

Statement of Mr. Leland Barrows,
Director, United States Operations Mission to Vietnam
before the Committee on Foreign Aid,
June 14, 1956

I am very glad that you have chosen at this meeting of the National Committee for Foreign Aid to initiate a comprehensive review of your program for the use of American economic assistance. The Administrator General of the Committee for Foreign Aid, Mr. Vu Van Thai, has presented a very able discussion of the problems with which this Committee must deal if it is to lay the basis for a more effective and fruitful use of American aid in the future. For my part, in the remarks which follow, I should like to summarize the experience of the past two years as we see it, draw certain conclusions as to the strengths and weaknesses of our present program, and suggest a course of action for the year beginning July 1, 1956.

Need for Coordinating Use of all Governmental Resources

This Committee must, it seems to me, prepare a concrete program for the use of American aid during the year ahead and should, insofar as possible, indicate the general lines to be followed for the next several years. To be most effective, however, this plan should not be limited to the use of American aid. It should be part of a larger plan for the use of all the resources available to the Government of Vietnam for the development of this country, for improvement in its technical services, and for amelioration of the conditions of life of the Vietnamese people. Frankly, we have felt during the past year that the American aid program has lacked the guidance of an over-all governmental plan and has not been closely coordinated with other activities of the Government in the economic sphere. We have been compelled to plan and carry out the program

as a whole and most of the individual projects which compose it without sufficient knowledge of the other resources available to the agencies of the Government with which we work, and hence with little assurance that our aid is fully effective in supplementing the other economic efforts of the Government. I am glad that this Committee is composed of the principal economic Ministers of the Government. I hope that this will assure us here a full and frank exchange of information on the Government's economic program, whether financed with American aid or otherwise, and that the plan on which we eventually agree will be a total plan in which American aid will be integrated with budgetary and other resources in the most effective possible way.

Initiation of Large-Scale U. S. Aid

Before looking ahead, however, I should like with your permission to look backward briefly over the period of transition in the administration of American aid from which we are now emerging. This transition period began on January 1, 1955, when, through the creation of its own National Bank of Issue, Vietnam first achieved its financial independence and, through the allocation of American military aid directly to Vietnam, this Government first achieved control over the country's imports. Prior to 1955, Vietnamese money was under the control of a quadripartite Institut d'Emission, and its imports were controlled by an exchange office under foreign control. Direct American aid was, in comparison with the program of today, limited in scope and amount. Indirect American aid, however, administered through France, was financing in Vietnam a high level of military and economic activity.

During the last year of active fighting, the United States gave to France the sum of \$785 million U.S. to support the French Expeditionary Corps and the

newly created national armies of the Associated States. While not all of this large sum was spent in Vietnam, the amount which was spent here in 1954 provided for the financing of imports and invisible payments a sum of foreign exchange far greater than that which has been furnished by direct American aid since 1955. This fund, among other things, supported the Vietnamese National Army until January 1, 1955. At that time dollars, provided through the commercial import program, were used to obtain from the new Vietnamese National Bank the piastres needed to pay Vietnam's military expenses. At the same time, substantial amounts of dollars were allocated to obtain piastres for the support of refugees from North Vietnam and to finance a doubled program of economic and technical assistance.

Importance of Commercial Aid in 1955 and 1956

I mention this history in some detail because it accounts for the emphasis necessarily placed upon commercial imports in 1955. When the new financial and monetary authorities of Vietnam assumed their responsibilities in January, 1955, they inherited a situation which rigorously restricted their choice of action. They found a military force which, even though substantially reduced following the cessation of hostilities, cost more than five times as many piastres as could be provided from the normal tax revenues of the country, and they faced the problem of supporting and re-establishing 800,000 refugees from North Vietnam. They were offered American aid to assist in meeting these burdens, but they found that to be useful for such purposes foreign aid must be converted through the processes of trade into piastres. They inherited a high level of foreign exchange expenditure. Although precise figures are unavailable to USOM, conservative and well-founded estimates indicate that in the calendar year 1954

Vietnam spent more than \$275 million for imports and almost an equal amount for invisible payments abroad. These expenditures, of course, were largely financed by American dollars given to France.

