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N A T I O N A L D E V E L O P M E N T
P L A N N I N G F O R V I E T N A M (U)

November 30, 1966

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VIETNAM CONTINGENCY STUDY GROUP
AID/FE

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PART I

INTRODUCTION

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PART I

INTRODUCTION

PURPOSE OF PROSPECTUS

The purpose of this prospectus is to set forth the essential characteristics of a study of long range national development planning for the Government of Vietnam (GVN) under conditions of improved security and increased availability of resources.

It is intended to provide the basic frame of reference for a US research group which will undertake the study in cooperation with a counterpart group of Vietnamese to be designated by the GVN. Discussions to this effect have been held between the governments of the United States and Vietnam. Insofar as possible, the effort is to be nongovernmental on both sides, but conducted under the guidance of and close cooperation with responsible civilian and military officials of both governments.

This prospectus should also serve as the basis for developing a consensus among interested US agencies as to the objectives, scope, and methods of development planning for Vietnam.

CONTENT

The prospectus is organized in six parts:

Part I describes the purpose of the planning effort.

Part II provides a summary of significant aspects of the current economic situation in Vietnam of immediate interest to the Planning Group, and concludes with some observations on near-term prospects, both under current plans and under alternative contingencies that may arise.

Part III examines some special characteristics and peculiarities of the Vietnamese situation that condition the environment for development. As will be apparent, some of these limit the possibilities and directions of the developmental effort, while others constitute special opportunities that would not exist in a normal environment.

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Part IV highlights the substantial assets that have been created by the war, including both physical facilities and human and organizational capabilities that are potentially convertible to development purposes.

Part V deals explicitly with the nature and focus of the planning effort. It formulates objectives, sets forth some economic and non-economic guidelines for development, and suggests a planning approach that seems appropriate under the unique circumstances of Vietnam.

Part VI sets forth some preliminary thoughts on the organization of the Planning Group and its relationship to the two governments.

There is also a selected bibliography of reports and earlier studies.

A collection of observations and comments on past, on-going and possible future programs has been prepared by various technical divisions of A.I.D. This collection is available in the files of the Vietnam Bureau of A.I.D. An examination of the collection will be of interest to the Planning Group and will undoubtedly raise questions which may be clarified by further discussion with the relevant technical division personnel.

ADVANTAGES OF A PLANNING EFFORT

Among the more important advantages of undertaking a planning effort at this time are the following:

- It will help assure the productive use of resources that become available as the tempo of the war ebbs.
- It will contribute to the evolution of a long-range perspective for the development of Vietnam.
- It can promote greater consistency between current decisions and desirable long-range objectives.

- It will reduce lead times and anticipate problems of conversion.
- It may attract the participation and improve the competence of outstanding Vietnamese in the task of planning for national development.
- It will demonstrate the constructive purposes of the GVN and the durability of the US commitment to Vietnam.

Whether all of these advantages will be fully realized will depend in large measure upon the design and execution of the planning effort.

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PART II

CURRENT ECONOMIC SITUATION AND
NEAR-TERM PROSPECTS

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PART II

CURRENT ECONOMIC SITUATION AND NEAR-TERM PROSPECTS

The planning effort, as conceived in this prospectus, will be the first serious attempt to focus Vietnamese and US attention on the problem of utilizing rationally the combined resources of the two countries for the long-term development of the nation. It is expected that the effort will take place in the context of declining military intensity and rising possibilities for peaceful progress.

The uncertainties of the situation, however, are great; the problems besetting the Vietnamese government, staggering. The situation will not be conducive to the consistent pursuit of a set of predetermined development goals.

In Vietnam, therefore, "planning for the future" will mean initially identifying and seizing selected opportunities for peaceful productive effort as they arise and as resources are progressively released from their present diversion to military ends.

This section attempts to provide a brief description of the current state of the economy and of possible changes which might occur in the period to be covered by this planning exercise.

ECONOMIC IMPACT OF THE WAR

Current Economic Pressures

The economic problem in Vietnam has two facets: price inflation and resource shortages. Though it is possible for them to occur separately, in Vietnam they are inextricably bound together and mutually reinforcing.

The inflationary aspect is illustrated by an increase of 110 percent in the cost of living for working class in Saigon between January 1965 and July 1966 (a conservative estimate, since the GVN consumer price index on which it is based assigns very heavy weight to rice, the price of which

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rose less than other items). It has been fueled on one side by rising demand, resulting from greater employment and rising wages. This, however, has not been matched by an increase in supply. Rather, domestic output has remained either stagnant or has declined, partly as a result of continued heavy conscription drawing down the employed labor force. Nor have imports made up for the deficit.

The supply side. The supply of most domestic items, particularly agricultural products, is generally conceded to be responsive to price increases in normal times. Stagnant or declining production in present-day Vietnam is the result of current circumstances. On the one hand, there is the war which has disrupted economic activity and has added to the risk. Declining production of rice and such associated products as pork can be accounted for by this factor and can be indirectly measured by the number of refugees fleeing the insecure countryside. This number has grown to more than one million. On the other hand, despite rising retail prices, earnings of the producer have not risen proportionately, as the Viet Cong have taxed any increases and as insecurity of the transportation routes has increased marketing margins. Higher returns in alternate activities have also been a factor. For example, rice farmers have found employment in construction activities more attractive than rice farming and fishermen have found carrying cargo on the coastal routes more remunerative.

The possibility of increasing output in relatively secure areas (e.g., An Giang Province or around Saigon) depends in large measure on an assessment of whether they can produce significant additional amounts of needed products, whether manpower and other inputs are available, and whether improved techniques can be communicated rapidly. These must be considered moot points until tested.

Imported goods constitute a substitute for domestic products. Nevertheless, in the last year limited port capacity and growing military requirements for its use have precluded full utilization of this substitute. Further, despite heroic efforts, civilian port capacity has not expanded at the expected rate and probably should not be

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counted on to do so in the immediate future. The reasons appear to lie in the system of private incentives which have made inefficient operation of the ports highly profitable to strategically placed individuals, and in the government's inability to deal with such individuals when they have connections in high places of the GVN. Also, as a result of the June 1966 devaluation, many luxury imports, purchased prior to the devaluation, now appear to be priced "out of the market," and importers are unable to dispose of them readily.

Dependence on imported goods as substitutes for domestic production cannot in any case be absolute. The domestic product often continues to sell at a premium because of quality differences, as is the case now with imported American rice which the Vietnamese regard as inferior. Further, the imported goods have to be distributed throughout the country, in a pattern matching that of purchasing power. The inability of the transport system to do this has already been demonstrated and the problem is likely to become worse.

The demand side. In GVN-controlled areas, the rise in demand can be accounted for by a growing urban population and sharply increased purchasing power. The intensified VC effort to collect taxes has sharpened the competition for the limited resources available. More people are working in the civil sector and earning higher wages than ever. The GVN has increased its demand for goods and services as its military and civil programs have expanded. The deployment of larger numbers of US forces has required a very sizable construction program which used domestic goods and services, and has also turned loose an enormous purchasing power of the individual soldier.

In monetary terms, the vastly increased spending has been reflected in a swollen money supply, not compensated for by increases in the available supply of goods and services. In real terms, the spending can be measured by rapidly rising resource prices, particularly for skilled labor; by inability to hire all that are required, no matter what the wage; and by increased numbers of half-completed projects or failures to meet production targets.

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Under normal circumstances, budget constraints would impose limits on spending by GVN and US agencies, as well as by the private sector. However, the GVN has resorted to borrowing from the National Bank of Vietnam, while US agencies have used dollars to purchase piasters from the National Bank. Both groups have been relieved of any constraint on their purchasing power by the absolute priority given their programs. At the same time, private demand has not been limited by either direct controls, which in practice are not feasible in Vietnam, or by indirect controls, such as higher taxes, which are difficult to collect.

Efforts at Stabilization

The current stabilization program recognizes many facets of the economic problem, and the limited alternatives available for solving it. Through devaluation, the program imposes a limit on real private demand by raising the price for imported goods. Devaluation also increases the GVN's command over resources through greater generation of counterpart, while taking account of the limited port capacity available. The program further places piaster spending ceilings on the US Mission, particularly on the military. These ceilings cover both official spending for construction and unofficial spending by individual soldiers (by requiring the military to restrict official spending to offset any increase in private soldier outlays above targeted amounts). Finally, the program looks toward a carefully limited GVN effort to keep spending within bounds while assuring that the highest priority activities are carried out.

Administration of such a stabilization program encounters a long list of difficulties. Many of the estimated revenue and expenditure magnitudes are planning figures which are likely to contain substantial error. There is urgent need for current data on actual performance so that the program can be continually revised. But more fundamental is the fact that the planning is based upon a simple monetary analysis that fails to take account of geographic differences and cannot at this time be translated into an actual demand and supply schedule for highly differentiated

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real resources. The most significant of the resource problems is manpower, in which an attempt is currently being made to impose some direct controls covering wages and allocation among US and GVN claimant agencies. Similar controls covering the ports and internal transport are either in use or contemplated.

Future Performance of the Economy

Continued inflation and misallocation of resources is to be expected for the duration of the war. Some level of inflation can be accepted as the price of operating the economy as near to capacity as possible. It becomes unacceptable when it rises to the point of causing extensive resource misallocation, because this prevents the economy from performing its most essential tasks by (1) creating uncertainty which leads to poor planning decisions, and more importantly by (2) distorting the system of incentives (prices and wages). The US is now taking vigorous steps to assure that its own policies and those of the GVN will be such as to maintain reasonable monetary and price stability. We should, therefore, assume considerable success in solving the misallocation problem during the next two years, along with the development of some fairly sophisticated machinery to handle it.

The significance of current economic problems for the postwar period depends substantially on the way peace comes. A rapid return of security in large areas would pose two overwhelming issues for the GVN: reestablishing law and order with government presence, and reconversion of resources to peaceful pursuits, as they become available through "capture" or by becoming surplus to current military needs. These two problems condition the choice of developmental policies and directions discussed subsequently in this prospectus. The point here is that a high degree of uncertainty is associated with them at this time, both in regard to the nature of the problems in the immediate post-hostilities period, as well as the availability of resources to solve them.

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NEAR-TERM PROSPECTS

Recognizing the inherent unpredictability of the situation, it may nevertheless be useful to sketch out alternative courses of events that could unfold over the next eighteen months and that would significantly condition the environment for development planning in Vietnam.

The following discussion considers some possible consequences of three alternative hypothetical developments:

- (1) Realization of current plans with a relatively favorable, if inconclusive, outcome.
- (2) Termination of the war by a sudden cessation of hostilities and possible opening of formal negotiations.
- (3) A gradual phasing down of conventional military activity with a major reduction of US forces.

Other (less favorable) contingencies may, of course, also arise, but they seem less relevant for the purposes of a long-term development planning effort.

Prospects Under Current Plans

Current expectations are that US troop strength in Vietnam will increase by about one-third within the next year, probably permitting a more than proportionate increment in the number of combat maneuver battalions. The military impact of these forces will depend on at least three factors: (1) Their disposition -- will they be newly-deployed in the Delta or reinforce existing deployments in the highlands and Central SVN? (2) Their main role -- will they continue the present emphasis on "search and destroy" or veer toward a pacification-oriented security role? (3) The enemy's reaction -- will the VC and NVN permit their main forces to engage friendly units in massive conventional confrontations or shift increasingly toward widespread small-scale guerrilla actions?

The expectation is that, with the enlarged forces and under the chosen strategy, it will be possible: (1) progressively to strangulate infiltration from the North; (2) to consolidate and widen the secure areas around Saigon, in

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the central lowlands, and in other priority areas; and (3) to keep the VC main force and NVN units from disrupting the GVN's attempt to reintroduce government into these areas. The lead time required for the production of Revolutionary Development cadre (see discussion in Part III, below) may, however, limit the pacification effort and thus limit the effectiveness with which US forces can be employed in pacification. Increasing use of US troops in combined operations with ARVN should make both more effective.

The favorable psychological impact of some military progress may not fully offset the negative consequences of the large US military presence in Vietnam. The causes are many: a growing Vietnamese helplessness and sense of dependence on the US; the frictions that are the inevitable by-product of an alliance relationship between such unequal partners, and that grow daily with the number of Americans in Vietnam; the racial and neo-colonial overtones of the situation; and the war-weariness and continued anxiety of the Vietnamese that even the US, with its enormous resources and power, may be unable to stay the course.

On the political front, the new assembly should complete its draft constitution. This should be followed by some village and hamlet elections, the election of a national assembly, and finally, the formation of a civilian government, necessarily containing a large measure of military representation and influence. Some progress may be made in political organization of the more informal type (e.g., nongovernmental institutions having a political role), but their evolution will be slow and they will suffer some setbacks as the limits of tolerated behavior are tested. With the accretion of some governmental legitimacy, the authority and self-discipline of the administration may be strengthened. But corruption and misbehavior will undoubtedly persist and the newly-emerging institutions will be untried and untrusted.

In the countryside, the Revolutionary Development program on which pacification depends will not keep pace with improvement in the military situation, but there will be some extension of pacified areas as the Vung Tau cadre training school turns out its full annual complement of 22,000 men

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(725 teams). A qualitative upgrading of the teams already fielded, greater concentration of the teams where security is good, and better understanding of the program by provincial officials should improve the efficacy of the effort.

