

Holbik, Karel

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against supplying the Soviets with big diameter steel pipes, and West German businessmen were revolted by this measure.

The growth of trade between the USSR and the capitalist countries provides sound evidence that all

the states which desire to develop their economic relations with the Soviet Union on the basis of equality and of mutual advantage will always meet with the full understanding of their Soviet trading partners.

### **Economic Rehabilitation**

## **United States Aid to Vietnam**

by Professor Karel Holbik, Boston/Mass.

**T**here is little that can be undertaken in the way of economic rehabilitation and development so long as the war in Vietnam continues. In fact, the production of agricultural and other primary goods, on which the economy would normally be based, has declined steeply. Meanwhile the inevitable chronic inflation in the towns has only been controlled by massive imports of both foods and consumer goods—a serious condition for a country that was once a substantial net food exporter!

### **Vietnam's Deficiencies and Needs**

Beneath the outward well-being, there are serious economic weaknesses, for much of Vietnam's present level of living represents a shaky prosperity in that it is based on large-scale military and consumption-oriented American aid. Military aid has given Vietnam a measure of security, while economic aid in the form of imported consumer goods has generally maintained living standards. Inasmuch as American aid represents a large-scale relief project more than an economic development program, its termination would almost certainly produce both political and economic collapse in Vietnam.<sup>1</sup>

During the 80 years of French colonial rule, the two segments of Vietnam (the somewhat industrialized North and the agricultural South) were developed as an economically integrated unit. The northern part of the country contained most of the fuel and mineral supplies, and the South had the best agricultural and fishing resources. This territorial specialization stimulated a considerable degree of trade between the two areas: coal, raw materials, and industrial products moved to the South, while part of the agricultural and fishing products of the South was sent to the North, the remainder being exported. Before World War II, about half a million tons of rice were shipped annually from the South to the North, and another half million tons were available for export. On the other hand, the South received much of its coal supply for the production of electricity from the

North, as well as most of its cement, paper, chemicals, glass, and fertilizer.

Independence resulted in an exodus of French firms together with their managers and skilled personnel, the repatriation to France of considerable capital, and of course, a halt to new French investment. The withdrawal of the French military caused a loss of the most important income-generating factor in the country. Assimilating nearly a million refugees from the North into the economy constituted a heavy burden on productive resources. Meanwhile, the dual pressures resulting from the financing of military and other governmental programs brought about inflationary pressures, which were contained only by massive amounts of American aid.<sup>2</sup>

### **US Economic Assistance**

As far back as 1951, the United States signed an agreement with Vietnam for direct economic assistance which turned out to be the beginning of American economic involvement in the Vietnamese internal struggle. Over the ten-year period from 1955 to 1964, US non-military economic aid to Vietnam (including estimated expenditures for fiscal year 1965) amounted to \$ 2.8 billion. The US foreign aid projects in Vietnam involve rural life, vocational education, general education, health, public administration, transportation, water supply, electric power, industry, and communications. In the period 1950 to 1955, \$ 1.1 billion of military aid and \$ 865 million of economic aid to Indo-China (which included Laos and Cambodia) was authorized by Congress. In the 1956 to 1962 period, \$ 750 million in military aid was sent to Vietnam. (Figures since 1962 are classified.) In the period from 1956 to 1964, \$ 2.1 billion in economic aid was approved.

When the United States began to demand that its aid be used for purchases in America, Vietnam was compelled to spend more for many goods than it would had it been able to use this massive American aid where prices were more advantageous. Unavoid-

<sup>1</sup> Bernard Fall, *Last Reflections On a War*, New York, 1967, p. 199-200.

<sup>2</sup> Richard W. Lindholm, *Vietnam: The First Five Years*, Lansing, Mich., 1959, p. 75.

ably, this departure from natural commercial practices did not fail to increase the growing dependence of the Vietnamese economy on US financial aid.<sup>3</sup>

By 1967, Vietnam was able to pay for only about 10 per cent of its import needs by its own export earnings. For example, during the first nine months of 1966, Vietnam exported \$16 million worth of goods and imported \$344 million, from which therefore a trade deficit of \$328 million resulted.<sup>4</sup>

**Table I**  
**South Vietnam's Foreign Trade**  
(In millions of dollars)

Year	Exports	Imports	Trade Deficit	American Economic Assistance
1956	34	305	171	210
1958	55	232	177	187
1960	84	239	155	179
1965	35	370	335	308
				(1962-66 Average)

Another manifestation of Vietnam's precarious economic condition is afforded by the central government budget which shows that US aid accounts for over 75 per cent of total public expenditures. If military assistance were included in this budget data, dependence on American aid would, of course, be even more pronounced.

