We felt that A. I. D. might have to mount a major effort of reconstruction and rehabilitation. I am happy to be able to report to you that the past year has gone better than we had reason to expect.

Most important, the potentially demoralizing effects of the Communist offensives never really set in -- a tribute to the people of South Vietnam. Vietnamese rallied to the support of their government as it launched a

vigorous attack on the many problems generated by the offensive. Far from the demoralization and collapse which the Communists obviously sought to inspire, the government emerged a stronger institution with a new and broader base of support.

A. I. D. did contribute to reconstruction and rehabilitation efforts, by helping to care for the new influx of refugees, by providing housing material for those whose homes were destroyed, and by making credit available to rebuild industries. But the need for our assistance proved less than we had anticipated, because of the vigor with which Vietnamese tackled their own problems.

The new rice program based on higher yielding varieties was launched, and exceeded its goal of 100,000 acres. Industry repaired its heavy damage, and by the first quarter of 1969 the hard-hit textile industry was virtually up to production levels of two years ago.

Broad Objectives of Program

For FY 1970 we plan to go forward with a program which has two current objectives in the broadest sense.

First, we shall continue to support the prosecution of the war; and, second, we seek to help the non-communist political forces in South Vietnam prepare for the post-hostilities political contest with the Communists. These encompass the goals outlined in the Vietnam narrative in the Congressional Presentation Book.

With respect to the first objective, ours is a supporting, rather than a primary role, but an important one nevertheless. Nearly 30% of the funds we seek for the year ahead are for programs -- refugees, medical care, police and Revolutionary Development -- directly connected with the military conflict. In addition, more than 50% of the proposed funding in FY 1970 will be spent on combatting the inflationary pressures brought about as a result of the military conflict and heavy military expenditures.

Regarding the second broad objective of helping the Government and the people prepare for a political contest with the Communists, it is essential for South Vietnam to press forward with economic and social programs now so that, once military hostilities have come to an end, the basis for continued progress will have been laid.

The Vietnamese Government, with our support, is placing particular emphasis on development in rural areas. This increasing effort in the rural areas serves both of the broad objectives we have outlined. In the urban areas A. I. D. -supported activities are not quite as pressing since full employment generally prevails, but it is also necessary to improve conditions in the poorer quarters to help prevent the Communists from gaining footholds there.

In addition to our two broad current objectives, we also have a longer-range objective: to assist South Vietnam achieve its economic independence. An economic planning report recently completed by a Joint Development Group consisting of an American firm, headed by

David Lilienthal, and a group of Vietnamese counterparts has projected that, within 10 years after the termination of hostilities, South Vietnam, with adequate help from its friends, should have so prospered that it will no longer require foreign assistance on concessionary terms. This is an ambitious goal since it will have taken Korea about 20 years to reach the same stage after its war in the early 1950's. But, given South Vietnam's rich agricultural potential and the vitality of its people, we believe that this 10-year target for economic independence is reasonable.

Basic Assumption for FY 1970 Program

We would like, as would all Americans, to say our plans for the year ahead are keyed to the end of the war. However, hostilities continue, and no one can say when they will end. Therefore, we have felt compelled to present to you a program based on an assumption of a continuation of hostilities.

We have, of course, done considerable thinking about the transition to peace, and are engaged in a continuing process of contingency planning should hostilities come to an end in FY 1970. We have included two major contingency projects in our program submission, both projects to be activated if hostilities end, the present high rate of employment drops and inflationary pressures ease. However, the range of possible military and political developments is so wide that we have not specified in our submission to the Congress the variety of other changes in our economic assistance program which could be required under varying

conditions, or the timing of those changes.

The A. I. D. Program

The A. I. D. program can be broken down into three broad general categories according to principal purposes served: (1) war-related aspects, (2) stabilization, and (3) development.

1. War-Related. In this area we are primarily concerned with refugees, civilian casualties, pacification and police. For these four programs we are requesting \$79.9 million for FY 1970, which is \$1.4 million more than the amount being used for them in FY 1969.

The Vietnam war, like all wars, has engendered much human suffering. A. I. D., backed by public and Congressional demands, and working with numerous private organizations, is doing the maximum feasible to alleviate this suffering.