On the economic front, there is some expectation that substantial success will be achieved in maintaining reasonable price and wage stability. Present plans for enforcing piaster ceilings on US spending, expenditure restraints on the part of the GVN, and manpower controls, are conceptually sound. The objective is to operate the economy at a high level of activity, getting the most important tasks accomplished, but not attempting to do more than the available resources permit. To do more than that would merely waste resources, engender a backlog of uncompleted projects, do violence to priorities, and give a new stimulus to inflation. Present efforts to relieve port congestion should gradually succeed, as additional facilities are completed and management improves, expediting the inflow of needed additional imports. The major in-country transport means will be kept functioning and some new ones reopened, making internal commerce somewhat easier and less expensive. Agricultural production will continue to decline under the dual influences of war risk and opportunity cost, while manufacturing will continue its moderate increase. Inflation will be kept to an acceptable 30% or less.

Sudden Cessation of Hostilities

A sudden cessation of hostilities might come about under a variety of conditions. For example, if the VC/NVN command and control structure were to be shaken by a series of military setbacks in the South, a sharp loss of morale among VC/NVN cadre, and an aggravation of difficulties in the North, the Hanoi leadership or at least a controlling faction of it, might lose faith in their present strategy and come to view a negotiated settlement as the lesser evil, or even as an opportunity to pursue their long-range objectives by less violent means.

Under such circumstances, they might be willing to agree to a temporary cease-fire, stand down their forces and enter

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upon negotiations on the basis of some phased mutual withdrawal formula that would gradually remove their own forces, some part of VC main forces, and eventually US forces from South Vietnam. What would happen during the long interval while negotiations go on and before any troops are actually withdrawn, is very difficult to envisage. Nor is it clear what kinds of limitations might be placed on the freedom of movement, armed or unarmed, of US/GVN forces in the interim, or how violations of the cease-fire, which would inevitably occur, would be dealt with.

But it is at least conceivable that a situation might arise within the next year or so in which the GVN would be presented with a requirement (and an opportunity) to extend its presence throughout the countryside. Its capacity to establish itself as a government in areas from which it has long been excluded or in which its authority has long been challenged, will not be great. The Viet Cong political organization will still be in place and will continue to pursue its goals, if not by violent, then by non-violent political action. For the GVN, the success of its military effort will have had a stimulating effect on its morale and on the evolution of a political process in the direction of legitimacy, representativeness, and responsibility, but its ability to extend its rule throughout the country will still be grossly inadequate. Failure to do so, on the other hand, would constitute a major setback for the GVN and would leave an uncontested field to the VC.

If a negotiated settlement is reached which places some limitations on the size of GVN military forces as well as on the size of a continued US presence, the GVN would be faced with a formidable array of problems in the spheres of internal security, demobilization, reconversion of the economy, resettlement or employment of large numbers of refugees, resolution of a tangle of land-ownership conflicts and extension of vitally needed public services. Under this contingency, clearly, the demands placed on the GVN would be just as great, if not greater, than under the inconclusive situation described previously. Both situations would require careful husbanding of resources and close attention to priorities, lest conflicting demands on limited resources produce a resurgence of inflation.

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Gradual Reduction of Military Activity

An alternative to a sudden cease-fire, followed by a formally negotiated mutual withdrawal of forces, might be a very gradual scaling down of the level and character of the military violence on both sides, and a tacit agreement to progressively transform the war into a long-term political contest.

Recognizing that massive conventional encounters of NVN/VC main force units with US/GVN forces are too costly, Hanoi might gradually withdraw its units to the North and the VC revert to widespread sporadic guerrilla action in the countryside and to more intensive political organization and terrorism in the cities. The US could then stop the bombing of the North on the grounds that Hanoi's military aggression had been arrested and repelled, though its political subversion continued. Substantial US forces would have to remain until infiltration is completely eliminated, but a large portion of US troop strength could begin to be withdrawn, under a declaratory policy that would promise their prompt return should Hanoi resume its aggression. MAC/V would refocus his attention on the advisory effort. The US forces that remain might be reorganized into highly mobile quick-reaction units designed to discourage any renewed massing of enemy forces. Popular and Regional Forces would be transformed into a National Constabulary, and ARVN largely reoriented to a regional and local security role. The major energies of the US Mission and the GVN could then be devoted to the political-building task.

In this situation, which might take a good deal more than one or two years to evolve, all the problems of GVN inadequacy still exist, but there would be "light at the end of the tunnel." While it is not clear that the GVN or the US would be much better able to cope with this lower level of violence than they were in the pre-1964 period, VC morale may by that time be sufficiently impaired to render their performance substantially less effective, and major progress in pacification might be achieved.

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Under these circumstances there would be enhanced opportunities for economic development, but the real challenge would be in the sphere of political development. Military demand for resources would be sharply reduced, the task of demobilization and reconversion could be partially begun and the threat of inflation would be greatly diminished.

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PART III

SPECIAL FEATURES OF THE ENVIRONMENT

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PART III

SPECIAL FEATURES OF THE ENVIRONMENT

The previous section described the current economic situation and near-term prospects for Vietnam. This part amplifies the discussion by providing thumbnail sketches of some unique features of the situation which greatly affect the Vietnamese environment for development.

None of these features are examined in depth. Their discussion here is intended merely to call special attention to them and to underline the problems they pose for development planning.

A DISTORTED ECONOMY

Basic Features of the Economy in "Normal" Times

It is difficult to find a period in which Vietnam's economy could be called normal. Prior to World War I, it was a colonial frontier country in which the French aimed their investment policy at the development of the country's resources for the benefit of the metropole. Rubber and rice production grew rapidly in this period. The South was on the whole underpopulated and large areas of the Delta, South Vietnam East, and the Central Vietnam Highlands were almost virgin territory.

The early development of the South ended with World War I, and a prolonged period of economic difficulties ensued. World War I, of course, had focused the attention of the metropole away from Indochina and toward Western Europe. The world-wide agricultural depression that followed the war deeply affected the colony, and the effect was intensified by the crash of 1929. Its trade difficulties persisted right up to World War II, which brought a renewed spurt of development to the country, primarily in the shape of heavy Japanese demand for rice and rubber. But the demand was artificial and temporary. The end of the war for the rest of the world did not bring peace to Indochina. The Viet Minh war began almost immediately and has continued with only brief interruptions ever since.

Thus there has been no recent pattern of economic activity that can be called normal. Moreover, great changes have taken place in Vietnam, especially in land development and population growth. Under present conditions, therefore, we

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can only speculate as to what might be called "normal". The resource endowment and the pattern of specialization that has emerged suggests a "normal" economy that would have a highly efficient agriculture, centered upon the Delta, where the land is enormously fertile and the population concentrated. The basic crop in this area would be rice, supplemented by rubber, secondary crops and livestock, particularly fruits and vegetables, sugar cane, and pigs. A second focus of efficiency would be on fishing; ocean fishing along the entire coastline, especially, but also fresh water fishing in the vast network of Delta rivers and canals. The bulk of production would be for home consumption; much of the remainder for local trading, based largely on barter; and only marginal amounts sold outside the local district or province for cash.

The war has changed this hypothetical "normal" pattern only in part, initially by generating higher demands for existing crops, but also by stimulating demand for new crops, thus creating an incentive for both higher yields and diversification. It also appears to have quickened commercial exchange of agricultural products, expanding production for the market and increasing the use of money. More recently however, the incentive structure affecting agriculture has changed more markedly with the impact of ever rising Viet Cong taxation, more widespread insecurity, and the attractions of alternative employment opportunities and ways of life outside of agriculture. How far this new structure of incentives will warp the existing pattern of resources, particularly the agricultural sector, depends on how long the war continues.

For planning purposes, however, it seems appropriate to expect agriculture to reassert its dominant role in Vietnam when more normal conditions have been restored. Economic growth thus would be based heavily on investment in agriculture, first in improving yields of existing traditional crops and then in promoting diversification into other crops that yield higher returns per acre and per man.

With a return to a more normal pattern of growth in agriculture, the commercial and banking sectors would develop to respond to the needs of a more highly commercialized agriculture, contributing heavily to exports and permitting a substantial return flow of consumer goods imports. An improved transport system would tend to be concentrated in the Delta,

where conditions favor the cheap but slow waterways. Industry would grow around processing of agricultural products primarily for export and production of import substitutes for the domestic market. The rate of growth would be modest, at least once the postwar reconversion period was over, so that both the capital goods and construction sectors would remain relatively small for some time. The country's ability to support a large government sector would be limited.

Other areas of the country being less favorably endowed, would develop less rapidly than the Delta. There would be some growth in the Central Highlands, reflecting its present low population density and underdevelopment, but the opportunities there are restricted by poor communications, traditional Vietnamese dislike of the area, and limited opportunities. Production possibilities would be confined at this time to rubber, forestry, and perhaps some development of livestock. The high and rapidly growing population density in the Central Vietnam Lowlands and the relative dearth of other resources suggest that there must be some movement of population out of agriculture and out of the area, although better techniques clearly make higher incomes from agriculture possible even there.

Distortion by Dependence on Foreign Aid

The fact that the Vietnamese economy has become overwhelmingly dependent on external resources hardly needs documentation. The extent of this dependence is portrayed dramatically by the ratio of projected imports to Vietnam's Gross Domestic Product (in million dollars):

<u>Planned 1967 Imports</u>	<u>Vietnam's GDP ca.1965</u>	<u>Ratio</u>
700	1,780	.39

The rate at which this dependence has grown over the last several years is shown in the following data on imports and exports (in million dollars):

	<u>Exports</u>	<u>Index</u>	<u>Imports</u>	<u>Index</u>	<u>Ratio</u>
1962	55	100	264	100	5
1965	36	65	357	135	10
(Prelim.) 1966	21	38	529	200	25
(Planned) 1967	17	31	700	265	41

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None of the above figures include the vast quantities of aid in kind (weapons, equipment, materials) provided under the Military Assistance Program or under the project program of A.I.D.

Much of the trade deficit shown above is financed by A.I.D. The remainder, a growing amount, is covered by earnings on invisible account--from direct US purchases of piasters for official use, (primarily military construction), for US/GVN civil programs, and to meet the local currency needs of US personnel. As can be seen above, exports have in the meantime declined, reflecting the steady worsening of internal production and distribution problems and the rising demand for domestic products.

The figures give some inkling of the immensity of the distortion problem that the economy of Vietnam will face in having to eventually fill this gap with its own resources. Even given substantial rehabilitation and expansion of the export trade in rice and other primary agricultural products (rubber, corn, sugar), the process will clearly take many years* and will require heroic austerity policies* to bring consumption patterns in line with what the economy will be able to support.

*When so much has been given to
so many - how can discipline be reinstated?*

The import-export relationship described above, the high ratio of foreign to domestic resources in the country, and the heavy claims of the war on the nation's resources have had their impact on the economy. They have led to: (1) GVN reluctance and inability to mobilize domestic resources either by raising tax revenues or by imposing administrative controls; (2) the creation of unsustainably high living standards in urban areas; and (3) a shift of resources, mainly manpower, but also capital, out of agriculture into the urban manufacturing and service sectors. The result has been an abnormal growth of these sectors and their associated urban populations, raising problems that are discussed below.

Failure to Mobilize Domestic Resources

Foreign aid provides military and "counterinsurgency" commodities as well as foreign exchange to cover the balance of payments deficit. The commodities are aid-in-kind directed to satisfying war and war-related requirements. The foreign

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exchange pays for goods brought in to satisfy demands generated by government deficit spending and by US piaster spending, that preempts resources for non-consumption purposes which would otherwise have been devoted to satisfying consumption needs. The alternative to satisfying the demand would be to lower it, i.e., taxation in order to lower personal incomes and reduce consumption levels. Imposing a level of taxation adequate to meet the entire deficit is out of the question at this time because of the size of the deficit and the already low level of incomes. Some higher taxes would probably be bearable, but the government feels itself incapable of imposing or collecting them. The political fragility and administrative weakness of the GVN militate against its putting measures into effect that go against the interest of key groups and influential individuals.

The failure to mobilize more than a fraction of the domestic resources that might potentially be raised is underscored by the fact that the tax revenues that are collected are largely in the form of customs duties and excises on imported commodities. In fact, collection of direct taxes has actually declined, in spite of the large inflation in incomes that has occurred. Direct controls (price control, rationing, credit restrictions) can, of course, be used as a substitute for taxation. Of these, only price control is used in Vietnam. By and large, its enforcement is haphazard in ineffective and its influence for the most part harmful. I creates opportunities for corruption and often disrupts the normal flow of commerce.

Credit restriction is now contemplated, as an aftermath of the June devaluation. For the first time, the National Bank of Vietnam has reduced the excess reserves of the commercial banks to a level where their capacity to lend falls short of demand. However, since bank credit is used primarily to finance imports, imposing credit restrictions at this time might disrupt them, at a time when imports are vital as a counter-inflationary device. Consumer finance hardly exists in Vietnam and would not be amenable to control. Rationing would be administratively as difficult to introduce as price control and could, therefore, be expected to suffer the same inadequacies.

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Unsustainably High Living Standards

Foreign aid has effectively raised the average level of consumption in Vietnam above anything experienced in the past. In part, this is a function of the level of employment which has raised average real family income as more members of the family find jobs, even though real wages have not risen across the board. But in part this is also a function of competition for labor in a very tight market, which has bid up average wages in many work categories more than the cost of living. Thus, while much of the productive manpower has been diverted from production for consumption to production for war, the production lost has been more than made up for by aid-financed imports.