One of the first tasks of the new financial authorities was to substitute dollars as a source of import financing for French francs. This problem was complicated by two factors. In the first place, substantially less money was available for foreign payments in 1955 than in 1954. In the second place, all the elements of the trading and banking community were fully familiar with the use of francs and almost wholly unfamiliar with the use of dollars. The administration of exchange and trade controls was comparatively simple, there were no sumptuary restrictions on imports, and few procedural obstacles to either financial or commercial transfers by established members of the business community.

In contrast, when dollars became the principal, indeed almost the only, source of foreign exchange, new sources of supply based on worldwide competition had to be found, new and complicated procedural regulations were imposed, and for various reasons many categories of goods were made ineligible for financing. Moreover, almost all the available foreign exchange was needed to maintain the flow of imports and little or none was left to pay for even the most essential financial transfers.

Danger of Monetary Inflation

Such a situation was filled with potential danger of monetary inflation. This danger was accentuated by the fact that both the soldiers and the refugees had to be paid from a counterpart fund which could not possibly be built up by the ordinary processes of trade fast enough to meet the needs. Ordinarily counterpart funds of American aid are allocated and spent only after they have

been generated by the sale of aid goods in the economy. This means that under normal U.S. aid practice counterpart is not available until six to nine months after the dollar aid has been allocated and used. This procedure, although slow, assures that the expenditure of counterpart will not have an inflationary effect. In Vietnam, however, the needs of the situation forced us to take the risk of inflation. A completely new procedure of cash grants was adopted. By these grants the piastres needed to meet the approved military budget and refugee expenses were purchased from the Central Bank. From the monetary point of view this was a purely inflationary operation which, to be justified economically, required that the dollars be used promptly for the importation of goods, the sale of which would offset the inflation caused by spending the piastres.

I will return to this point later in discussing aid procedures. I wish now merely to say that the Government of Vietnam was confronted with very difficult administrative and monetary problems in transforming this country from the economic part of the French Union to a fully independent economy and in changing the banking and trading patterns to make use of dollars on a worldwide basis in the place of francs, which are necessarily restricted to France and the French Union. Despite many criticisms which can be justly directed against the administration of commercial aid, this transformation was accomplished successfully and the economic dislocation it entailed was kept within tolerable limits. If it has sometimes appeared that management of the commercial aid program has demanded attention from the Government and from USOM which we would have liked to give to longer-range economic development activities, I for one will say that it was necessary to make a choice and that the right choice was made.

Moreover, as I said at the opening of these remarks that we are emerging from the period of transition and as I shall point out later, attention can now be given to longer-range economic developments. The country must still cope with serious and difficult monetary and trading problems. Administration of the commercial aid must be streamlined and expedited, and the pressure on the piastre created by lack of funds for legitimate financial transfers must be reduced. Happily the Vietnamese Government has plans for dealing with both of these problem areas.

Summary of Aid to Vietnam: U.S. Fiscal Years 1955 and 1956

The following tables show the amount of aid in U.S. dollars allocated to Vietnam during the United States fiscal years 1955 and 1956. (The U.S. fiscal year runs from July 1 until June 30. The Vietnamese fiscal year from January 1 to December 31. Because of this difference and because of the customary delay in the action of the U.S. Congress on the annual aid appropriation, aid available from a given U.S. fiscal year usually is not available to Vietnam until the beginning of the Vietnamese fiscal year six months later.)

These tables in the left hand headings show the purposes for which the funds were allocated, i.e., military support, refugee aid or economic and technical assistance, and in the headings on the top the form in which the aid enters the Vietnamese economy, i.e., as goods or services purchased abroad for dollars or as goods imported through the channel of private commerce to be sold for piastres which are given through the counterpart fund to the Vietnamese budget.