During the 1968 Communist offensives against the cities, over 1,000,000 people were driven from their homes. Virtually all of them have been re-established by returning to their own homes if undamaged, by rebuilding homes with Government and A. I. D. assistance, or by being re-housed in temporary quarters built by the Government.

There remains, however, another large group of people who have fled from insecure rural areas, and are still living in temporary refugee settlements mainly outside urban areas. This group now numbers about 1,325,000 and consists predominantly of women and children. About half of them live in temporary refugee camps, and the other half out

of camps. A.I.D. continues to assist the Vietnamese Government with both temporary relief and resettlement measures for this group.

Civilian casualties are another inevitable accompaniment of war. To help care for them, A.I.D. has developed a unique program. To meet the need and supplement the inadequate resources of the Vietnamese Ministry of Health, A.I.D. found it necessary to abandon its usual advisory role, and entered into a program in which A.I.D. has built 8 new hospitals, renovated 11 existing ones, and constructed 30 modern surgical suites; helped staff them with American and other Free World medical personnel; and furnished equipment and supplies for them.

The Vietnamese Government is making significant strides on its side. As of March 1, 1969, a program of joint operation of medical facilities by the Ministries of Health and Defense was inaugurated and will, over time, make the services of some 4,000 military medical personnel available to help in civilian medical care. A.I.D. assistance in medical education is contributing to rising numbers of Vietnamese medical personnel. The medical logistics system, which has been supported for two years by large numbers of third-country nationals under an A.I.D. contract, is reverting to Vietnamese staffing.

The third segment of A.I.D.'s war-related activities concerns "Pacification," which might be more accurately described as "Rural Security and Development."

A special three-months' Accelerated Pacification Campaign conducted from November, 1968, through January, 1969, added 10% to the "relatively secure" population category -- which today stands at about 83% of the total. Equally important, it demonstrated a Vietnamese Government capability for efficient conduct of a coordinated campaign to improve rural security.

For 1969 President Thieu has attached a high priority to pacification and village development. In addition to village self-defense, he has stressed the importance of "village democracy" through village and hamlet elections and the extension of the authority of village chiefs over all government elements operating at the village level. Village self-help has been reoriented by dropping quotas for projects and allowing them to be developed on village initiative and by authorizing specific amounts of government financial assistance which each village can use for such projects.

The fourth war-related element is the police program. While the police, of course, have a normal civil law enforcement function, their extraordinary activities related to the war have received special attention: (a) a nationwide identification card program, (b) participation in the campaign for eliminating the Viet Cong political infrastructure, and (c) a resources control program to restrict seepage of supplies to the enemy.

2. Stabilization. U.S. assistance to control the inflationary impact of public expenditures of the Vietnamese Government remains

an urgent necessity. To date this effort has been relatively successful. While prices have increased 300% over the past 4 years, this compares with a rise of over 1300% in Korea during the three-year war there.

Indeed prices in Saigon were stable between August, 1968, and April, 1969. A big spurt in imports starting last August -- both those financed by Vietnam's own foreign exchange resources and those funded under A. I. D.'s Commercial Import Program (CIP) -- helped to keep prices steady for several months.

However, the pressures on prices are expanding, and prices began to edge up again in May. Increases in the money supply substantially outstripped price rises in 1968, thus leaving a large "overhang" of cash in the hands of the public which represents a potential for pressure on prices. Moreover, Vietnamese mobilization and troop build-up -- necessary if American forces are to be reduced -- are leading to greatly increased Vietnamese budgetary expenditures and deficits for military purposes.

The Vietnamese Government is expanding tax revenues -- in part with A. I. D. -funded assistance in the internal revenue and customs fields. The Minister of Finance has projected a 40% rise in total receipts in 1969 over 1968, but this will not be sufficient to offset expenditure increases. Thus the budget deficit and demand for imports will be greater.

For that reason we are asking for \$240 million for the Commercial Import Program for FY 1970. In FY 1969, we are using \$220 million for this purpose --

\$130 million in new money and \$90 million of FY 1968 funds, which because of the Tet, 1968, offensive, remained unlicensed at the beginning of the year.

PL-480, Title I, assistance to Vietnam serves the same stabilization purposes as the Commercial Import Program. In the Vietnam narrative in the Congressional Presentation Book we projected \$135 million for PL-480, Title I, in FY 1970 (as against \$110 million for FY 1969), but latest information from Saigon indicates that this may drop to \$120 million because increased rice production is reducing the requirement for American rice.