A less important aspect of this sharp increase in consumption levels is the rising flow of public services that have been provided by A.I.D. in ever-growing volume. This is especially true in the countryside, the rationale being that insurgency is associated with rural discontent based on deprivation and poverty, and that reducing these will help eliminate the insurgency. The major elements of these public services are health, education, agriculture and public works. Costing in excess of \$100 million in FY1966, these programs clearly will not for many years to come be supportable by the GVN from its own resources.

The benefits of increased living standards, however, have not been evenly distributed. The most favorably affected are undoubtedly the windfall profiteers in the urban areas. Rural groups have been less well positioned to benefit, but have probably not been severely hurt by the inflation, since they are not so heavily dependent on the market. Within the urban population, the impact has been highly variable. A sizeable minority seems to have made fortunes and now lives on a scale comparable to that of the French colons in former times. Some working groups, especially in the personal service sector, have also been heavily favored. The mass of people, however, are suffering the effects not only of the steady reduction of the purchasing power of the piaster, but also of the sharp deterioration of almost every dimension of urban life.

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The Shift from Agriculture

The basic distortion that the war has inflicted on the Vietnamese economy is a massive shift of resources, both manpower and capital, out of agriculture.

The migration of people from the insecure countryside to the booming cities is continuous. It is typified by the growth of Saigon, Danang, and other cities. While no reliable figures exist, and both current and historical estimates are of questionable accuracy, the changes are sufficiently visible to be beyond challenge. Current estimates for the greater Saigon metropolitan area (Saigon, Cholon and Gia Dinh province which has become predominantly urban in character) run as high as four million, while the estimate two years ago was 2.5 million. Danang is believed to have doubled or tripled in the last two to three years. Other cities are said to have changed comparably.

Another indication of the manpower shift out of agriculture is the ever-growing refugee population. A total of more than one million have been recorded to date, over one-half of whom are presently in temporary encampments located near US military bases, provincial capitals or other urban areas. Their number may well grow substantially in the future.

Some modest relief and assistance in the form of crude temporary shelter, clothing and medical care, plus an allowance of ten piasters per person per day, is provided for those in organized camps. And about half of the recorded total of refugees are officially considered to have been resettled or returned to their home villages. Actually, of course, there is a large additional mass of displaced people who are never counted as refugees, while those who return to their villages or are resettled, do not necessarily resume their former productive activities.

The movement of capital out of agriculture is more difficult to document and impossible to estimate. That a significant amount of land has been abandoned is no longer disputed. It has not yet reached the proportions of the latter phases of the Viet Minh war, when perhaps a quarter to a third of the land in the Delta was abandoned. The fact that

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land that has been left to lie fallow is tantamount to a current disinvestment since, by definition, the capital invested in it cannot be liquidated by the sale of the land to someone else. The value of improvements is largely lost and must be reinvested before the land can be cultivated again.

A second measure of disinvestment in agriculture is the decline in work animals. For the last two years a net slaughter of water buffalo has been reported from several provinces and a sample census of agriculture shows a decline in the buffalo population in 1965. The reliability of this census is not sufficiently high to attach much significance to the amount of the decline.

A third measure of disinvestment in agriculture is the increasing monetization of the agricultural economy. In the past, most market transactions affecting agriculture were on credit. The farmer ran up a bill for both the inputs and the consumer goods he obtained at the village store and paid off his bill in kind at the end of the harvest season, out of his rice surplus. The chain of credit which ran from the Saigon rice merchants and importers through wholesalers and village shopkeepers to the farmer has now been broken, and to the extent that agriculture is financed, it is self-financed.

The economic model of movements of resources out of agriculture postulates a greater return in nonagricultural utilization as the cause. There is little doubt that this is the case. Another positive force is the attraction of urban life. Against this must be set the powerful hold of tradition, which ties the peasant to his ancestral village and to his inherited occupation and role. The net result of these forces has been a drift to the cities in all less developed countries, with the rate varying according to the level of cost push in the countryside and the level of demand pull in the city.

The massive urban migration in Vietnam in the last two years has no doubt been facilitated by the growth of non-farm economic opportunities. The main stimulus, however, has been the intolerable pressures of military action and the persistent dangers of rural insecurity.

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Abnormal Growth of the Non-Farm Sectors

The sudden and rapid US/GVN military buildup with its attendant needs for construction, logistics and personal services, combined with the quickened pulse of GVN and private sector demands, have created an abnormal boom in non-farm employment. On the GVN side, the manpower demands of the government, primarily for the armed forces, have increased steadily since 1964. The civil service apparently has also expanded, but because of the draft and job competition in the private sector, the growing number of vacancies simply cannot be filled. The GVN demand for contract services of various kinds (e.g., for coastal transport) and for increasing amounts of construction has added its stimulus to the private sector.

But the largest impact on the economy has come from the vast USG expenditures which are planned to rise to almost 50 billion piasters in 1967. This figure is roughly equivalent to 3,000 piasters per capita in a country whose income in 1962 averaged about 10,000 piasters per capita. Much of the US spending is for construction, particularly of new military bases and related facilities since 1965. Originally scheduled to reach a peak value in mid-1966 of work in place each month totaling \$70 million, the construction target was subsequently stretched out so as not to be reached until the spring of 1967. Coupled with operations and maintenance expenditures rising with force levels, there is no definite date that can be pointed to with assurance at which USG demand for domestic goods and services will peak out, although the rate of increase has already begun to decline.

The impact of unofficial expenditures by individual Americans and third country nationals has also been sizeable, and continues to grow with the number of US personnel in the country. Included in this group are servicemen, American officials working for the Embassy, for USAID, and JUSPAO, and both Americans and third country national employees of foreign contractors working for the USG. Their spending power is disproportionately large by Vietnamese standards, based on their relatively high salaries and their pressing needs, primarily for housing, entertainment and services.

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Attempts to limit the impact of USG spending have culminated in the imposition of plaster ceilings on MAC/V and USAID. Their success will be shaped by the high priority given both military and civil activities and by the impossibility of controlling and the difficulty of influencing the spending of individuals. Similar attempts to put limits on GVN spending and demand for resources will also be made, but will depend on agreement with the GVN.

Little is known about private sector demand. Higher wage rates and employment levels have meant greater disposable family incomes, but how this has translated itself into demand for consumption goods and services is difficult to estimate. Part of the demand is for domestic items like rice, the production of which has not shown itself to be price-elastic. Part is for imported goods which have been brought in in huge quantities causing, among other things, an expansion of the banking and commercial sectors serving international trade. High prices and shortages of imports plus the low cost of capital equipment have also attracted some investment in the manufacture of import substitutes. According to the National Institute of Statistics (NIS) index of industrial production, manufacturing activity has clearly increased. Whether the war-induced expanded economic activities will survive in a post-hostilities context will, of course, depend on the manner in which hostilities end and on the extent to which austerity policies are imposed.

THE CHINESE COMMUNITY

The Chinese community of Vietnam numbers more than one million and has for many years played a central role in the economy. In spite of their strategic position, however, the Chinese remain a cohesive, unabsorbed minority within Vietnamese society, and find themselves both cause and victim of recurrent political and economic friction.

Major Source of Venture Capital

Over the years the Chinese community has grown in size and importance to the point where it now is a dominant factor in the commercial life of the nation, particularly in marketing

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and the import trade, as well as being a leading influence in banking. In recent years it has branched out into manufacturing where it figures most prominently in textiles and pharmaceuticals. Less conspicuously, it occupies a leading role in a multiplicity of other manufacturing activity, ranging from handicraft operations to medium-sized factories throughout the country.

The Chinese constitute the major repository of capital and entrepreneurship in the country. Their trademark is one of energy, frugality and a business ethic based on personal trust. Their remarkable performance has earned them the suspicion and hostility of successive ruling elites. The French restricted their business activities for many years. Independence brought the tightening of these restrictions and limitations are in effect to this day. But in practice, the community managed to overcome the handicaps and to expand their activities into areas which in the past had been preserved for the French. While regulations continue to favor ethnic Vietnamese, competition from this direction has not been particularly vigorous, and many pro-forma joint ventures between Chinese and Vietnamese have been created to circumvent the restriction on purely Chinese undertakings. Competition from government corporation has become significant in a few fields, but has not exhausted the possibilities for further Chinese expansion. Since neither the Vietnamese nor the GVN have the requisite business acumen, continued growth in manufacturing and in commerce will for the foreseeable future depend on the Chinese.

Traditional Vietnamese Hostility

The unassimilability of the Chinese is the obverse of their economically valuable characteristics. They remain essentially a culture apart, regarding themselves as superior, with roots in another motherland and with ties throughout the Far East. Their separation and superiority alone would be sufficient to earn them jealousy and distrust, but their ability to prosper under the variety of disabilities imposed upon them, and their insistence on keeping alive the traditional roots that bind them to what is now an enemy culture, make them appear dangerous in the eyes of virtually all Vietnamese. These circumstances largely explain the measures taken in the last ten

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years, during which a set of special laws were enacted to force the Chinese in Vietnam to become citizens and to share the burdens of taxation and the draft. The Chinese see these measures as hostile, as a challenge to their community identity, and as discriminatory class legislation directed at them alone. They reacted by successfully applying traditional techniques of evasion, but have added to the tensions in the process.

Ultimately, their very dependence on the Chinese exacerbates the hostility of the Vietnamese and raises the question of whether the energies of the Chinese can ever be effectively harnessed to meet Vietnam's enormous needs for them.

Success in the war, with all that this implies for changes in Vietnamese society, is the best hope for relieving the Vietnamese deep sense of inferiority and for developing their self-confidence to the point where they can tolerate more equitable treatment for the Chinese. In the meantime, the impressive economic capabilities will remain largely a potential rather than a real asset, and their effective utilization a most sensitive problem.

THE GOVERNMENT: LIMITATIONS AND TRENDS TOWARD CONSTITUTIONALITY

One of the most serious Vietnamese limitations which must be considered in any long-range planning is the fragmented nature of the society and the weakness of the governmental structure, both in terms of its ability to carry out programs effectively and to mobilize wide popular support for itself. Long-range planning must therefore be designed to take advantage of every opportunity to strengthen the effectiveness of the governmental structure and to broaden its base of popular support, while at the same time imposing the minimum possible burden on its administrative apparatus.

Political Attitudes

Vietnamese society is highly fragmented by regionalism, race, religion, politics and an inherent mistrust even within otherwise cohesive groups. In addition, there is the general split between rural and urban people. Minorities of all types

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identify almost exclusively with themselves, and not with the GVN. Among these are up to one million Montagnards, one and a half million Chinese, up to one million Cambodians, one and a half million Hoa Hao, and over one million Cao Dai. The Catholics and Buddhists have tended to support or oppose each successive government in accordance with the influence they could exert over it.

Most Vietnamese do not consider themselves morally or patriotically bound to take part in the national war effort, and are therefore not committed to either side. They do not think of themselves as national citizens. Basically they identify with family and Vietnamese race and culture. They see "the government" conducting seemingly endless struggles against "the liberation front" and they are caught in a no-man's-land between them. For a variety of reasons, they may voluntarily participate on one side or the other, but participation is likely to be the result of pressures and threats, or else the selection of the lesser of two evils.

The peasant tends to withhold support and resist participation in the activities of a government which he feels neither can, nor should administer his affairs. This general reaction is reinforced by the fact that, even if so inclined, the peasant takes a great risk in identifying with a government which cannot guarantee security from reprisal by the Viet Cong. "Government" to him is the hamlet or village chief. "Central government" is the district or province headquarters, which does little for him and with which he has little communication.

The urban population is more conscious of the government and its inadequacies. The rising cost of living, the draft, and the growing American presence have an especially heavy impact on people in the cities. Physical proximity to the seats of authority makes the urban reaction critical of these factors.

Two major interrelated and unpredictable factors that affect Vietnamese attitudes are: (1) the impact of the American presence, and (2) the consequences of intensified war. Both offer opportunities for exploitation by the communists and political opportunists, the more so as it becomes apparent

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that an early victory is not in sight. As yet, there are relatively few signs that the Vietnamese peasant has adopted a negative attitude toward the Americans, in spite of the fact that he has felt the direct impact of intensified warfare. Those who live in areas made more secure by US presence are grateful for this improvement. The urban dwellers, particularly the politically aware, are more exploitable, since they are sensitive about the sanctity of Vietnamese sovereignty and culture, and see the destruction of both in a seemingly endless war and the American presence. Such a response could lead to resentment of Americans for continuing the war, and to a greater desire for a negotiated neutralist solution as a way out. Anti-American trends, however, are balanced to some extent by appreciation for improved physical and psychological security brought by the American presence to the urban population. If it appears over the next two years that the GVN with US assistance is on the road to victory, anti-American feelings will probably be lessened and, in any event, would become less important politically.