#### Political and Military Considerations

With aid of this magnitude, the obvious question that may be posed is the rationale under which the expenditures have been made. Without doubt priority must be given to political considerations. Vietnam, though not free or democratic by Western standards, has been considered by the architects of American foreign policy worthy of support as a bulwark against the advance of Communism in Southeast Asia.

**Table II**  
**Estimated Expenditures for Special Support of Vietnam Operations<sup>5</sup>**  
(In millions of dollars)

Fiscal Year	Defense	Economic Assistance 1962-66 average (Grants)
1965	103	308
1966	5,812	
1967	20,133	424
1968	24,531	458
1969	25,784	480

The US governmental authorization bill for Department of Defense budgetary needs was passed by both Houses of Congress. In May 1965, the President requested and received \$700 million more for use in Southeast Asia. In August, he asked for additional funds in the amount of \$1.7 billion. This too was passed by Congress. In January 1966, President Johnson again requested additional funds for economic assistance in the amount of \$415 million. After

considerable debate, this too passed. Much of the so-called economic aid money went for military allied projects such as highways, repair facilities, transportation, water supply and communications.<sup>6</sup>

The size of the aid program in Vietnam has been dictated primarily by military considerations and economic development has been of secondary importance. This means, in practice, that the US Defense Department determines the level of American support necessary for the Vietnamese armed forces, which represents the level of total aid, both military and economic.

One may question the wisdom of this essentially military rationale for American aid. First, even in the short run, defense goals can only be attained by developing the economic foundation of the economy. Secondly, it is a valid argument that economic growth is the best guarantee for resisting the advance of either internal or external Communism. This argument seems well supported by events in Vietnam, for internal Communist strength, nurtured by economic and political deficiencies, is the principal security problem in the country. Finally, the progress which Vietnam makes toward national self-sufficiency is obviously a vital concern of the American taxpayer, because it is only economic development that will make possible a reduction in the aid program without at the same time prejudicing the political stability of the country. For these reasons, there is considerable significance in an assessment of the economic impact of the aid program.

#### Shortcomings of the Aid Programs

For both military expenditures and economic projects, local currency is made available to the Vietnamese Government through counterpart fund financing. When Vietnamese importers bring goods into Vietnam under the US commercial aid program, they are required to pay 80 piasters for each US dollar allocation of foreign exchange. These piasters are then deposited as counterpart funds utilized by the Vietnamese Government for either military or economic programs. Thus the counterpart fund serves a dual purpose: it provides financial resources for the Vietnamese Government to meet its fiscal requirements; and it provides the merchandise required both for consumption and the country's development.

While counterpart financing has a mechanical appeal, the fund's operations since the 1954 Geneva Agreement demonstrate two substantial shortcomings of the American aid program: most of the resources provided to the Vietnamese government in order to meet its fiscal requirements have been used for military purposes; and the greater proportion of merchandise imports has been used for the maintenance of living standards rather than for the development of the economy. For example, during the five years from 1955 to 1959, the aid program (excluding

<sup>3</sup> Ellen Hammer, *Vietnam, Yesterday and Today*, New York, 1966, p. 203.

<sup>4</sup> The Economist's Intelligence Unit, *Quarterly Economic Review*, London (Annual Supplement, 1967).

<sup>5</sup> The Budget of the United States Government, FY 1969, Washington: Gov't Printing Office, 1968, p. 83.