3. Development.

War Influence on Development. A.I.D.'s activities in the development area have been heavily influenced by the war.

Major emphasis has been placed over the past two years on rural areas because of the close relationship of agricultural and other rural development to village and hamlet pacification.

Industry, on the other hand, is located in urban areas where full employment generally already exists. For that reason, and in view of the war-induced inflationary pressures in the economy, we have consciously deemphasized industrial assistance at this juncture. Our assistance has been largely confined to reconstruction of war damage.

In the economic infrastructure area our assistance has generally been limited to keeping existing facilities maintained and in operation,

except where wartime requirements have dictated expansion. The Department of Defense as a heavy user of these facilities has also shared in their funding.

For development purposes we are requesting a total of \$68.1 million for FY 1970, an increase of \$4.7 million over FY 1969.

Rural Strategy. For FY 1970, the rural areas will continue to receive priority attention. The Vietnamese Government strategy, which we support, is to place great emphasis on improving income, living standards and social conditions in those areas. As President Thieu has put it, this becomes all the more important as the government moves toward an era of political competition with the Communists.

The rice production program, based on the new varieties yielding two to four times the national average, has caught on so well that the government's target of 375,000 - 500,000 acres in 1969 (in comparison with about 100,000 acres in 1968) seems likely to be attained. Given good weather and a reasonable degree of security, the goal of self-sufficiency in rice by the end of 1971, which requires expansion of the new varieties to 1.5 million acres, is within reach.

The chicken and hog production programs aim at annual 15% and 10% increases, respectively. Chicken development was based largely on imported day-old chicks in 1968, but in-country hatchery capacity is now expanding rapidly. Vaccine production has soared, and a system for distribution to the provinces has been established.

Agricultural credit totalled about \$35 million in 1968, 130% over 1967. Fertilizer use, essentially for rice and vegetables, has leapt from 250,000 tons in 1968 to an expected level of more than 400,000 tons in 1969 and 500,000 tons in 1970.

The Vietnamese Government has decided to give the highest priority to land reform. The Government will try to complete the distribution in 1969 of as much as possible of the approximately 375,000 acres of cultivable land now owned by the Government. With respect to privately owned land, it is now developing a plan for a dramatically new approach: a vastly expanded program of free land to the tiller, with government payment of the landlords. This approach supersedes the earlier one discussed in the Congressional Presentation Book narrative. We still plan to use \$10 million of FY 1969 A.I.D. funds to support this program, and are requesting \$30 million for that purpose for FY 1970 -- all funding to be made available only after approval of the new land reform approach by the Vietnamese National Assembly.

Elementary education at the village/hamlet level also continues to be a major program focus. This means construction of classrooms, accelerated training of teachers, and distribution of textbooks, and in all of these areas we are helping. The extent of progress is shown by the fact that 79% of the elementary school age group is now in school, and the national goal is 85% by opening of the school year in the late summer of 1970.

Secondary education is now receiving increasing attention in rural as well as urban areas. About 20% of the secondary school age group is in school, with a target of 24% for 1970-71.

Urban Areas. Despite generally full urban employment, social conditions, especially housing, are often miserable in the poorer districts of the cities. For that reason a Saigon Civil Assistance Group was set up in 1968 by CORDS with A. I. D. assistance to help the municipal authorities deal with problems of emergency housing, traffic control, garbage collection, and other problems of city management. Similar assistance is being instituted in the second largest city of DaNang.

Political and Institutional Development. Development of popular participation in the political process is a significant feature of several of A. I. D. 's activities. Projects of assistance to trade unions and youth organizations are obvious examples. Farmers' organizations and cooperatives, originally established several years ago by the Vietnamese Government, have begun to acquire an independent vitality.

The village development program, with its effort to enhance the authority of village officials through organizational changes and through training (assisted by our public administration program) and the involvement of the villagers in projects through the reoriented self-help approach described earlier, is designed to restore to the village its traditional role in the Vietnamese political system and to develop "village democracy" (to repeat President Thieu's term).