The key civilian political elements and the society as a whole have only very recently been accorded even marginal participation in the government. The heavy voter participation in the recent election of delegates to the Constituent Assembly was highly encouraging both as a demonstration of the lack of popular support for the Viet Cong, and as an example of the government's ability to produce results when it concentrates on a single uncomplicated objective. However, the chances of continuing political stability and orderly progression toward constructive popular participation in democratic government are dependent on skillful guidance by the present military directorate as well as a degree of willingness to accept dissent and to compromise for mutual national objectives on the part of the varied Vietnamese political forces. This willingness has heretofore been notable for its absence. Long term economic planning must therefore assume the possibility of political instability and the lack of popular support for or engagement in the central government. At the same time, economic development must be planned so as to enhance the possibilities of constructive popular participation in the political life of Vietnam. The development of responsive political institutions, enjoying the active support of the people, will necessarily be slow and difficult to attain, but its achievement is absolutely essential to the attainment of a viable independent South Vietnam.

Technical and Administrative Competence

Vietnam suffers from the same lack of trained administrative talent and the same heritage of cumbersome bureaucratic procedures as other newly emerging, formerly French countries. Laws and regulations are outmoded, and require inefficient methods, and waste scarce manpower. The military draft and the higher wages paid by the private economy and US contractors have meant that very few young people have entered the civil service. Promotion policies emphasize seniority rather than merit, so the service has little appeal to youth. Even more serious have been the effects of concerted Viet Cong efforts to assassinate, kidnap, intimidate and demoralize officials at all levels, and especially in the countryside. The shortage of skilled administrators thus suggests that an intensive training program for government positions at all levels, especially for women and veterans, would be an appropriate part of any long-range planning effort, together with the streamlining and codification of regulations and methods.

Initiative and Self-Confidence

In the GVN, taking the initiative means taking risks, because it is likely to annoy important vested interests, both public and private, and because it may come to the attention of the Viet Cong, especially in the countryside. Self-confidence among senior government officials is hard to acquire because of the history of political instability over the past three years, which has led to many changes in these senior levels as new Ministers came to power. In addition, the existence of graft and corruption on a scale which probably exceeds the norms for Vietnamese society, and the even more widespread belief that it permeates the government, have had seriously demoralizing effects on the government bureaucracy.

In addition to these effects on individuals, the government itself has been overwhelmed by a vast array of American-sponsored projects, often of competing priorities and sometimes representing reversals of past policies. The overall effect has been to smother GVN initiative and to impel

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lip-service, but little more, to a welter of programs. Thus it is important for long-range planning to concentrate on a relatively few and simple essentials rather than on a multiplicity of complicated and perhaps competing projects.

While governmental self-confidence has improved over the past year because of the continued tenure of the Thieu-Ky regime, and the improvement in the military situation, there still lurk in the corners of the GVN mind the twin dangers of political instability caused by street mobs, and an American infringement on the essentials of Vietnamese sovereignty resulting from our all-encompassing effort.

The Structure of Authority

A basic fact of life in Vietnam today is the existence of a large indigenous military organization that is the repository of real political power and the principal functioning authority through which the country is governed. The ruling Directorate of ten senior generals, recently expanded to include ten appointed civilian "notables," is headed by General Thieu as Chief of State and General Ky as Prime Minister. The military chain of command extends downward through the Joint General Staff to the four Corps commanders, to divisions, to Province Chiefs, and finally to District Chiefs. Except for a handful of Province and District Chiefs, all of these officials are military officers. On the civilian side, the channel of authority moves down through the Cabinet to the various Ministries and thence to the Corps Commanders, who are also Regional Delegates, and to the Province and District Chiefs in their civilian roles. The result of these two hierarchies has been an assumption of civilian power by the military chain of command and by military officers. Civilian programs are thus often accorded lower priorities.

In addition, the military chain of command has been typically unresponsive to pressures from below, specifically to the needs and desires of the populace. Below the District Chiefs, traditional local government has been vested in village and hamlet chiefs and various local councils; some of these are elected, but most are appointed. The system is such that the rural populace feels little contact with the central government, and has almost no commitment to it, and is frequently most affected by the "government's" inability to protect the people. Urban dwellers also find the government

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unresponsive and unable to provide needed services, therefore regard it as more of a target for cynical criticism than as an objective of loyalty.

The Military Organization as a Development Asset

The Vietnamese Armed forces, including the Regional and Popular Forces, now number more than 600,000. This force constitutes the repository of much of the skilled, professional, and administrative manpower available in the nation. In any major reduction of hostilities, one would wish to look in this direction as a source of badly needed human and organizational talent for the civilian sector. However, given the dominant political role played by the armed forces and the importance attached to control over troops as a basis for political power, it is unlikely that the military establishment would quickly yield up its hoarded treasures. Even if great progress is made toward an elected civilian government, rapidly reducing the size, and therefore the influence, of the military will not be easy. Moreover, it may not be possible or desirable for other reasons. A continued threat from the North may impose a requirement on South Vietnam for a continuing sizeable standing army. Rapid demobilization may be infeasible because the civilian economy is unable to absorb the released manpower quickly enough.

A major task for development planning, therefore, must be to find ways of utilizing the Vietnamese military qua military in a constructive nation-building role.

Political Organization and Mobilization

Vietnam has had a history of political turmoil often of a violent nature, characterized by secret intrigue against colonial and authoritarian governments. Normal political organizations at either the national or local level have not existed and popular involvement and commitment have not been encouraged and have had as outlets only nonconstructive opposition.

The present military government has recently begun to try to form some kind of constructive partnership with what might be called the politically aware--the small but important

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element among the people that is active in political affairs. Most of these people live in urban areas and are to be found among religious groups and sects, key military leaders, ethnic minorities, intellectuals and students, labor and political parties, civil servants, journalists, and professional and business groups. Denied meaningful authority, responsibility or constructive involvement in their own future, the politically aware have been a highly fragmented force seeking power and involvement but enjoying little constructive political experience and no sense of the responsibility that must go with power. As a result, their political activity has periodically taken the only form available--open opposition to the government. Not surprisingly, more than five governmental changes have taken place since the fall of President Diem on November 1, 1963, with each government until the present one remaining in power from three to five months. The present Military Directorate has now been in office 16 months, after surviving a determined attempt by various groups from March to June of this year to force its overthrow. In response to pressures from politically aware civilians and in order to deflect the effort to unseat it, the Military Directorate has taken a number of steps designed to bring greater civilian participation into the government and to start the process of popular representation in and commitment to the government. The Directorate itself has been expanded with the addition of ten civilians, a Peoples Army Council of 59 civilians and 20 military officers has been created, and on September 11, 1966 elections were held for deputies to the Constituent Assembly. The participation of more than 80% of the registered voters or about 56% of the total population of voting age was an impressive triumph for the government in the face of Buddhist Institute calls for boycott and determined Viet Cong efforts to disrupt the elections. Nevertheless, this is only a first step down a long road toward responsible government. In theory, the Constituent Assembly will draft a constitution within six months, with elections to whatever body or bodies may be established by that constitution before November 1, 1967.

The Emerging Political Dialogue

A major problem is to persuade the politically aware to pursue a process of responsible political action, and to invoke a sense of aroused nationalism and commitment among the more

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inert masses, without giving way to chaos and political instability, all the while strengthening the effectiveness and authority of the central government. The first month of work of the Constituent Assembly has shown encouraging signs that responsibility and nationalism are winning out over demagoguery and regionalism or sectarianism. In its choice of its own elected officials, its organization of its own rules of procedures, and in the success of moderate elements in damping down attempts to assault the government frontally, the Constituent Assembly has so far acted responsibly. The gradual transfer of power to popularly elected civilian authority requires continued restraint by the present government, the military officer corps, and the responsible politically aware. Long-term planning must take cognizance of the fragility of the political scaffolding and not impose burdens or choices upon it that will be too demanding politically.

THE REVOLUTIONARY DEVELOPMENT PROGRAM AS AN INVESTMENT

To restore its authority and control in the countryside, the GVN has, over the years, experimented with a variety of techniques for reestablishing its presence. Voluntary or forced resettlement of thousands of rural citizens into highly fortified strategic hamlets has been attempted in order to segregate them from the guerrillas and improve their capability for self-defense. Various types of hamlet self-defense groups have been organized, armed and later discarded. A series of so-called "pacification" teams have been introduced into the rural areas with the objective of training and guiding the effort of the peasants to resist enemy subversion and guerrilla attack. These programs have not, on the whole, been successful.

In mid-1965 a fresh approach to this most important aspect of the war was launched. Under the title of Revolutionary Development (RD), a program was devised to systematize and improve the pacification process which must follow the liberation of hamlets from direct enemy domination. National priority areas were selected in each of the Corps areas. A Ministry of Revolutionary Development was established with an organizational structure extending downwards to the District level.

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The purpose of Revolutionary Development is to separate the people from VC control and to gain their support for the GVN. This is to be accomplished through military and civil programs designed to restore effective local government, maintain public security, destroy or neutralize the VC political apparatus, and initiate selective economic and social programs to gain the active cooperation of the local people.

Under the RD program, specially selected individuals are formed into teams of 59 men and submitted to thirteen weeks of intensive training in national training centers created for this purpose. The training includes political indoctrination, motivational training, detailed explanations of the objectives of the GVN, instruction in the techniques of pacification and small unit military defensive operations.

The program is, of course, not primarily designed to be an economic development activity. Its purpose is more properly viewed as political development. The RD cadre is the vehicle through which the GVN hopes to reestablish political control and slowly introduce popularly-elected government. Initially, the RD cadre itself constitutes the new government. Then gradually, as confidence is restored, the cadre institutes free elections and phases itself out as quickly as the elected officials can take hold. In the process of winning acceptance by the people, the cadre is expected to introduce measures that will improve the economic and social conditions in the hamlets.

If successful, RD would work radical changes upon the forms and functions of government in Vietnam. Viewed from a different perspective, it is an attempt to recreate and extend viable government at the rice roots level where it has been undermined or destroyed. From either point of view, its purpose is to demonstrate the GVN's willingness and capability to provide the essential governmental services required by its citizens. By performing these governmental functions in an equitable manner, the government hopes to enlist the cooperation of its citizens in their own defense.

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It would be unrealistic to assume that subtle political changes will be wrought in a short time. But it is equally unrealistic to believe that the war can be brought to a successful conclusion unless this transformation can be brought about. The total effort in Vietnam can only be judged by the extent to which these political ends are produced.

As a by-product of this political effort, however, the program generates spin-off economic benefits, some of which have long-term developmental effects. In CY 1967 the outlay by the GVN on Revolutionary Development will approach 2.6 billion piasters. Over and above these, the US provides the largest input in the form of commodities amounting to 53.5 million dollars.

Some of these expenditures are in the nature of long-term investments. The expenditures are of three types: (1) income raising activities, (2) infrastructural development, and (3) direct consumption welfare programs.

(1) Income raising measures are distinctly short-term efforts, aimed at having an immediate impact on the villagers' economic well-being. They include such measures as the introduction of improved breeds of livestock and seeds, distribution of chemical fertilizers and insecticides, distribution of fingerling fish to private or communal fish ponds, planting of fruit tree saplings and the like. The longer-term benefits from these activities are rather difficult to evaluate.

(2) Infrastructural development activities include, for example, the hamlet school program, under which 966 hamlet school classrooms were constructed in CY 1966. This does not necessarily constitute an expansion of the educational plant by an equivalent amount, since many of these buildings replace structures that have been destroyed by the war, while others simply upgrade existing thatched-roof schools. Road building and repair, rural electrification, village dispensaries, malaria control and suppression, irrigation projects, well drilling, and the establishment of agricultural demonstration training centers are other examples of investments in infrastructure under the RD program.

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(3) Some aspects of RD are purely direct-consumption projects. The massive distribution of PL 480 foodstuffs through refugee relief programs, through school feeding plans, and through a variety of ad hoc institutional arrangements, have no discernible enduring effects other than the temporary relief of hardships and sustaining of life.

For a more detailed description of the wide spectrum of on-going RD programs, see the Komer Report to the President (R.W. Komer, The Other War in Vietnam -- A Progress Report, A.I.D., Washington, D.C., 1966).

THE INFORMATION GAP

A familiar problem common to most less-developed countries is the lack of current information on the level and trends of economic activity and the absence of an adequate historical data base. In Vietnam, the situation is especially troublesome, inasmuch as regular, consistent data collection has not been possible over much of the country for a number of years, and conscription has decimated the GVN's limited statistical and information-gathering apparatus.

Statistics of various kinds are still collected by several GVN agencies. The National Bank issues monthly statistics on monetary circulation and operations of the financial system (Banque National du Vietnam, Bulletin Economique); The National Institute of Statistics issues a Monthly Bulletin of Statistics covering a variety of demographic, cost of living and other economic indicators; the Ministry of Agriculture's Agricultural Economic Statistics Service undertakes sample censuses of agriculture, and the Ministry of the Interior issues population registration data. The last set of social accounts was developed for 1964 in the National Bank with Ford Foundation-Brookings Institution assistance. These GVN statistical services are supplemented by a modest US Mission data collection effort begun in early 1965, monitoring fluctuations in the free market gold price, US dollar and MPC exchange rates, and changes in the retail price level.

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All of these data contributions are, of course, severely limited both in scope and in reliability, and it is probably fair to say that there is little that can be called a regular process of accumulating organized knowledge in Vietnam today.

The situation is aggravated by the fact that the US Mission over the years has neglected to develop an institutional memory of its own that would permit accumulation, storage, and retrieval of its extensive knowledge and experience in Vietnam. With a longer-range perspective in mind, a national planning effort in Vietnam could make a real contribution by resuscitating the vast array of studies and surveys on many aspects of the society that have already been undertaken and that continue to proliferate. Relevant past findings should be incorporated into the national planning effort and some institutional arrangement devised by which this knowledge could be kept conveniently in the public domain, both in Saigon and in Washington.