U.S. FISCAL YEAR 1954/55
(Thousands of US\$)

	<u>Direct \$ Component</u>	<u>Commercial Aid</u>	<u>Total</u>
Economic and Technical Assistance	7,200	22,515	29,715
Refugee Aid	16,700	39,085	55,785
Military Support	<u>18,921</u> 42,821	<u>215,879</u> 277,479	<u>234,800</u> 320,300

U.S. FISCAL YEAR 1955/56
(Thousands of US\$)

	<u>Direct \$ Component</u>	<u>Commercial Aid</u>	<u>Total</u>
Economic and Technical Assistance	14,800	39,700	54,500
Refugee Aid	8,000	29,000	37,000
Military Support	<u>-</u> 22,800	<u>105,000</u> 173,700	<u>105,000</u> 196,500

Emphasis on Budget Support

These tables make one thing abundantly clear. Vietnam has used American aid during the past two years chiefly to pay current operating expenses. If you take the two years together, 85% of the total aid was allotted to provide support for the military budget. If you examine the military budget, you will find that the biggest item in it, 70%, is the pay and allowances of troops. Most of the remaining expense met with American aid consists of piastre payments which could be made from Vietnam's own resources if Government revenues were greater. Aid to refugees presents a similar picture. Most of the aid went to make subsistence payments and other payments in piastres. Even the

economic and technical assistance fund, which should be the primary source of aid for economic development, has been spent, at least 50%, to fill a budgetary deficit.

The reason for this emphasis on budget support is to be found not, I am afraid, as Mr. Thai has suggested, in the lack of planning but in the necessities of the situation. The newly independent Government of Vietnam inherited a level of governmental operating expense which could not be reduced. Indeed, there were many unavoidable demands for increased expenditure. The security forces had to be maintained and in some cases strengthened. Since the beginning of 1955 they have been in almost continuous military action against dissident elements within the country. The structure of local government had to be re-established in the areas taken over from the Viet Minh. and the Government had to carry the heavy burden of caring for three quarters of a million refugees. These and many other burdens had to be assumed during a period when tax revenues actually declined because of economic readjustment following the breakup of the Associated States. Nevertheless, when aid is used for current operating expenses, it cannot be used for long-range development and investment. This clearly shows the importance of improving the public budgetary situation as a step towards increasing the rate of investment and economic development.

Allotment and Use of Commercial Aid since July 1954

Emphasis on aid in the form of piastres has meant emphasis on the use of dollars for commercial imports. In fact, in the past two years the commercial import program has been of such importance that I would like now to outline its

history for you. Before the Geneva Accords we had for several years been providing a small amount of commercial aid to the Associated States of Indo China (the largest proportion of it going to Vietnam) for the purpose of providing piastres for the economic and technical assistance program. This was used to pay for a restricted list of imports of which the most important category was petroleum products. In the administration of such aid there is at any given moment an amount which has been allocated in the form of a procurement authorization or some other way but not yet used by the recipient country. For example, on July 1, 1954, there was in the aid pipeline for Vietnam \$3,600,000, all in the form of procurement authorizations. This was increased during the next six months by additional allotments, and at the same time various amounts were used by importers to whom licenses had been issued. After January 1, 1955, the allotments of aid were greatly increased because of the allocation of aid to refugees and to the military budget. The following table shows the allotted but unused commercial aid on various dates, the new aid allocated during subsequent periods and concludes with an estimate of the amount of commercial aid which will be on hand as of the end of this month.