At the same time the A. I. D. program continues to seek to strengthen institutions of the central government. For example, the Ministry of Public Works, Transportation and Communications, the Ministry of Agriculture and Land Reform, and the Central Logistics Agency have been improved through organizational changes. An Inter-Ministerial Manpower Coordinating Committee has been set up under Ministry of Labor Chairmanship with the power to develop policies and plans for manpower distribution and utilization. Health and higher level educational institutions are also being strengthened.

Planning. The recently issued joint Vietnamese-American economic planning report referred to above represents the principal postwar planning effort to date. It provides a development strategy and a framework for further planning.

In addition, A. I. D. is initiating feasibility studies on several industries, studying the possible peacetime use of existing military facilities, and moving forward with sector studies in the fields of transportation and health and probably power and telecommunications. Studies are also beginning on the development of export promotion and import substitution in an effort to deal with Vietnam's immense balance of payments problem.

Management of the Program

Our Vietnam program has posed some unusual management problems. In past years we were criticized for less than fully effective

administration of the program. Since the program was in the process of a rapid build-up, deficiencies were inevitable. I think we are now doing far better.

Organization and Personnel. The Vietnam Bureau was created within A. I. D. in Washington some two years ago. At its peak in December 1967, 497 positions were authorized and 457 people were assigned. We have been tightening down ever since, and particularly so during the last year. We have reduced by over one-third from the peak to roughly 320 positions at this time. We expect to reduce further by mid-summer.

Our Mission in Saigon grew rapidly from 1965 to 1968. On January 1, 1966, the 630 Americans were considered a huge staff by normal A. I. D. standards. A year later, it had doubled in size and almost doubled again during the next year to a peak of 2,149 on-board in January 1968 with a ceiling of 2,430.

The Mission has been cutting back since then to a trimmer, and, we think, more effective, size. At the end of this month, June 1969, it will have cut back by over 300 to an authorized ceiling of 2,086. Staff actually on the rolls at the Mission will be somewhat less.

While all of these people are on A. I. D. 's payroll, only a little over half work directly for USAID, our A. I. D. Mission, because of the unusual organizational set-up of the U. S. Mission in Vietnam. Those who do not work directly for USAID work for CORDS (Civil Operations and Revolutionary Development Support) in the Military Assistance Command.

To help meet our personnel needs, we have concluded an agreement with the Department of State to furnish up to 150 new FSO's during Calendar Year 1969. The Department will recruit these men from those eligible for the Foreign Service, but who have not yet entered it. A. I. D. reimburses the Department for salaries and all costs related to their assignment to Vietnam. The Department intends to assign them as usual within the Foreign Service upon completion of their tour with A. I. D. in Vietnam. Should the Department find, at the end of their assignment with A. I. D., that it cannot incorporate all into normal Foreign Service assignments, A. I. D. has agreed to provide such men with additional assignments for one year.

We have also launched a special campaign to increase the number of ex-Peace Corps volunteers to supplement the young Foreign Service Officers.

Program Management. In the management of commodities, efforts in the past to move a heavy volume of commodities brought inevitable difficulties. Major improvements have been made.

A Positive List of those items eligible for financing under the A. I. D. - financed Commercial Import Program for Vietnam has been published. In Saigon all licenses for imports under this program are reviewed by our commodity analysts to make sure that the commodity, the importer and supplier are eligible. In Washington we have a special Commodity Control and Surveillance group that examines suppliers' certificates and letters of credit to make sure the transactions are in order.

Losses of A. I. D. -financed goods have been reduced by improved arrival accounting procedures, relieving port congestion, greater security within port, and requiring indemnification for losses from Vietnamese carriers used within Vietnam. In 1968 we calculate that losses from all causes were, for the Commercial Import Program goods, less than 1% (up to receipt by importer within the port); for Public Law 480, Title I surplus agricultural commodities, about 1% (up to first destination outside the port); and for project and relief goods, less than 2% between ship's discharge and receipt at province or region warehouses.

We are increasingly utilizing "systems management" techniques to promote careful planning and implementation of programs, notably thus far on our IR-8 rice, land reform, and Commercial Import programs. Automatic data processing systems now installed are providing quick and comprehensive information in a number of fields, thus facilitating good management.

Much remains to be done before we can lay confident claim to solving all of the management problems of this large and complex program. But we have made long strides from the years when both program and staff were growing fast, and we expect perseverance and diligence, common sense and good judgment to produce further improvements.