GROWING US INVOLVEMENT AND GVN DEPENDENCY

The US is faced with a curious dilemma in Vietnam: a principal American objective is to defend the government against annihilation. In the process, the US presence in Vietnam and its stake in the outcome of the war has grown ever larger, and with it the need to have a greater role in the running of the war and more direct influence on Vietnamese decisions. Paradoxically, however, the GVN can survive politically only if it remains visibly independent and sovereign. Everything depends, then, on how leverage is obtained and how it is used.

At first glance, there should be little conflict, since the USG and the GVN share the same ultimate objective of defeating the VC and preserving the independence of the country. But looking beyond principle to the real-life day-to-day concerns, interests do diverge and what appear to be secondary considerations in US eyes turn out to be all-compelling ones to the GVN. Among such "secondary" considerations are the relative power and status of individuals, the structure of institutions that affect power relationships, control over resources, and so forth.

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Debilitating Effects

The growing US involvement has wrought changes in the way the Vietnamese perceive the war and their role in it, particularly the elite, whose understanding is most vital. The basic change is a widespread feeling that it is no longer their war. They recognize that they are unable to win it alone or even with enormous help from the US, and they believe that they have now become simply a pawn in the confrontation between the big powers, principally the United States and China. Feeling themselves no longer in control or even essential to the outcome, many Vietnamese have turned to fatalism and apathy, and have increasingly allowed the pursuit of private gain to displace the public good. Concurrently, their willingness to carry out the responsible functions of government has declined in proportion to the US willingness to expand its own role.

The extent of US influence over Vietnamese affairs is consistently overestimated by the Vietnamese public, which attributes to the US a much greater ability consciously to guide and direct the course of events than the US in fact possesses. Generally ill-informed of the facts and misled by pervasive and exaggerated rumors, public opinion blames the US for intervening and at the same time demands intervention in matters which the US is unable to affect.

In sum, the enlarged US commitment in Vietnam has engendered considerable public misunderstanding of the US role and has failed to convince either the GVN elite or the public that there exists an identity of US and GVN interests. At the same time, it has had a perverse effect on Vietnamese motivation and behavior, exacerbating previously existing destructive tendencies.

GVN Resentment

In the present psychological climate, GVN resentment takes many forms, but manifests itself mainly in arguments over burden-sharing and in irritation with Americans, individually and collectively.

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The argument over burden-sharing is pervasive. Every activity involving joint participation and funding must, in its planning, pass through a bargaining process over what share of the resources are to be provided by each side. In many cases, the Vietnamese bureaucracy uses a negotiating strategy (at which it has become quite adept) in which is displayed a studied disinterest in the proposed activity in order to elicit a maximum US contribution. In other cases, the bureaucracy really has no interest in the proposal, resents US pressure to gain its adoption, and expects a reward when it does acquiesce. Burden-sharing arguments become most intense when the discussions turn to aid levels and to associated economic policies, such as GVN revenue and expenditure targets or how imports should be processed through the ports. At the same time, the Vietnamese are very much aware that their growing economic dependence on the US continually reduces their ability to stand alone. They seek to offset this by such measures as maximizing the accumulation of foreign exchange reserves, even at the expense of aggravating inflationary pressures.

The acrimony of burden-sharing debates is often masked by traditional Asian politeness. American frustration is not always so well concealed. The Vietnamese, however, are not hesitant to disclose their feelings privately to friends. And these feelings are now reinforced daily by the growing social frictions of everyday life.

The increasingly strained relations between Americans and Vietnamese are a matter of utmost concern. Measures will have to be taken to reduce the frictions, but they must be weighed against their heavy financial and operational costs, as for example, when large numbers of Americans are moved out of the cities. Unfortunately, such measures may only have marginal success. As a prominent US Army general is said to have observed: "There is a race between two horses, the American war horse and the horse of resentment over the American presence. It is up to the Americans to insure that the war horse gains victory over the Viet Cong before it is overtaken by the horse of resentment."

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US Search for Leverage

The American stake in Vietnam today is such that failure would be disastrous, and would affect power relationships throughout the world. When the situation becomes that tense and the stakes that high, every issue begins to look crucial, though it may only be tangential. The US finds that it must concern itself with an ever wider range of Vietnamese policy issues and must become involved in the most detailed of GVN operations.

One US reaction has been to seek sources of greater leverage. The search, however, has not been notably successful. In part this is because the US national security stake in the outcome in Vietnam is as great as the GVN's political stake in its own survival. Hence a threat that the US will pull out or limit its support is not regarded by the Vietnamese as a credible possibility. Also the weakness of the GVN authority structure has multiplied the points at which leverage must be applied in order to affect performance. Another US reaction has been steadily to take over responsibility for an increasing number of functions previously reserved to the GVN. The limitations to this approach are manifold, given the disabilities under which foreigners operate in an alien culture, such as brief tours of assignment lasting a year or two at most, language barriers, and other factors. Another reaction, of last resort, is to apply direct influence on particular issues by irregular means (deals, payoffs, etc.), but such measures may well be more destructive of long run interests than is warranted by short run gains.

GVN Predilections and Idées Fixes

In addition to resentment of its presence and resistance to its influence, the US often encounters strongly-held GVN precepts and notions that are hardly appropriate to the present situation. In the economic sphere, for example, there is a widespread conception that insurgency arises from poverty and that the solution lies in economic development. Thus the GVN presses the US for massive "desmonstration" projects that are intended to symbolize the government's

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concern for the national welfare, but that do nothing to improve its political competence and acceptability. Not only is this a misreading of the problem, but it is also a reflection of the GVN's need for reassurance from the US and a flight from reality: the need to get rid of the war by behaving as though it were not there.

Another example is a widespread GVN hostility to private enterprise, an ideological commitment to the notion that the government should monopolize large areas of the economy. Given the GVN's current capacities, this is a romantic view. But even if the government were a great deal more effective, such a primitive socialist ideology poorly serves the needs of Vietnam. Still, the view is not entirely ideological, since it also reflects hostility to the Chinese and the desire to enhance centers of bureaucratic power and control.

The Need for Sensitivity

The complex array of motives and emotions that condition GVN actions makes the exertions of constructive influence by the US a formidable task. The US can expect to be inextricably involved in assuring Vietnam's continuation as an independent nation throughout the foreseeable future. The depth of this involvement has sensitized the Vietnamese to every nuance of American behavior. In Vietnam, as in most Asian countries, personal relationships play an extraordinarily important role in governmental affairs. The acceptability and effectiveness of Americans in Vietnam are greatly increased if their working style displays restraint and sensitivity, and if they embrace objectives that do not run blatantly counter to those of the Vietnamese.

Thus it is important to dispel the impression that the US has only an instrumental interest in Vietnam, viewing it as a battleground and nothing more. The US goal must be clearly seen as nation-building for Vietnam, not as either of two extreme alternatives -- total detachment or neo-colonialism. A national development planning effort can be a valuable instrument to this end. Properly executed, it could serve to increase the authority of the leadership within the Vietnamese

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power structure, to enlist its participation in joint efforts, and to reassure the Vietnamese that the US seeks to strengthen their government, not take it over. It can also contribute to the development of a broader dialogue with the GVN on important issues of common concern, in an atmosphere of rationality and in a context other than that of bargaining over burden shares. To the extent that joint approaches to decision and action can be devised, they will lessen the appearance that solutions are unilaterally imposed.

SEARCH FOR COMMON POLICY

Progress in Joint Approaches

Some progress in joint approaches has already been made and more can be expected with improved GVN performance and self-confidence. But it has been very slow in coming. The Diem regime was in its later years totally dedicated to the cause of excluding US influence. Following Diem's fall, no regime was in control long enough to recognize the need for joint approaches nor confident enough to run the political risks of promoting them. Individual Vietnamese who cooperated too willingly found themselves branded as American puppets. Now, however, the overpowering US presence and the greater confidence of the Ky government have made joint approaches both mandatory and possible. A high-level US/GVN joint executive group was formed in 1965 which made it possible for the US Ambassador and his chief subordinates to meet regularly with the Vietnamese Prime Minister and his principal associates. This body was to be paralleled by other joint bodies; so far, however, the lower elements have rarely met.

When inflationary pressures and other economic issues reached crisis proportions in early 1966, the need for more continuous close consultation between the two governments became unmistakably apparent. A Joint Economic Committee was formed and has met regularly. Although not too much action has resulted, the discussions have proven helpful and, in time, joint approach to policy formation on critical

economic stabilization issues may become an accepted process in US/GVN relations. The resignation of Minister of Economy Au Truong Thanh may prove to be a set-back to this promising development, at least until the new minister is properly established in his position.

Progress in GVN Performance

An important new development in GVN organization is the creation of a Ministry of Revolutionary Development, which for the first time centralizes authority for a vital functional program that had previously been distributed haphazardly throughout the GVN. Special budgetary procedures have been instituted which have short-circuited the normal ministerial bureaucracy and delegated contracting and obligational authority to the province chiefs. These procedures permit the greatest possible flexibility in operations at the lower levels of government and provide means to take advantage of fleeting local opportunities. Since its creation, the senior Ministry of RD has gradually absorbed more and more authority, until now it makes its influence felt in virtually all the GVN civil programs in the countryside. This decentralization of operational control to the provinces is unique in Vietnamese experience, and gives rise to the expectation that, with stability, the antiquated administrative machinery inherited from the French can be streamlined and made more effective. Much remains to be done to complete the reform of this program and make it fully effective, but this was a necessary first step.

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Further improvement in GVN performance will depend on governmental changes both at the center and at the provincial level. If greater technical competence can be imparted to the GVN, the need for US involvement at so many points will be reduced. Organizational reform within the US Mission will also benefit the capabilities of the GVN. In the final analysis, the most important contribution to improved GVN performance and to effective cooperation with the US will be the emergence of greater legitimacy and political stability in Vietnam.

Value of the US Commitment

The GVN has been saved at several critical points in its life by an enlarged US commitment. But while the government has thus been preserved, its steady erosion has not been arrested.

US power in Vietnam found itself on the horns of a dilemma. On the one hand, it had to prevent the disaster of collapse of a critically enfeebled government; on the other, it had to maintain both the fact and the appearance of Vietnamese independence. Having successfully averted disaster, the US must now move toward a more stable relationship with the GVN. In particular, the GVN must be freed from the disability of either being or appearing to be a US puppet. The nature and content of the US commitment is crucial in achieving this end.

The durability of the US commitment is significant, but other attributes are equally critical. The nature of the US objectives in Vietnam must be less ambiguously defined so as to make clear that they are directed strictly toward assuring the independence of South Vietnam. Just as clearly, the US must help the Vietnamese in forming a public consensus on national aspirations and in developing a viable institutional structure. This process is necessary and urgent, but it must not be forced at too fast a pace. Above all, the US must not confuse the objective of creating a viable political structure with promoting the preferences of individual Vietnamese for one particular structure or another.

Managed skillfully, the joint planning effort has many of these desirable attributes. It is a mark of the durability of the US commitment, and it is intended to build an independent future for Vietnam. The planning process will of course raise many sensitive issues. But by discussing these issues in a technical, objective and joint group context, it will be possible to establish the genuineness of the US interest and to promote discussion and clarification without arousing suspicions concerning US objectives.

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PART IV

ASSETS CREATED BY THE WAR

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PART IV

ASSETS CREATED BY THE WAR

PHYSICAL ASSETS

Merely to inventory the vast array of physical facilities and sites that have been and are being created by the war would be a formidable undertaking. The following is a sampling of the more important categories:

Aviation Facilities

There were in Vietnam as of 1 November 1966 a total of 116 airfields in operation. Seventeen of these are fully equipped modern bases, with night and day capabilities, over sixty of them have limited ground controlled approach capabilities, and thirty-nine are minimally operable. This complex is obviously beyond requirements for a domestic civil air operation for the foreseeable future. The potential of each of these installations for other uses needs to be examined in detail and the sunk costs they represent balanced against the conversion and operating costs in these alternative uses.

Port Facilities

There are deep draft berths available in the ports of Saigon, Danang, Cam Ranh Bay, and Vung Tau. Five more deep draft berths are under construction in the Saigon area (4 at Newport and 1 at Fishmarket). Completion is expected by August 1967, which should permit phased release of berths in the main port to the civilian sector.

In Danang an additional permanent pier and one Delong pier are being installed; at Cam Ranh Bay a sheet pile wharf and two Delong piers are in process of construction; in Qui Nhon four Delongs, assembled into a "T-head" unit, and a 1200 foot sheet pile wharf are underway. At each of these sites, port access routes have been greatly improved and open storage and warehouse facilities expanded. Again, as military requirements decline at each of these installations, alternate commercial uses will become possible.

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Bases and Cantonments

The US military bases and cantonment complexes are too varied to permit easy generalization regarding their convertibility. Following is a listing of these bases as of the end of July 1966, with indications of the investment as captioned for the construction so far.