<sup>6</sup> Morton L. Schagrin, ed., *Vietnam*, Newark, O., 1966, p. 48.

military equipment totalled \$ 1,101.1 million, which in turn generated \$ 944.9 million worth of counterpart funds, out of which the Vietnamese government allocated \$ 750.8 million (79.5 per cent) for defense. The remainder, \$ 184.8 million, went for non-defense expenditures of \$ 127.6 million in project aid and \$ 16.2 million for technical cooperation. Thus at least 68 per cent of total aid was spent for defense. Because several of the programs, such as the development of highways, serve largely defense objectives, it is realistic to say that about 75 per cent of all American aid has been used for defense.<sup>7</sup>

In the fiscal year 1966 the United States spent \$ 560 million on supplies for the civilian economy of South Vietnam. Although no one knows how much arrived or where it went, commercial imports into Vietnam amounted to \$ 370 million.

As for the other side of the coin, one of the objectives of the American commercial import program is to make funds available for the importation of investment goods. But because the economy is infected with a compulsion to consume rather than invest, the counterpart fund has been used largely for the acquisition of consumption rather than investment goods.

#### **Misuse and Superfluity of American Aid**

The manner in which statistics are maintained makes it difficult to arrive at precise quantitative evidence in support of the consumption bias in the use of American aid. The US Operation Mission makes available a three-way classification of goods introduced under the commercial aid program: (1) industrial equipment and machinery; (2) raw materials, fuels, and other essential supplies for industry and agriculture; and (3) all other commodities. The first category, which comprised 16 per cent of commercial aid imports in the calendar year 1959, represents investment goods. The third category of "all other commodities", amounting to 39.9 per cent, represents consumption goods. The remaining category representing 44.1 per cent is ambiguous. Appearing in it are such capital goods as cement and structural steel, but also such items as tobacco and newsprint. These latter products, valuable as they are as raw materials for consumption goods industries, do not result in capital growth. It appears that at least three-fourths of American aid has been used for the importation of either consumption goods or raw materials for the production of consumer goods.<sup>8</sup>

Illuminating are the statistics for certain items imported into Vietnam under the commercial aid program for one year. Explaining why the people of Saigon appear relatively well-clothed is the importation of \$ 24 million in textile products; this item alone approached the total imports of industrial equipment and machinery (\$ 28.2 million). In a country which

is predominantly agricultural and must develop agricultural output in order to improve its foreign exchange earnings, a total of \$ 6.1 million in fertilizers and insecticides was imported in 1959 as compared to imports of private passenger vehicles (\$ 2.9 million), petroleum products (\$ 8.3 million), and pharmaceuticals (\$ 3.0 million). The commercial import program, at one time or other, has brought in almost every conceivable type of consumer goods, regardless of how trivial or luxurious, from hair spray to stereo-tape recorders.<sup>9</sup>

From 1955 to December 1960, Vietnam's foreign exchange reserves rose from \$ 125 to \$ 216.4 million. During this period Vietnam used part of its exports proceeds to build up a financial hoard while using American aid "for living expenses". This is striking evidence of the misuse and superfluity of American aid.

#### **Agricultural Development Efforts**

Development efforts on the part of the Government have emphasized the agricultural sector and have been centered on an agrarian reform program. Under the French regime, the land tenure system was typically one of large holdings cultivated by tenants, which arrangement was corrupted by exorbitant rents and high rates of interest. Rents were in some cases as much as 50 per cent of the harvest, while monthly rates of interest were usually three to ten per cent. The land reform program has attempted to resolve these specific defects as well as to rehabilitate and develop agriculture generally. One ordinance has restricted land rental contracts to no more than 25 per cent of the crop value, while another has provided for the resettling of rice land abandoned during the war years of 1945-54. Resettlement has also been undertaken in an undeveloped region paralleling the border with Cambodia. Most publicized of all measures has been the ordinance authorizing the expropriation of all holdings of rice lands (not rubber plantations) exceeding 100 hectares per owner, which was responsible for the redistribution of some 700,000 hectares of land to tenants. Finally, all existing agricultural credit agencies have been combined into a National Office of Agricultural Credit.

These efforts have had an appreciable effect on the productive capacity of agriculture. From 1955 to 1960, rice production increased to 5.4 million tons and rubber production rose from 66,000 to 78,000 metric tons. However, by 1965, due to war operations rice production had decreased to 4.8 million tons and the rubber to 53,000 metric tons.<sup>10</sup>

While the rice exports had ceased and imports had begun between 1960 and 1965, the rubber exports had continued, but were only half of the 1960 level.