Date	Unused Commercial Aid	New Aid Allocated	Total Commercial Aid
July 1, 1954	\$3,600,000		\$3,600,000
August 1, 1954	\$3,800,000	\$200,000	\$4,000,000
September 1, 1954	\$4,000,000	\$200,000	\$4,200,000
October 1, 1954	\$4,200,000	\$200,000	\$4,400,000
November 1, 1954	\$4,400,000	\$200,000	\$4,600,000
December 1, 1954	\$4,600,000	\$200,000	\$4,800,000
January 1, 1955	\$4,800,000	\$200,000	\$5,000,000
February 1, 1955	\$5,000,000	\$200,000	\$5,200,000
March 1, 1955	\$5,200,000	\$200,000	\$5,400,000
April 1, 1955	\$5,400,000	\$200,000	\$5,600,000
May 1, 1955	\$5,600,000	\$200,000	\$5,800,000
June 1, 1955	\$5,800,000	\$200,000	\$6,000,000
July 1, 1955	\$6,000,000	\$200,000	\$6,200,000
August 1, 1955	\$6,200,000	\$200,000	\$6,400,000
September 1, 1955	\$6,400,000	\$200,000	\$6,600,000
October 1, 1955	\$6,600,000	\$200,000	\$6,800,000
November 1, 1955	\$6,800,000	\$200,000	\$7,000,000
December 1, 1955	\$7,000,000	\$200,000	\$7,200,000
January 1, 1956	\$7,200,000	\$200,000	\$7,400,000
February 1, 1956	\$7,400,000	\$200,000	\$7,600,000
March 1, 1956	\$7,600,000	\$200,000	\$7,800,000
April 1, 1956	\$7,800,000	\$200,000	\$8,000,000
May 1, 1956	\$8,000,000	\$200,000	\$8,200,000
June 1, 1956	\$8,200,000	\$200,000	\$8,400,000
July 1, 1956	\$8,400,000	\$200,000	\$8,600,000
August 1, 1956	\$8,600,000	\$200,000	\$8,800,000
September 1, 1956	\$8,800,000	\$200,000	\$9,000,000
October 1, 1956	\$9,000,000	\$200,000	\$9,200,000
November 1, 1956	\$9,200,000	\$200,000	\$9,400,000
December 1, 1956	\$9,400,000	\$200,000	\$9,600,000
January 1, 1957	\$9,600,000	\$200,000	\$9,800,000
February 1, 1957	\$9,800,000	\$200,000	\$10,000,000
March 1, 1957	\$10,000,000	\$200,000	\$10,200,000
April 1, 1957	\$10,200,000	\$200,000	\$10,400,000
May 1, 1957	\$10,400,000	\$200,000	\$10,600,000
June 1, 1957	\$10,600,000	\$200,000	\$10,800,000
July 1, 1957	\$10,800,000	\$200,000	\$11,000,000
August 1, 1957	\$11,000,000	\$200,000	\$11,200,000
September 1, 1957	\$11,200,000	\$200,000	\$11,400,000
October 1, 1957	\$11,400,000	\$200,000	\$11,600,000
November 1, 1957	\$11,600,000	\$200,000	\$11,800,000
December 1, 1957	\$11,800,000	\$200,000	\$12,000,000
January 1, 1958	\$12,000,000	\$200,000	\$12,200,000
February 1, 1958	\$12,200,000	\$200,000	\$12,400,000
March 1, 1958	\$12,400,000	\$200,000	\$12,600,000
April 1, 1958	\$12,600,000	\$200,000	\$12,800,000
May 1, 1958	\$12,800,000	\$200,000	\$13,000,000
June 1, 1958	\$13,000,000	\$200,000	\$13,200,000
July 1, 1958	\$13,200,000	\$200,000	\$13,400,000
August 1, 1958	\$13,400,000	\$200,000	\$13,600,000
September 1, 1958	\$13,600,000	\$200,000	\$13,800,000
October 1, 1958	\$13,800,000	\$200,000	\$14,000,000
November 1, 1958	\$14,000,000	\$200,000	\$14,200,000
December 1, 1958	\$14,200,000	\$200,000	\$14,400,000
January 1, 1959	\$14,400,000	\$200,000	\$14,600,000
February 1, 1959	\$14,600,000	\$200,000	\$14,800,000
March 1, 1959	\$14,800,000	\$200,000	\$15,000,000
April 1, 1959	\$15,000,000	\$200,000	\$15,200,000
May 1, 1959	\$15,200,000	\$200,000	\$15,400,000
June 1, 1959	\$15,400,000	\$200,000	\$15,600,000
July 1, 1959	\$15,600,000	\$200,000	\$15,800,000
August 1, 1959	\$15,800,000	\$200,000	\$16,000,000
September 1, 1959	\$16,000,000	\$200,000	\$16,200,000
October 1, 1959	\$16,200,000	\$200,000	\$16,400,000
November 1, 1959	\$16,400,000	\$200,000	\$16,600,000
December 1, 1959	\$16,600,000	\$200,000	\$16,800,000
January 1, 1960	\$16,800,000	\$200,000	\$17,000,000
February 1, 1960	\$17,000,000	\$200,000	\$17,200,000
March 1, 1960	\$17,200,000	\$200,000	\$17,400,000
April 1, 1960	\$17,400,000	\$200,000	\$17,600,000
May 1, 1960	\$17,600,000	\$200,000	\$17,800,000
June 1, 1960	\$17,800,000	\$200,000	\$18,000,000
July 1, 1960	\$18,000,000	\$200,000	\$18,200,000
August 1, 1960	\$18,200,000	\$200,000	\$18,400,000
September 1, 1960	\$18,400,000	\$200,000	\$18,600,000
October 1, 1960	\$18,600,000	\$200,000	\$18,800,000
November 1, 1960	\$18,800,000	\$200,000	\$19,000,000
December 1, 1960	\$19,000,000	\$200,000	\$19,200,000
January 1, 1961	\$19,200,000	\$200,000	\$19,400,000
February 1, 1961	\$19,400,000	\$200,000	\$19,600,000
March 1, 1961	\$19,600,000	\$200,000	\$19,800,000
April 1, 1961	\$19,800,000	\$200,000	\$20,000,000
May 1, 1961	\$20,000,000	\$200,000	\$20,200,000
June 1, 1961	\$20,200,000	\$200,000	\$20,400,000
July 1, 1961	\$20,400,000	\$200,000	\$20,600,000
August 1, 1961	\$20,600,000	\$200,000	\$20,800,000
September 1, 1961	\$20,800,000	\$200,000	\$21,000,000
October 1, 1961	\$21,000,000	\$200,000	\$21,200,000
November 1, 1961	\$21,200,000	\$200,000	\$21,400,000
December 1, 1961	\$21,400,000	\$200,000	\$21,600,000
January 1, 1962	\$21,600,000	\$200,000	\$21,800,000
February 1, 1962	\$21,800,000	\$200,000	\$22,000,000
March 1, 1962	\$22,000,000	\$200,000	\$22,200,000
April 1, 1962	\$22,200,000	\$200,000	\$22,400,000
May 1, 1962	\$22,400,000	\$200,000	\$22,600,000
June 1, 1962	\$22,600,000	\$200,000	\$22,800,000
July 1, 1962	\$22,800,000	\$200,000	\$23,000,000
August 1, 1962	\$23,000,000	\$200,000	\$23,200,000
September 1, 1962	\$23,200,000	\$200,000	\$23,400,000
October 1, 1962	\$23,400,000	\$200,000	\$23,600,000
November 1, 1962	\$23,600,000	\$200,000	\$23,800,000