Table A

MILITARY CONSTRUCTION IN SOUTH VIETNAM

Scheduling/Spending Performance
as of 31 July 1966
 (thousand dollars)

<u>BASES</u>	<u>Total Funded and Scheduled</u>	<u>Total Spent to date</u> (work-in-place basis)	<u>Total Spent in July</u>
An Khe	7,549	1,467	521
Ba Ria	6,389	0	0
Ban Me Thuot	2,496	0	0
Ben Cat	1,296	472	41
Bien Hoa (A)	11,288	2,591	13
Bien Hoa (AF)	18,689	5,011	2,464
Binh Thuy	902	0	0
Cam Ranh Bay (A)	76,740	13,022	2,469
Cam Ranh Bay (N)	15,190	469	0
Cam Ranh Bay (AF)	42,607	14,811	1,840
Can Tho (A)	1,429	744	300
Can Tho (N)	1,932	0	0
Chu Lai	64,132	11,506	3,478
Cuchi	9,236	385	385
Danang (N)	69,382	15,725	6,789
Danang (AF)	8,758	3,239	1,029
Danang East (A)	3,202	1,371	7
Danang East (N)	64,726	20,023	5,802
Dong Ba Thin	2,612	246	0
Hue	3,000	0	0
Long Binh	27,389	1,956	943
My Tho	2,433	0	0
Nha Be	3,029	0	0
Nha Trang (A)	18,374	1,508	518
Nha Trang (AF)	5,192	1,406	518

(continued)

Table A (continued)

<u>BASES</u>	<u>Total Funded and Scheduled</u>	<u>Total Spent to date</u> (work-in-place basis)	<u>Total Spent in July</u>
Phan Rang (A)	9,193	684	6
Phan Rang (AF)	26,253	5,678	2,065
Phu Bai	4,285	302	301
Phu Cat	21,374	317	284
Phu Loi	3,380	396	0
Phuoc Vinh	1,273	253	31
Pleiku (A)	12,566	558	116
Pleiku (AF)	3,496	1,130	886
Qui Nhon (A)	31,360	3,299	842
Qui Nhon (N)	1,792	830	208
Sa Dec	1,786	0	0
Saigon (A)	52,772	10,007	2,974
Saigon (N)	2,000	1,075	0
Soc Trang	554	1,179	467
Tan Son Nhut (A)	1,353	0	0
Tan Son Nhut (AF)	22,361	8,632	2,546
Tuy Hoa (A)	1,382	3	3
Tuy Hoa (AF)	25,343	0	0
Vinh Long	1,658	0	0
Vung Tau	14,881	1,854	727
Various Locations			
" (A)	18,958	1,510	467
" (N)	4,093	1,390	326
" (AF)	5,922	4,160	277
Base W	7,887	0	0
Subtotals	\$ 743,894	\$ 139,209	\$ 39,643
Undistributed Assignment			
" (A)	78,190	--	--
" (N)	7,988	--	--
" (AF)	2,599	--	--
Totals	\$ 832,671	\$ 139,209	\$ 39,643

(A) Army
(N) Navy
(AF) Air Force

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The timely completion of some of these projects is hindered by the inability of US construction units to move materials, men and equipment over the existing roads and railroad network in South Vietnam. The railroad is operable over very short sections of line, and major highway routes such as 1 and 14 are continually interdicted by the Viet Cong. Most of the movement is by air, thus requiring considerable air support to build the US logistic base.

Although the US logistic capability within South Vietnam is increasing, the present capacity for airlifting construction resources must be expanded to ensure the timely completion of existing projects. Alternatively, combat forces would have to be diverted to open up and secure surface lines of communication.

Military Communications

GVN and US military forces operate separate communication systems. ARVNAF operates an HF point-to-point radio network and an extensive VHF radio relay system. It also has priority access to the facilities of the General Department of Post and Telecommunications. US military forces operate a high-capacity transmission system using tropospheric scatter and VHF and microwave radio relay facilities for command and control communications from MAC/V headquarters in Saigon to all major US military units. Much of the system is mobile and transportable in nature, but is being replaced with improved fixed plant facilities. It is technically quite sophisticated, requires highly skilled manpower to operate, and is costly to maintain.

The US is installing Armed Forces Radio and TV facilities. TV stations will be located at Saigon, Danang, Nha Trang, Qui Nhon, Pleiku, An Khe, and Chu Lai. Radio stations (AM) will be located at Saigon, Ban Me Thuot, Cam Ranh Bay, Danang, and Qui Nhon.

MILITARY CONSTRUCTION CAPACITY

Size and Composition

The rapid and largely unprogrammed buildup of US military forces in Vietnam which began in 1965 generated sudden

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construction demands far beyond the capability of the military forces and local Vietnamese contractors combined. A consortium of US construction companies, Raymond-Morrison-Knutsen and Brown, Root and Jones (RMK-BRJ) was then created. Other US contractors, Philco, Vinnel, Hueback, as well as Philippine and Japanese companies are undertaking additional portions of the vast construction effort. Gradually (too rapidly, some might argue) the contracting capability of the US companies was augmented. By 1 November 1966 it had reached 40 million dollars per month and is expected to rise to, but not top-out at, 50 million dollars by the end of the year.*

Concurrently, the US military construction capacity was expanded as quickly as personnel and equipment could be brought in to Vietnam. It is estimated that, by the end of 1965, the military services troop construction capability will be roughly comparable to that of RMK-BRJ, or approximately an additional 50 million dollars per month.

The magnitude of the total US military construction effort in South Vietnam becomes apparent when one realizes that it is the largest single fixed investment in the Republic, far exceeding the combined totals of GVN budgetary investments and the total input of USAID funds. Projects funded to date total 848 million dollars. Substantial additional DOD requirements exist, but have not yet been funded. They could add as much as 800 million dollars more to the total construction program.

The construction consists of such military facilities as ports and dock complexes, airfields with their support facilities, cantonment areas, warehouses, maintenance facilities, hospitals and office buildings. The nature of the projects funded and construction completed as of 1 November 1966 are shown in the following table.

* Figures provided by Engineering Division, FE/TECH based on Navy Department data. For an excellent description of the military construction undertaken by RMK-BRJ, see John Mecklin, "Building By the Billion in Vietnam," Fortune, September 1966.

Table B

MILITARY CONSTRUCTION IN VIETNAM
as of 1 November 1966*
(million dollars)

	<u>Total Amount Funded</u>	<u>Current Project Cost Estimate</u>	<u>Actual Physical Completion</u>
Cantonments	255.9	273.5	54.4
Airfield Pavement	143.0	182.4	62.8
Airfield Support Complexes	74.4	87.1	19.1
Communication Facilities	21.1	22.5	2.0
Port Facilities	104.7	111.5	35.2
Fuel Storage	32.4	32.5	5.6
Maintenance Buildings	17.8	18.6	1.7
Ammunition Storage	15.1	15.3	4.5
Cold Storage	13.0	10.5	4.0
Warehouses	30.0	26.7	9.7
Shed Storage	5.1	4.9	3.5
Open Storage	6.4	6.9	2.3
Hospital	20.6	22.5	5.6
Administration Buildings	38.3	38.2	1.8
Local Improvements	28.5	26.5	1.6
Undistributed	41.7	53.4	2.7
TOTAL	848.0	933.0	216.5

* Source: U.S. Navy, Bureau of Yards and Docks.

Of the total contracting capability, over 60% is devoted to heavy construction, the remainder to support activities. On some of the larger projects, troop construction elements and contractors work together.

As of October 1, 1966, total contractor employment amounted to 43,000 of whom about 32,000 are Vietnamese. The balance is about equally divided between US and third country nationals.

It is estimated that, by the end of 1966, some 200 million dollars worth of construction materials will be on hand, designated for planned or ongoing projects.

On the basis of current plans, by the end of 1968 foreign contracting capabilities should no longer be required, since troop construction capacity is then expected to be adequate to carry out what military construction may be required after that date. If this expectation is fulfilled, the contracting capacity should become increasingly available for peaceful construction beginning sometime in 1967, provided, of course, that no high priority military requirements elsewhere preempt this contracting capacity.

Methods of Contracting

It may be useful to distinguish among four methods by which the US underwrites construction in Vietnam:

(1) The USAID/GVN route, in which A.I.D. pays the dollar costs for architectural and engineering services (A&E) performed by a United States firm and for procurement of offshore commodities; the GVN pays the piaster costs of in-country procurement and construction labor. Examples are Chieu Hoi Centers, Rural Trade Schools, Police Training Centers, some warehouses, highway repair and railroad repair.

(2) The OICC route, in which USAID funds all costs, but the entire effort is carried out through OICC (Office in Charge of Construction, US Navy). The latter contracts for the A&E and for the construction itself, through a prime contractor, e.g., RMK-BRJ, who procures commodities both offshore and in-country under Armed Services Procurement Regulations, and obtains labor from the United States, third country, and local sources. An example of this method is the Cam Ranh Bay housing project.

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(3) A combination of (1) and (2) in which, for example, A.I.D. provides major offshore commodity procurement while OICC contracts for all the rest. Examples of this are the port facilities at Danang, Nha Trang, and Qui Nhon.

(4) A modification of route (1), assigning a larger role to the GVN. Thus, the GVN may contribute labor through self-help or it might underwrite design or A&E costs. Examples of this are hamlet schools.

Each of these construction routes places differing demands on available resources, has a different inflationary impact and differs in the quality of its end product. Generally speaking, the OICC route tends to be the most expensive in dollar terms, since dollars must be provided for the total job and OICC overhead is high. It tends to be the fastest and is most likely to assure high quality, but may be more inflationary to the extent that higher wages and salaries are paid to both foreign and local labor, and to the extent that these earnings are spent in-country.

The first and last routes described above require a degree of cooperation and integration of US/GVN planning and execution that is generally not forthcoming. However, they are more likely to benefit the development of Vietnam's own capabilities.

THE MILITARY'S TRAINING AND EDUCATION ROLE

A major asset is being created by the war in the form of technically trained and experienced manpower. Many of the men who are now serving in the armed forces of the Republic have received a degree of technical training to which they would not have been exposed in the course of their normal civilian lives. These thousands of officers and enlisted men are gaining managerial experience; a considerable number, breveted as District or Provincial officials, are acquiring experience as civil administrators. In the future, as the emphasis shifts toward the civil effort, it may be possible to utilize these leadership and managerial resources increasingly in the civilian sector.

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Additional thousands of common and semi-skilled laborers, swept up into the vast military construction effort, are gaining skills through the experience, and through the training courses conducted by the various construction undertakings. Beginning in 1967 and progressively thereafter, this skilled and semi-skilled labor force will become available for employment in other endeavors.

Both within the Vietnamese military establishment, and in the US-funded construction effort, there are opportunities for diverting some portion of the military output-oriented resources to a training role. Many countries that have maintained large standing armies for many years (Korea, Indonesia) have found it efficient to re-orient their military organizations into a massive training-educational institution.

In Vietnam, ARVN has not yet begun to move in this direction. As ARVN's mission changes to focus increasingly on pacification, a logical counterpart would be for ARVN to assume greater responsibilities within its own structure for the organized technical training of its personnel, and for their education toward eventual productive civilian purposes.

Similarly, as the urgency of the military construction effort diminishes, more attention can be devoted by US contractors and by troop construction units to the transfer of their technical and managerial skills to their Vietnamese counterparts. Instead of making the rapid completion of the construction project the sole objective, the effort can increasingly stress the training role, and the development of independent capabilities on the part of the Vietnamese. In this way military expenditures in Vietnam can begin to yield concrete benefits for the ability of the Vietnamese to carry on independently and with their own resources.

ATTRactions AND LIMITATIONS OF CONVERSION

The enormous investment in physical facilities built in the course of the war touches almost all parts of the country and raises the intriguing possibility of major conversion to

peaceful uses. Such possibilities do in fact exist, but there are also important limitations.

Convertibility to Development Purposes

There is, of course, the obvious emotional satisfaction and political appeal of "beating swords into plowshares." The military facilities can clearly be made to serve civil infrastructure needs, i.e., for housing, educational and medical institutions, transport and communications facilities, as well as incremental amounts of power generating and water distribution capacity.

But their convertibility must also be examined rationally in terms of real needs and economic costs. The urgency and rapidity of the construction effort precipitated by the introduction of US forces into Vietnam made it impossible to preplan the effort with ultimate development objectives in view. While many of the projects may have important civil uses, the convertibility of others may be quite limited. Many are located in remote, isolated, even inaccessible areas. Some -- airfields, for example -- have doubtless been overproduced, while others -- bases and cantonment complexes -- will probably be taken over by Vietnamese military elements as they are vacated by the Americans. Also, many of the structures were deliberately erected for temporary use. If left intact, they might not long survive in a tropical environment without extensive and expensive maintenance. Furthermore, while the US has made it amply clear that its military presence is not to be a permanent one in Vietnam, the situation in Southeast Asia upon cessation of hostilities may make it prudent to preserve a rapid reentry capability. This issue will inevitably be of legitimate concern to US military authorities.

Sunk Costs Versus Incremental Costs

That conversion possibilities and costs need to be carefully studied is further underscored by the fact that neither original nor replacement cost is any indication of a facility's value in civil uses. Most of the facilities were built in great haste, to military specifications, and for specialized military uses. The cost of their conversion is likely to be very high.

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Given the special character of military facilities, they may also be extremely expensive to operate. An outstanding example of this is the troposcatter communications system that connects Saigon and Central Vietnam. Being of very advanced technical design, its operating costs reportedly run on the order of a million dollars a year. The system is fully justified by military necessity now, but would be a financial millstone for the Vietnamese as a commercial facility in peacetime operation.

