

U. S. ECONOMIC AID TO VIETNAM

For March 15, 1957 Meeting of Friends of Vietnam)

I. U. S. Aid to Date

Large-scale U. S. aid granted directly to the Vietnamese Government began in Fiscal Year 1955 after the execution of the Geneva Agreements in July 1954.<sup>1/</sup> The distribution of funds obligated under the aid programs administered by ICA prior to Fiscal Year 1957 was as follows:

<u>Activity</u>	<u>FY 1955</u>	<u>FY 1956</u>
U.S.-financed commercial imports generating counterpart to finance the Vietnamese Army	\$218,300,000 <sup>2/3/</sup>	\$105,000,000 <sup>2/3/</sup>
Agriculture and Natural Resources	12,167,000	18,327,000
Industry and Mining	691,000	620,000
Transportation	6,526,000	13,473,000
Labor	5,000	338,000
Health and Sanitation	2,727,000	2,716,000
Education	2,609,000	3,954,000
Public Administration	2,978,000	6,253,000
Refugee Relief & Rehabilitation	47,667,000	39,300,000
General and Miscellaneous	<u>4,721,000</u>	<u>6,445,000</u>
Totals	\$298,391,000	\$196,426,000

<sup>1/</sup> Prior to 1955 Vietnam received economic and technical aid amounting to \$63,000,000. This excludes military aid channeled through France.

<sup>2/</sup> More than 50 percent of commercial imports were devoted to raw materials and investment goods.

<sup>3/</sup> A substantial part of unexpended FY 1955 funds were used to defray FY 1956 military costs.

The purpose of U. S. aid in FY 1955 and FY 1956 was to help the beleaguered Government of Free Vietnam cope with the critical problems of survival. U. S. aid concentrated on (1) equipping, training and financing the National Army, the first national institution of Free Vietnam, in order to enable the Government to extend its effective control throughout the country; (2) relief, rehabilitation and resettlement of the 660,000 refugees who fled from the North; (3) the maintenance of economic stability by financing commodities required to meet the needs of the people, to curb inflation, and to generate counterpart piasters for military, refugees and development costs; and (4) other objectives somewhat less urgent, such as the rehabilitation of public works, improvement of governmental services and reinvigoration of the farm economy. The very large measure of success attained by the Government of Vietnam in solving all these problems with U. S. assistance is a matter of record.

## II. Major Accomplishments

The National Army, with this substantial U. S. support, has helped the Government to pacify the country, protect the people from Communist intimidation and thus to establish the basis for order, stability and democratic government.

Despite heavy budget expenditures for the military forces and difficulties in fiscal policy and administration common to new governments, inflation, which might have caused serious public unrest, has been kept under control largely through the effects of a high level of imports financed primarily under the U. S. aid program. Thus, the cost of living for workers has risen less than

15 percent in the past two years, and a wide variety of consumer goods, industrial raw materials and capital equipment have been supplied to meet consumer needs and keep the economy working.

The relief, rehabilitation and resettlement of 660,000 refugees from Communist North Vietnam, for which the U. S. provided massive financial support and technical assistance, was one of the most dramatic and successful human rescue and rehabilitation operations in modern history. The great majority of these are now in self-supporting occupations. The more than 45,000 refugees resettled in the Cai San area alone are producing crops on land which was an abandoned plain just a year ago.

Basic training institutions, such as the National Institute of Administration, the National Normal School, Police Academy, the National Agricultural Training School, and nursing schools, have been established providing the means to develop and upgrade technical and managerial skills in many fields of activity.

In addition to specialized and vocational training, village schools have been built, war-damaged schools restored or rebuilt, and a mass education campaign has been undertaken to teach adults to read and write.

Under the malaria eradication program,  $3\frac{1}{2}$  million persons have been protected annually from the ravages of this disease.

Hundreds of miles of roads have been repaired and many war-destroyed bridges and other public works facilities reconstructed. All United States contractors, such as highway engineering and highway construction companies, as part of their responsibilities will train Vietnamese in the technical skills involved in such construction.

Important irrigation works have been restored. Harbors and

canals have been dredged and air navigational facilities established.

U. S. aid has greatly strengthened the Government's Ministry of Information, increasing its ability to reach the mass of the Vietnamese people and counteract Communist propaganda through the dissemination of Free World ideas.