December 1, 1962	\$23,800,000	\$200,000	\$24,000,000
January 1, 1963	\$24,000,000	\$200,000	\$24,200,000
February 1, 1963	\$24,200,000	\$200,000	\$24,400,000
March 1, 1963	\$24,400,000	\$200,000	\$24,600,000
April 1, 1963	\$24,600,000	\$200,000	\$24,800,000
May 1, 1963	\$24,800,000	\$200,000	\$25,000,000
June 1, 1963	\$25,000,000	\$200,000	\$25,200,000
July 1, 1963	\$25,200,000	\$200,000	\$25,400,000
August 1, 1963	\$25,400,000	\$200,000	\$25,600,000
September 1, 1963	\$25,600,000	\$200,000	\$25,800,000
October 1, 1963	\$25,800,000	\$200,000	\$26,000,000
November 1, 1963	\$26,000,000	\$200,000	\$26,200,000
December 1, 1963	\$26,200,000	\$200,000	\$26,400,000
January 1, 1964	\$26,400,000	\$200,000	\$26,600,000
February 1, 1964	\$26,600,000	\$200,000	\$26,800,000
March 1, 1964	\$26,800,000	\$200,000	\$27,000,000
April 1, 1964	\$27,000,000	\$200,000	\$27,200,000
May 1, 1964	\$27,200,000	\$200,000	\$27,400,000
June 1, 1964	\$27,400,000	\$200,000	\$27,600,000
July 1, 1964	\$27,600,000	\$200,000	\$27,800,000
August 1, 1964	\$27,800,000	\$200,000	\$28,000,000
September 1, 1964	\$28,000,000	\$200,000	\$28,200,000
October 1, 1964	\$28,200,000	\$200,000	\$28,400,000
November 1, 1964	\$28,400,000	\$200,000	\$28,600,000
December 1, 1964	\$28,600,000	\$200,000	\$28,800,000
January 1, 1965	\$28,800,000	\$200,000	\$29,000,000
February 1, 1965	\$29,000,000	\$200,000	\$29,200,000
March 1, 1965	\$29,200,000	\$200,000	\$29,400,000
April 1, 1965	\$29,400,000	\$200,000	\$29,600,000
May 1, 1965	\$29,600,000	\$200,000	\$29,800,000
June 1, 1965	\$29,800,000	\$200,000	\$30,000,000
July 1, 1965	\$30,000,000	\$200,000	\$30,200,000
August 1, 1965	\$30,200,000	\$200,000	\$30,400,000
September 1, 1965	\$30,400,000	\$200,000	\$30,600,000
October 1, 1965	\$30,600,000	\$200,000	\$30,800,000
November 1, 1965	\$30,800,000	\$200,000	\$31,000,000
December 1, 1965	\$31,000,000	\$200,000	\$31,200,000
January 1, 1966	\$31,200,000	\$200,000	\$31,400,000
February 1, 1966	\$31,400,000	\$200,000	\$31,600,000
March 1, 1966	\$31,600,000	\$200,000	\$31,800,000
April 1, 1966	\$31,800,000	\$200,000	\$32,000,000
May 1, 1966	\$32,000,000	\$200,000	\$32,200,000
June 1, 1966	\$32,200,000	\$200,000	\$32,400,000
July 1, 1966	\$32,400,000	\$200,000	\$32,600,000
August 1, 1966	\$32,600,000	\$200,000	\$32,800,000
September 1, 1966	\$32,800,000	\$200,000	\$33,000,000
October 1, 1966	\$33,000,000	\$200,000	\$33,200,000
November 1, 1966	\$33,200,000	\$200,000	\$33,400,000
December 1, 1966	\$33,400,000	\$200,000	\$33,600,000
January 1, 1967	\$33,600,000	\$200,000	\$33,800,000
February 1, 1967	\$33,800,000	\$200,000	\$34,000,000
March 1, 1967	\$34,000,000	\$200,000	\$34,200,000
April 1, 1967	\$34,200,000	\$200,000	\$34,400,000
May 1, 1967	\$34,400,000	\$200,000	\$34,600,000
June 1, 1967	\$34,600,000	\$200,000	\$34,800,000
July 1, 1967	\$34,800,000	\$200,000	\$35,000,000
August 1, 1967	\$35,000,000	\$200,000	\$35,200,000
September 1, 1967	\$35,200,000	\$200,000	\$35,400,000
October 1, 1967	\$35,400,000	\$200,000	\$35,600,000
November 1, 1967	\$35,600,000	\$200,000	\$35,800,000
December 1, 1967	\$35,800,000	\$200,000	\$36,000,000
January 1, 1968	\$36,000,000	\$200,000	\$36,200,000
February 1, 1968	\$36,200,000	\$200,000	\$36,400,000
March 1, 1968	\$36,400,000	\$200,000	\$36,600,000
April 1, 1968	\$36,600,000	\$200,000	\$36,800,000
May 1, 1968	\$36,800,000	\$200,000	\$37,000,000
June 1, 1968	\$37,000,000	\$200,000	\$37,200,000
July 1, 1968	\$37,200,000	\$200,000	\$37,400,000
August 1, 1968	\$37,400,000	\$200,000	\$37,600,000
September 1, 1968	\$37,600,000	\$200,000	\$37,800,000
October 1, 1968	\$37,800,000	\$200,000	\$38,000,000
November 1, 1968	\$38,000,000	\$200,000	\$38,200,000
December 1, 1968	\$38,200,000	\$200,000	\$38,400,000
January 1, 1969	\$38,400,000	\$200,000	\$38,600,000
February 1, 1969	\$38,600,000	\$200,000	\$38,800,000
March 1, 1969	\$38,800,000	\$200,000	\$39,000,000
April 1, 1969	\$39,000,000	\$200,000	\$39,200,000
May 1, 1969	\$39,200,000	\$200,000	\$39,400,000
June 1, 1969	\$39,400,000	\$200,000	\$39,600,000
July 1, 1969	\$39,600,000	\$200,000	\$39,800,000
August 1, 1969	\$39,800,000	\$200,000	\$40,000,000
September 1, 1969	\$40,000,000	\$200,000	\$40,200,000
October 1, 1969	\$40,200,000	\$200,000	\$40,400,000
November 1, 1969	\$40,400,000	\$200,000	\$40,600,000
December 1, 1969	\$40,600,000	\$200,000	\$40,800,000
January 1, 1970	\$40,800,000	\$200,000	\$41,000,000
February 1, 1970	\$41,000,000	\$200,000	\$41,200,000
March 1, 1970	\$41,200,000	\$200,000	\$41,400,000
April 1, 1970	\$41,400,000	\$200,000	\$41,600,000
May 1, 1970	\$41,600,000	\$200,000	\$41,800,000
June 1, 1970	\$41,800,000	\$200,000	\$42,000,000
July 1, 1970	\$42,000,000	\$200,000	\$42,200,000
August 1, 1970	\$42,200,000	\$200,000	\$42,400,000
September 1, 1970	\$42,400,000	\$200,000	\$42,600,000
October 1, 1970	\$42,600,000	\$200,000	\$42,800,000
November 1, 1970	\$42,800,000	\$200,000	\$43,000,000
December 1, 1970	\$43,000,000	\$200,000	\$43,200,000
January 1, 1971	\$43,200,000	\$200,000	\$43,400,000
February 1, 1971	\$43,400,000	\$200,000	\$43,600,000
March 1, 1971	\$43,600,000	\$200,000	\$43,8