During this time period, food imports of all kinds had increased from 926 million piasters to 1.6 billion

<sup>7</sup> Milton C. Taylor, *South Vietnam: Lavish Aid, Limited Progress*, Pacific Affairs, Fall 1961, p. 246.

<sup>8</sup> Annual Report for Fiscal Year 1960, US Operation Mission to Vietnam, Saigon, Vietnam, p. 33.

<sup>9</sup> The Economist's Intelligence Unit, *Quarterly Economic Review*, Fall, 1967.

<sup>10</sup> Economic Survey of Asia and the Far East 1966, Bangkok: UN, 1967, p. 322.

piasters. The cost of living had steadily risen at the same time, going up to the annual rate of approximately 10 per cent until 1966, when it began to accelerate. By November 1966, the cost of living was 2.8 times as high as it had been in 1960. Food prices for the same period had gone up 3.4 per cent.<sup>11</sup>

The Indo-China War demonstrated that peasant support is essential for the stability of a government in Vietnam, for it was the peasants, more than any other socio-economic group, who drove the French from Indo-China. But emphasizing the agricultural sector is also good economics, for the country is predominantly agricultural. In addition, capital employed in agriculture probably has a comparative advantage over alternative investment in manufacturing. Therefore in its most elementary terms, economic progress in Vietnam may be identified with increased agricultural production which permits higher agricultural exports.

When the agricultural development efforts are related to export earnings and the foreign exchange deficit, however, past accomplishments in the agricultural sector become quite unimpressive. In the first nine months of 1966, Vietnam imported \$ 344 million in goods and exported \$ 16 million, leaving a commodity trade deficit of \$ 328 million.

#### Promotion of Industrial Development

The other way for Vietnam to reduce deficits on commodity trade, assuming an end to the war, is to promote industrial development and thereby decrease the need for imported manufactured goods. In contrast to the agricultural sector, industrial development efforts were begun at a later stage (late in 1957) and in more uncertain fashion and modest amounts. Industrial efforts have also emphasized the development of a few large plants wholly or partly owned by the government rather than a broad program based on private domestic and foreign capital. At first, it appeared that Vietnam favored a liberal philosophy of encouraging private initiative and capital since the Presidential Declaration on Investment in Vietnam of March 1957 seemed to welcome private domestic and foreign capital by offering substantial tax and other incentives. This was followed in November 1957 with the establishment of the Industrial Development Center (IDC), an institution with the combined functions of an industrial promotion agency and a development bank. In its promotional role, the IDC was directed to create or assist in the establishment of new industrial enterprises, provide technical assistance, and develop a productivity and training center. To function as a development bank, the Center received American aid in the amount of \$ 6 million and 100 million piasters.

During 1957 or 1958, however, a decision was apparently made in favor of a predominantly planned economy with direct governmental participation in industrial development. As a result, the IDC lost its

significance. By May 1959, the Center had received over 100 loan applications but had extended assistance to only four enterprises. It was usually the President himself who gave final approval for the loans. The exasperating slowness with which his decisions were made seemed to confirm the view that Diem was hostile to private enterprise. Subsequently, through the efforts of an American management firm, 27 loan applications were processed by the end of 1959.

The Vietnamese Government's decision to favor government ownership (as well as to tighten controls over the economy generally) was reflected in the development of a select group of firms either partly or wholly government-owned. These included direct investment in coal, sugar, textiles, glass, logging, paper, mineral water, wallboard, and cement.

The principal conclusion to be drawn from Vietnam's efforts to promote industrial development is that the results have been minimal and disappointing. An important reason for this is the decision to favor a predominantly planned economy with direct government participation in industry. In Vietnam, the volume of IDC loan applications proved that there was no dearth of private enterprise, and some degree of foreign investment could also be reasonably expected, if adequately encouraged. On the other hand, Vietnam has only limited government capital and a conspicuously inefficient and inexperienced bureaucracy. Under these circumstances, it is a fundamental error to place primary reliance on a planned economy and public ownership almost to the exclusion of private enterprise. Preferable would be a policy of encouraging private enterprise and only relying on public ownership whenever this proves to be necessary.