Cost/benefit calculations in the best sense of the term are therefore called for. Conversion feasibility studies must consider both the costs of conversion and of operation and maintenance, and compare them with the costs of alternative new facilities designed expressly to meet peacetime needs. Any calculation of benefits should of course exclude excess capacity that has no foreseeable economic application.

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PART V

NATURE AND FOCUS OF DEVELOPMENT PLANNING

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PART V

NATURE AND FOCUS OF DEVELOPMENT PLANNING

OBJECTIVES OF DEVELOPMENT PLANNING

In the transition from war to postwar, the crucial tasks for the GVN will be to restore law and order throughout the country, to extend and strengthen political stability, and to sustain a growing economy within a larger Southeast Asia region. In light of these tasks, national development planning should pursue the following priority purposes:

(1) It should promote the speedy recovery of the country from destruction, disruption and dislocation.

(2) It should create the capacity to transform Vietnam into a prosperous, modern nation and to secure its place in the larger regional and world economy.

(3) It should contribute to the rebuilding of governmental authority, to the creation of a variety of social institutions, and to their engagement in a productive relationship with the GVN, thus restoring structured political life in Vietnam.

ECONOMIC CONSIDERATIONS

There are three extraordinary war-induced economic problems and a variety of more conventional problems of choice that confront the development planner in Vietnam. Both types are described below.

Extraordinary Economic Problems

Disruption of a rich agricultural base. The agricultural potential in Vietnam is enormous. But for the disruption of the war, South Vietnam could be, like Thailand, one of the richest exporters of rice and other primary agricultural products in Asia. The challenge of restoring this production capability constitutes the outstanding postwar development opportunity. The major questions for development planning are:

(1) What is the most efficient combination of investments as between higher yields, multiple and diversified cropping, services to agriculture and basic as well as adaptive research?

(2) What proven technical solutions are appropriate to this combination of investments and how can they be communicated to and gain acceptance by peasant agriculture in Vietnam?

Distortion of the economy. Dependence on unprecedented amounts of foreign economic and military aid have distorted the national economy. Questions for development planning are:

(1) How adequate are Vietnam's own resources, if not drawn off by war, to maintain the present standard of living?

(2) What domestic economic policies will in time restore Vietnam to a politically acceptable self-supporting basis? (How costly a set of social welfare programs? What efficient feasible methods of mobilizing taxes, savings, foreign exchange rationing, etc.?)

(3) What level and design of aid program is appropriate to that goal?

Shift of resources. The war has caused a basic shift of manpower and capital out of village agriculture to the secure and booming towns and cities. Questions for development planning are:

(1) What are the opportunities for drawing people back to the countryside by appropriate development policies (intensification, land resettlement, etc.)?

(2) What are the opportunities for developing new permanent economic activities in the nonagricultural sector?

Conventional Problems of Choice

Locational Choice

(1) Which of the dozen ports in Vietnam considered for, or already under development, offers the greatest benefits for location of a deep-sea facility?

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(2) Should major light industrial development be located near markets (Saigon), near transportation (Cam Ranh Bay), or near raw materials (Nong Son coal mine)?

Technological Choice

(1) Should a projected nitrogen fertilizer plant be anthracite coal or liquid petroleum fueled?

(2) What is an efficient combination of transportation modes, assuming continued heavy military investment in rehabilitation and expansion, and continued conditions of insecurity?

Resource utilization choice. Insecurity and the lure of higher returns have increasingly diverted the fishing fleet to a coastal cargo-carrying role. Both fishing and cargo activities are needed. What combinations of economic measures will increase fishing output and at the same time provide adequate coastal cargo-carrying capacity?

Sectoral choice. As a result of the war and rural-urban population movements, as well as the heavy demand for labor in construction, small-scale industry, and services, the center of gravity in Vietnam has begun to shift from an almost entirely agrarian society to a more urban-oriented economy. What non-agricultural sectors offer the greatest promise of utilizing the newly developing resource mix most efficiently?

Market Choice

(1) Domestic market versus international trade. Given Vietnam's long-run ability to develop a highly efficient agricultural export industry, how large an effort should be made to develop a world market for Vietnamese manufactures? While the US commitment to rebuild Vietnam in the transition is firm, the GVN will wish, through its economic policy, to terminate the donor-recipient relationship as quickly as possible. The choice of industries and the scale of plants should be influenced by this objective.

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(2) World versus region. Given the growing political awareness of a community of Asian interests, much attention will be paid to trade within the region. What is Vietnam's potential for this trade?

(3) Complementarity with North Vietnam? Superficially the North's raw material-rich and industrially more advanced resource endowment would seem to offer possibilities for profitable exchange with the agriculturally efficient South. The real economic benefits and the political impediments, however, may militate against this. Nevertheless, the question is of fundamental importance for the future economic structure of South Vietnam.

SOME NON-ECONOMIC GUIDELINES FOR DEVELOPMENT

Development planning under the special conditions of Vietnam must be designed according to a combination of economic and non-economic criteria. The following offer some guidelines of a non-economic nature that may assist in setting priorities. Along with the economic considerations described above, special weight should be given in program choice to the following kinds of considerations.

Easing GVN Administrative Burdens

An important purpose of the development effort clearly must be to reconstitute and expand the GVN's technical-administrative capacity. Public administration training, specialized education, strengthening of procedures and institutions, the revitalization of the civil service system, all must rank very high on the list of developmental priorities. But such an effort is bound to be slow in bearing fruit and will, in the meantime, place further strains on the system. The development program, therefore, should seek to reduce as much as possible the burdens placed on the administrative mechanism. Preference, thus, ought to be given to projects that draw on the resource available outside the civil government, particularly in the private sector. The potential contribution of this sector to economic and social activity in Vietnam is considerable (e.g., one-third of all primary education and two-thirds of secondary education in the nation

is privately provided). But to exploit this potential more fully requires active GVN encouragement, and creation of an environment of growing stability and confidence to which the long-range development study itself can contribute. In a post-hostilities situation, or in a period of transition, it should be possible to mobilize private energies to a much greater extent than at present.

Another powerful source of potential productive effort resides in the military establishment. In a period of diminishing hostilities, while it may be politically difficult to induce ARVN to reduce its forces and economically undesirable to demobilize too rapidly, it may be possible and even advantageous to utilize much of the skilled and technical manpower and the organizational talent of the military in civilian capacities on major educational ventures or other developmental tasks.

Creating Nongovernmental Social Institutions and Engaging Them Actively in Program Execution

The deficiencies of government in Vietnam have already been chronicled in an earlier section (Part III, The Government). To some extent the qualities of incompetence, corruption, and unresponsiveness are traditional. But by now they have reached intolerable proportions. In large measure, of course, the disabilities of the GVN are a result rather than a cause of the insurgency. They were deliberately inflicted and aggravated by a VC strategy, pursued over many years, aimed at destroying the efficacy and cohesion of the ruling elite and at discrediting its claim to legitimacy.

In the past, the traditional failings of government were tolerable because control over the rural population was decentralized and the central government's power was limited. Most people were in fact governed by their hamlet and village authorities, over whom the villagers had considerable influence. The central government was mostly preoccupied with Saigon and with central administrative problems and its reach was too short to interfere significantly in village affairs. This protective distance began to break down long ago, under the dual impact of economic development and wars of conquest. The demands for effective government in the

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countryside became ever more pressing and the ability of the GVN to project its authority ever more feeble, as the VC learned how to mobilize the rural population and to weld it into a weapon to be turned against its government.

The GVN's authority today rests almost entirely on its control over the instruments of coercive power (the military and paramilitary forces). But being both unresponsive and un-representative, it is regarded by even the most steadfast anti-communists as devoid of legitimacy. The central role occupied by the military within the GVN is not accepted as inevitable by the civilian elite and is in fact deeply resented, both because the military enjoys little status in Vietnamese society and because the behavior of the military has often been brutal, arrogant, and insensitive.

Cynicism and disenchantment with the GVN is pervasive. To some degree it even affects those at the center of governmental power. They no longer feel either fully responsible or under effective discipline. They lack a clear vision of the outcome of the war, and are increasingly weary of the whole business. Finally, they are infected with the deteriorating code of personal conduct that they see around them. Under the circumstances, it is not a question of why the government does not function well, but why it continues to exist at all. Surprisingly, however, in the midst of widespread demoralization, integrity, idealism and dedication do persist in many places and among individuals both in and out of office. But they are isolated and their energies not galvanized.

Lack of confidence at the center is naturally reflected in disbelief at the extremities. The environment is one of growing suspicion, distrust and willingness to attribute the most extreme and absurd personal motives to those in power.

The missing element in this situation is a political process which restores the link between the government and the governed. Such a process is essential if the GVN is to be legitimized, in the sense of deriving its power from some commonly accepted consent and subjecting its behavior to the constraints of what the community considers acceptable,

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predictable, and just. If such a process could be created, the authority structure would become more firmly rooted in the concept of the public good, as expressed through law and legal institutions. Individuals would find it more difficult to rationalize their conduct according to personal standards or to refuse to carry out directions. Public institutions could no longer ignore their responsibilities.

A political process of this sort, however, requires structure. In the West, structure is provided by a system of law and by a set of institutions that range from the formal (courts, legislative bodies, executive departments) to the informal (parties, organizations, pressure groups).

It is of course not possible to create such a structure overnight or de novo. But in Vietnam, far from building such a structure, the circumstances of the war continue to tend in the opposite direction, destroying what structure had existed previously. Facilitating this destruction is the lack of an informal web of social institutions in Vietnam through which consensus is formed and the public will expressed.

There is surprisingly little awareness in Vietnam of the need for and proper role of social institutions. What ideas are expressed are primarily reactionary -- a romantic desire to return to the institutions of the traditional isolated village. Discussion centers on the issue of formal governmental organization, i.e., the constitution, executive branch, and national assembly, all of which are new and borrowed. The informal foundation of social institutions is almost completely ignored.

A basis for social institutions exists in the form of identities, regional, religious, professional, economic, etc., and a variety of such institutions do in fact exist. Their organization, however, is weak and their political behavior has been largely destructive. They are rarely involved in public affairs and their attitude toward the GVN ranges from indifference to open hostility.

The paucity of institutions capable of generating widespread public interest, of engaging the people in public

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tasks, and of committing the public to the support of its government, is everywhere evident -- in the hamlets and in urban neighborhoods, among farmers and workers, landowners and professionals. Organizing and mobilizing these groups will require the development of talented and skillful leadership, a common understanding of their role in society, and a permissive atmosphere that is clearly lacking now. Their energies must be directed toward important constructive tasks that provide a raison d'être other than that of influencing government. In Vietnam as elsewhere, there is no dearth of such tasks that will strengthen the sense of individual identity, engage youthful idealism, and serve economic self-interest.

National development planning can contribute to this task of social engineering. It can focus public attention on the issue; it can identify opportunities for strengthening social institutions; it can design programs that can be implemented by such institutions; and it can help develop ways in which the institutions can be brought into a more responsible relationship to government. The experiences of the Trade Union Confederation (CVT), the Tenant Farmers Union (TFU) and the Fisherman's Federation, provide examples of modest programs that were designed and initiated with these ends in view.

Arresting the Cumulative Demoralization of the Population in Urban Areas

The urban areas of Vietnam, and especially Saigon, have borne the brunt of the massive rural-urban migration of the past dozen years. The Greater Saigon Metropolitan Area now contains about one-quarter of the nation's population. Saigon is not only the seat of the government and its base area in fighting the war, but it is also the home of most of the country's intelligentsia. Programs carried on in the cities of Vietnam affect the people on whom the government is most dependent. These people are becoming progressively more demoralized by the all-too-visible consequences of the military buildup and the disintegration of the most rudimentary urban amenities. Moreover, there is every prospect that this process will not only not be

arrested, but perhaps even aggravated, if the military conflict continues to intensify and large additional migrants and refugees flock to the cities.

Three kinds of urban problems deserve most urgent consideration in any development effort:

(1) The maintenance and restoration of essential municipal services such as public transportation, urban sanitation, potable water, all of which are urban necessities that have both social and political significance.

(2) The provision of vital social services, such as adult education, medical care, sports and other recreational facilities, all highly relevant to urban morale.

(3) The more general problem of the capacity of the cities to absorb many more people -- to house them, feed them, and provide them with opportunities for employment, eventual career possibilities, and a stake in the future.

Enabling the GVN to Plan and Execute Programs
on Its Own

One of the main functions of the development effort is and should be to restore the GVN's initiative, self-confidence and public image as an effective government, independent of foreign tutelage. Thus, a major criterion for choosing among alternative activities should be the ability of the GVN to plan them and carry them out largely on its own with a minimum of visible US participation.

Smaller-scale projects and simpler technology may be preferable to larger enterprises with more advanced technology even if the latter involved a higher rate of return, provided the smaller ventures are associated with more Vietnamese and less foreign participation. In a sense, this point is nothing more or less than the usual labor-intensity criterion, but in this case the aim is to choose activities which are relatively intensive in their requirement for local labor and skills, and extensive in their requirement for foreign personnel and skills.

This is not to say that joint efforts involving close US and GVN cooperation would not be desirable. Where such efforts are appropriate, however, the relationship between the two governments should be clearly delineated; the arrangements should be formal and public, as for example, in the approach adopted so successfully in Taiwan between the US and the Republic of China in the Joint Commission for Rural Reconstruction.