ANALYSIS NON-PROJECT AID FUNDS
 Commercial Import Program
 (Thousands of US\$)

	<u>Total</u>	<u>Procurement Authorization</u>	<u>Cash Grant Dollars</u>	<u>Triangular Francs</u>
Uncommitted Funds, July 1, 1954	3,600	3,600	-	-
Allotments issued July 1, 1954-January 1, 1955	51,100	22,400	-	28,700
Total available	54,700	26,000	-	28,700
Licensed July 1, 1954- January 1, 1955	6,100	6,100	-	-
Uncommitted Funds, January 1, 1955	48,600	19,900	-	28,700
Allotments issued Jan. 1, 1955 - July 1, 1955	175,002	71,718	70,784	32,500
Total available	223,602	91,618	70,784	61,200
Licenses issued Jan. 1, 1955 - July 1, 1955	93,820	65,120	-	28,700
Uncommitted Funds, July 1, 1955	129,782	26,498	70,784	32,500
Allotments issued July 1, 1955 - July 1, 1956	208,776	128,976	52,000	27,800
Total available	338,558	155,474	122,784	60,300
Licenses issued July 1, 1955 - July 1, 1956	259,758	109,474	112,784	39,500
Uncommitted Funds, July 1, 1956	78,800	46,000	10,000	22,800
TOTAL ALLOTMENTS	438,478	226,694	122,784	89,000
TOTAL LICENSES	359,678	180,694	112,784	66,200
Uncommitted Funds, July 1, 1956	78,800	46,000	10,000	22,800