#### Economic and Technical Aid Projects

In addition to these efforts to raise output in agriculture and manufacturing, American aid has also been spent on a wide range of economic and technical aid projects for the purpose of developing the foundation for economic growth. In functional terms they include projects in natural resources, mining, public works, health services, education, public administration, and information. They range from expensive projects like the development of a modern highway system to the modest purchase of a few motorcycles for the National Institute of Statistics. They run the gamut from the very worthwhile, like the malaria eradication program and the provision of textbooks for schools, to the frivolous and the dubious, like the construction of a broadcasting studio in the President's palace.<sup>12</sup>

Most of these programs represent a use of American aid which is entirely justified. The main faults lie not in the minor mistakes that have been committed, but in an imbalance in the use of American aid and in a lack of integrated development planning. The statistics showing the number of canals dug, text-

<sup>11</sup> Ibid.

<sup>12</sup> Andrew Tully, *Where Did Your Money Go?* New York, 1964, p. 75.

books provided, and participants trained, at first glance appear impressive but need to be interpreted in terms of what could have been accomplished if the aid program had emphasized economic development.

Predominant among Vietnam's problems is internal insecurity which has had serious political and economic effects. As the strength of the Vietcong increased, disaffection grew on the part of the peasants with a regime that couldn't provide security. Political insecurity has inhibited agricultural reform efforts, has confined the industrial development program to the metropolitan area of Saigon, has disrupted public administration in the provinces, and has slowed down the movement of agricultural produce to Saigon. Until the security program improves, further economic progress will be seriously jeopardized if not blocked.

#### **Vietnam — a Permanent Patient**

From an economic as well as a political point of view, the tragedy of the past 17 years is that both American aid and Vietnamese effort have been de-

icated to military defense and to the maintenance of consumption levels rather than to the objective of economic growth. Granting the necessity of military aid at its present levels, it is apparent that economic aid has not been employed effectively as an instrument of national development. Whatever else has been accomplished, Vietnam today remains the prototype of a dependent economy, its level of national income as dependent on outside forces as was the case when the country was a French colony. After 13 years of large-scale American aid, Vietnam is becoming a permanent patient. If aid were eliminated tomorrow, there would be an unpaid and unfed nation.

While there is little question that the urgent need to improve the economic health of Vietnam is great, it is also a fact that the US economic structure has increasingly felt the strain of rising expenditures in support of Vietnam.<sup>13</sup>

<sup>13</sup> For a sound assessment of this strain see: Committee for Economic Development, *The National Economy and the Vietnam War*, New York, April 1968, *passim*.

### **International Trade**

## **Canada — A Neglected Market**

by R. G. Holloway, London

Canada buys annually over \$US 10,000 million worth of goods from other countries but the European countries of OECD supply only 14 per cent of these imports. From the standpoint of the European businessman, this is very much a neglected market.

Canada is a rapidly growing and sophisticated market, with the fourth highest standard of living in the world. GNP per head totalled about \$US 2,808 in 1967 compared with \$ 2,022 in West Germany. It is exceptionally well-endowed with natural resources and the Canadian people are highly energetic, skilled and adaptable. Development has, moreover, been stimulated by proximity to the American market. The economy is structurally advanced with the rapidly developing service sector providing more than half the gross domestic product and with secondary industries providing slightly more than a third. The primary industries—agriculture, mining, forestry, fishing and hunting—are of minor importance in relation to total income and employment but provide the staples of the country's export trade.

#### **American Challenge**

The dominant theme of Canada's economic history—and the main characteristic which distinguishes the country from its smaller but more densely populated

neighbour—has been a heavy dependence on international trade and an inflow of foreign business investment. From the early days of French and British settlement the pattern of economic development has been one in which resource-based exports and imported capital have played an important role. Though Canada has always been substantially affected by events in the world at large, and British trade and investment are still fairly important, the paramount factor in Canada's external economic relations today is the country's dependence on the American market, American capital and American technology and the increasing influence of American tastes.

Canada has always been a large net importer of capital except during periods such as the last war and the immediate postwar period when conditions abroad were exceptional. But there has been concern over the growing extent of foreign ownership and control. More than a third of the capital employed by the mining, manufacturing, construction, power and transport industries and merchandising, taken together, is foreign owned; and foreign ownership is dominant in mining and manufacturing. Two points of particular interest emerge from a detailed study of foreign investment in manufacturing. The first of these is the extreme degree of foreign ownership in a number of more narrowly defined activities. The