### III. New Directions of U. S. Aid

#### A. Problems

In the summer of 1956 it became evident that the Government of Vietnam had won its battle for survival; that the more acute political and military problems had been surmounted and were under control; and that a beginning had been made in the strengthening of government services. The national economy had begun to recover but many critical problems remained. The chief economic problems were these:

1. Damage to Physical Facilities -- Major repairs remained to be accomplished on highways, railways, waterways, irrigation systems, telecommunications and power facilities, destroyed or badly run-down during the eight-year war.

2. Disruption of Rural Life -- Large areas abandoned by peasants driven off their land to seek shelter in overcrowded cities had become unproductive. Rubber production on large plantations had held up, but rice exports which totalled more than a million tons before World War II declined to virtually nothing in 1956. Traditional landlord-tenant relationships were seriously disrupted and government services were not effectively reaching the villages where 75 percent of the people live.

3. Balance of Payments Deficit -- Though foreign payments for goods and other services total about \$250 million, Free Vietnam has been earning only between \$30 and \$90 million of this amount, depending upon the price of rubber and the volume of rice exports. Virtually all manufactured goods must be imported. Most of Vietnam's industries were located in the Tonkin Delta and South Vietnam is just beginning to develop its own industries.

4. Budget Deficit -- Free Vietnam raises about \$190 million in tax revenues, little more than sufficient to meet ordinary civil expenditures. The remainder is sufficient to cover only a small part of the heavy costs of supporting the 150,000-man Army and economic rehabilitation and development. Thus, tax revenues cover less than 40 percent of the total costs of the Government and equal something less than 10 percent of its gross national product.

5. Threat of Inflation -- Because of the high rate of public expenditures and the large blocks of foreign-owned liquid capital seeking repatriation, Vietnam continues to face the threat of price inflation and the consequent social and political unrest which could develop if this became serious.

6. Investment -- Although reliable statistical data bearing directly on the question are lacking, an indication that net disinvestment may have been taking place in recent months is suggested by the depreciation of the piaster in free markets, beginning about October 1, 1956, from 80 to 125 to the dollar.

B. New Program Emphasis

Recognizing these far-reaching problems, the Vietnamese Government joined last summer with U. S. aid officials in a fundamental and thorough-going review of the U. S. aid program in an effort to determine how U. S. aid can best contribute to Vietnam's long-range progress. The joint objective is the development of economic strength and independence to match the Government's political and social achievements. It was agreed that the U. S. should continue to finance necessary raw materials, capital goods and consumer items to maintain economic stability and to provide essential counterpart funds, with Vietnam assuming an increasing proportion of budget costs as its economy recovers. Unavoidably about 2/3 of total counterpart funds will be used to support the National Army. In addition, U. S. aid, emphasizing the following activities, will make a maximum contribution to the solution of the most pressing problems:

1. Restoration of the agricultural economy. This will be accomplished through large land resettlement and development projects, improvement of rural credit facilities, diversification of crops, improvement of livestock and extension of health, education and farm advisory services to the peasant villages.

2. The rehabilitation of public works. Projects for this purpose include repair and improvement of highways, railways, waterways, airfields and telecommunications facilities. For highway improvement, the largest of these projects, an engineering contract has already been let and a construction contract

is in the final stages of negotiation. Within the next five months, and other foreign several hundred American technicians will be in Vietnam helping to restore and improve the highway system. To meet health and sanitation needs in overcrowded Saigon, rehabilitation and expansion of the water distribution system will be undertaken.

3. Industrial Development. Assistance will be given, primarily through private investors, in the development of light industries to enable Free Vietnam to produce goods for internal consumption, thus reducing its dependence on imported commodities. Funds and technical assistance will also be provided to help Vietnam develop its coal resources and modernize its power facilities.

4. Technical Training. Professional, technical and administrative personnel will be trained in Vietnam and abroad in a wide range of skills required for the development of the economy and the administration of public services. Assistance to elementary, secondary vocational and normal schools will be continued.

In his Tet speech of January 31, 1957, President Diem summoned his country to a regime of austerity and sacrifice in order to speed national recovery and achieve economic independence.

\*In order to reconstruct we must raise funds by taxes, internal and external loans. To win credit in order to be able to get loans, we must live in austerity, save our money and keep discipline. I firmly believe that our people will be ready to make efforts so as to build an economy which will reflect our freedom and independence. We are determined not to let any political party or society

make private profits; we will continue the policy of developing human dignity and serving public interests. The Government is determined to enforce discipline to obtain the same success in economy as in politics and the army."

This spirit will enable Vietnam to derive maximum benefit from U. S. aid and thus hasten the day when the country will become able to support itself out of its own resources without outside assistance.