Limiting Benefits to the VC

While the long-range planning effort should look hopefully toward the eventual cessation of the insurgency and the political reconciliation or unification of the country, such a complete termination of the conflict may be a long way off. In the transitional period, and even under some very favorable post-hostilities circumstances that might be envisioned -- cease-fire, national reconciliation, restoration of near-normal life -- it is likely that a potent hostile movement will continue to exist and pose a problem for the government. If not openly violent, it will surely persist as a rival political organization with considerable influence in many parts of the country.

It is important to recognize the lengths to which the VC have gone in organizing themselves into a competitive hierarchy, an alternative government with the objective of competing with and ultimately supplanting the established regime. They have always viewed their major task as not merely out-fighting, but out-administering the government. To this end, they have built up an elaborate administrative structure to collect taxes, draft recruits, exercise police powers, etc. More important, they have created a highly disciplined and effective political machine which will almost certainly survive into a post-hostilities period.

Though currently heavily supported from the outside, the insurgents' operating system basically depends for its sustenance on the local environment. The needed inputs of food, recruits, ammunition, and other resources are very largely extracted from the nearby countryside and from other parts of the South Vietnamese economy. Development planning for Vietnam, both in the transition and in a post-hostilities

context, cannot ignore the likelihood that there will be a continuing need to combat the remnants of the insurgent movement. Raising the cost and reducing the availability of inputs to that movement is a relevant consideration in the design of a development program. Thus, other things being equal, projects should be selected the benefits of which will not flow in large measure to contested areas and will not simply enlarge the general resource base of the insurgents. Thus in the sphere of agricultural development, where truly dramatic possibilities exist for increasing productivity, programs that raise rural incomes equally in pacified and in unpacified areas should be avoided. For similarly obvious reasons, it would be unwise to undertake costly symbolic projects in insecure areas that would be attractive targets for VC destruction or that might tie down military forces in static defense to protect them.

Similarly, the location of productive activities and of new investments should be based, in part, on their ease of surveillance and control by the GVN and by province and district authorities. For example, a less productive project that is easy for the GVN to control (e.g., because it is concentrated rather than spread out, or because it is located in a more rather than less secure area) may be preferred to a more productive project that does not have these characteristics.

To apply this criterion, it is of course necessary to have a fairly good idea about how the VC operate, and the options that are open to them for modifying these operations. Knowing something about how and what kind of taxes the VC collect, might, for example, help in deciding whether projects that involve wide distribution of incomes and benefits will simplify or hinder VC tax collections, compared with projects the income from which is concentrated among a relatively small number of income recipients.

Restoring Ease of Movement, Access, and Rural-Urban Links

A basic aspect of Viet Cong strategy has been the interdiction of roads, the blocking of waterways, the destruction

of railways, and the disruption ^{by} of whatever means possible, of normal economic and social intercourse among the population in the countryside and between the villagers and their government. The VC strangulation effort has succeeded in engendering a sense of isolation among large elements of the rural population and in imposing heavy costs of transportation, communication, and access upon the GVN.

The costs are in part economic. By sharply limiting freedom of movement, the VC prevent farm produce from being brought to the market and urban products and imports from being distributed in the countryside. Goods that are permitted to flow can do so only at the price of a heavy exaction in VC taxes. Destruction of bridges, interdiction of highways, removal of rails and demolition of miles of roadbed have inflicted heavy damage on all surface transport modes.

The costs of disruption, however, are not only economic. The more serious costs have been political. By restricting the movement of road-bound government officials, while enjoying largely unimpeded movement themselves, the VC have made it almost impossible for the GVN to provide consistent control, protection, and government for its rural population. Moreover, a psychological impression has been created among the people of GVN remoteness and impotence as against VC power and ubiquity.

Ease of communication, unimpeded movement, and the efficient internal distribution of goods and services are vital functions of government. If GVN influence is to be reestablished in the countryside, the speedy restoration of these lifelines is a prime development task.

There are at least three elements to this task:

Transportation. The transportation system has already been extensively studied (see TCI and DMJM reports) and much work is, in fact, under way as part of the military effort to clear and reopen major road and rail segments and to restore them to normal operating condition.

Natural erosion, use by heavy military traffic, and lack of general maintenance have caused extensive deterioration in the national highway system. At present, some 2100 miles of national and interprovincial routes require rehabilitation ranging from capital repair to new construction. Some 650 miles of highway are now in general military use, concentrated in the Saigon area, on Route 1, along the coast from Chu Lai to Dong Ha and from Phan Rang to Tuy Hoa, and on Route 19 from Qui Nhon to Pleiku. Within the next year, the highway mileage open and usable for military traffic is expected to grow threefold or more, and this will require a considerable road construction effort to accomplish. Rehabilitation of some 630 miles of railway trackage is also contemplated, restoration of which would mean more than one-half of the total Vietnam Railway System main line.

A host of quite fundamental questions must now be answered concerning the future development of transportation in Vietnam. For example, how can the military reconstruction effort be melded with a longer-run civil effort? Given the distortion of the transportation system by the war (e.g., the extensive development of port facilities all along the coast, the vast expansion of airports and airway facilities over much of the country), is there a special role in Vietnam, both in the transition and in the longer run, for a secure coastal transportation system and for an enlarged commercial airlift system? Would such a system be economically viable in the long run? What would its impact on the location of economic activity in Vietnam be?

Communication. From the government's point of view, means of communication provide the indispensable link in the information chain. And information needs to flow two ways -- from the GVN to the nation in the form of directives, propaganda and education, and from the people to the policy and operational centers as feedback. Improving communications is one ingredient in overcoming the GVN's present weakness in providing as well as gathering and receiving information. In the communications field, large outlays have been made by the US military in establishing efficient, modern systems linking the major command centers. Here may be a case where large conversion benefits for civilian use can be derived. While the more sophisticated systems may be

unsuitable for conversion, it may be both feasible and economic to extend some of them, particularly radio and TV, to achieve virtually nationwide coverage, with possibly highly significant educational and informational benefits for the government and the nation.

Commerce and rural-urban links. A key area for developmental planning is the restoration of normal commerce, especially the flow of food and exportable products from rural areas to the cities and the return flow of processed and manufactured products from the cities to the villages. An effort to recreate an effective economic nexus between town and countryside should be aimed at the urban area so that it will provide services, marketing, and employment outlets for the surrounding villages. It should focus on the development of a wide range of small-scale processing industries based on the raw materials of agriculture, forestry and fishery; on the creation of marketing and distributing facilities; on ways in which the financial system might more adequately serve the credit needs of the provincial economy, such as through opening of branch banks and improvement of their credit services; and especially on the rehabilitation and resettlement of the hundreds of thousands of displaced and disabled persons -- their integration into the urban complex, restoration of their property rights and productivity upon return to their own villages, and new-land development possibilities which might be open to them together with the incentives needed to attract and hold them.

PLANNING APPROACH

Political-Economic Mix

The economic and non-economic guidelines described above are clearly not commensurate, and will often conflict. One task for the planning group is to apply economic criteria to a wide variety of decisions in order to make the economic benefits and costs clear, to sharpen the issues, and thus to help the GVN make better decisions. But a second and related task of the group is to examine the political benefits and costs of these decisions and to attempt to incorporate them in their analysis, so that some sense of the trade-off's between them emerges for the GVN's consideration.

"Plan" or "Strategy"?

Under the fluid and uncertain conditions of Vietnam, the preparation of a comprehensive long-range plan, in the sense of a blueprint, is inappropriate. The tasks of the planning group should be thought of rather as assisting the GVN in the evolution of a development strategy. Initially, this would be done in a very disaggregative way:

- by identifying developmental priorities;
- by realizing some of the benefits of military investments for economic development;
- by preventing ill-considered current decisions from foreclosing future development options;
- by identifying the kind of rational economic choices discussed in the section on Economic Considerations.

Out of this process of learning and analysis will emerge a longer-range perspective for the development of Vietnam. One major element of this perspective is a set of domestic economic policies designed to restore the country to a politically acceptable self-supporting basis.

In an effort to develop a strategy by sequential analysis, and by a progressive broadening of the scope, two important qualities must be preserved:

Flexibility. Development plans should be designed to permit introduction by increments, as requirements and opportunities evolve.

Dominance. They should be designed to be relevant, if not optimal, over a wide variety of contingencies that may arise.

In short, the planning effort should yield a more comprehensive picture of desirable long-range development paths for the nation, and should delineate the proper scope and function of US support in attaining an independent economy.

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PART VI

PLANNING GROUP ORGANIZATION

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PLANNING GROUP ORGANIZATION

US TEAM LEADERSHIP

Team leadership on the US side will require two outstanding individuals. (1) A person of national stature in the development planning sphere who would assume over-all responsibility and guidance for the effort and whose name would lend prestige and weight to the reports and recommendations that the Planning Group produces. He would not reside in Vietnam full time, but would make periodic visits. (2) A resident Chief-of-Party who would remain in Vietnam throughout the study and provide continuous on-the-spot leadership.

Both roles are demanding, requiring not merely technical competence but a broad understanding of the comprehensive goals of the effort, rapport and sensitivity to inspire their American and Vietnamese colleagues, and the skill and finesse to encourage the development of a consensus among GVN and US Mission officials. The two men will also share the burden of recruiting other top flight members for the American team.

RECONNAISSANCE VISIT

To get the effort properly launched, an initial reconnaissance visit to Vietnam should be undertaken, which should seek to clarify the relationship of the Planning Group to the GVN and to the Mission and should also draw up more precise terms of reference for the effort. It is important at that point to negotiate a sufficiently broad charter so that the Planning Group will have adequate access and cooperation and its analytic effort will not be too narrowly circumscribed.

In the course of the reconnaissance, the team will of course receive considerable assistance from the US Mission which has a major interest in the success of the effort. Gaining the Mission's confidence in the team's work and its support of the Planning Group's recommendations will be essential.

Another matter of concern will be the selection of the Vietnamese members of the team and their relationship to the

GVN. The present uncertainty about the organization of the GVN's economic agencies precludes firm recommendations as to the particular governmental organ to which the Planning Group should report or with which it should be associated.

PRESENT GVN PLANNING ORGANIZATION

The principal existing planning organ in Vietnam is the Directorate General of Planning, a paper institution created in 1960 from borrowed personnel. Its main accomplishment has been the preparation of a Second Five Year Development Plan, consisting of little more than a list of projects. The organization has since been kept alive with a handful of people whose primary responsibility was to represent the GVN at international economic conferences and to oversee the GVN interest in several mixed government-private corporations. After the fall of Diem, some additional trained people were assigned to the Plan, but its work remained as before. It is essentially powerless to affect current policies. Such power is jealously guarded by the regular ministries. It is understood that the Planning Organization has written a draft plan for 1967-1968 which has been on the Prime Minister's desk for some months; what it contains and whether it will be approved are mysteries.

The weakness of the GVN planning mechanism is reflected in the red tape which has hamstrung investment efforts for years, the taint of corruption which demands payoffs for investment approvals, and the growth of bureaucratic vested interest groups dedicated to promoting one weak project or another (e.g., the My Thuan bridge, the An Hoa-Nong Son complex, etc.). This situation could create some problems for the new Planning Group. The Group's efforts may be regarded by these interests as competing and hence as dangerous; the Group's insistence that rigorous economic criteria be adequately weighed in the scales will be resisted by resort to so-called political criteria; and the projects that the Group recommends for execution may be opposed or sabotaged.

RELATIONS WITHIN THE PLANNING GROUP

A most important issue will be the development of cordial and productive relations between the US and the Vietnamese members of the Planning Group. The GVN must be urged and

and encouraged to recruit and appoint to the Group competent Vietnamese in whom it has confidence. Without such Vietnamese, it is unlikely that the GVN will take the recommendations of the Group seriously.

An important issue is the chairmanship of the Planning Group. In principle it would, of course, be desirable to have a Vietnamese chairman or at least a Vietnamese co-chairman. This would minimize the appearance that this is an American-dominated effort. Joint leadership (in the pattern of the Taiwan Joint Commission on Rural Construction) would generate a favorable Vietnamese response. On the other hand, there are reasons why an American chairman, appointed by the Vietnamese Prime Minister, may be an acceptable alternative. The effort is intended to be a demonstration of the American commitment and is valued by the Vietnamese as such. The prestige of the American leader may prove decisive in gaining GVN acceptance. Bifurcated leadership rarely works. The frequent absences of the American chairman would leave the Vietnamese chairman in control. But the initiative and drive for the planning effort will inevitably come from the American side as will financial support and the recruiting of supplemental technical personnel.

All things considered, clear-cut American leadership of the effort appears to be a more advantageous solution, provided it is acceptable to the GVN. In the final analysis, the development of productive relations and the acceptance of leadership within the Planning Group will depend upon the personalities and tact of the participants.

CONTINUITY, TIMING AND REPORTS

A planning effort will be required in Vietnam for the indefinite future. While the contract for the US planning team will be drawn initially for a two year period, the possibility of renewal or extension will be left open.

A MAJOR REPORT should be completed by May 1968, presenting policy and program recommendations that can be acted upon beginning mid-1968.

INTERIM FINDINGS on important issues should be presented to the GVN as the planning effort progresses.

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