Examination of this table reveals several facts about the administration of the commercial aid program. Among them the following merit particular attention:

A. Of the total of 451.2 million U.S. dollars appropriated for commercial aid in the U.S. fiscal years 1955 and 1956, only 434.9 million U.S. dollars has actually been allotted to Vietnam. This amount is divided as shown at the bottom of the table among procurement authorizations, direct cash grant dollars, and triangular francs. The difference of 16.3 million U.S. dollars between the amount appropriated and that allotted is accounted for largely by the fact that some triangular francs remain to be made available. (It is natural and unavoidable that more time should elapse in making triangular currencies available than in providing dollars. In the case of the French francs, annual programs for the sale of surplus agricultural commodities must be negotiated between France and the United States before francs become available for allotment to Vietnam.)

B. It took time to transform the trading pattern of the economy from one based exclusively on French francs to one based upon dollars of commercial aid or, as we say, "to fill the aid pipeline". Note, for example, that although aid allotted to Vietnam during the period July 1, 1954 to June 30, 1955, totaled \$229 million, licenses issued during the same period totaled only \$100 million. On the other hand, licenses issued during the following year, July 1, 1955 to June 30, 1956 (estimating for the last half of the present month), will total \$258.6 million, although the new allotments issued during the same period will amount to only \$207.7 million. In short, the rate of commercial aid utilization necessarily lagged behind aid availabilities for the first year, but now has reached a level at least equal to the availability of new aid.

C. From the point of view of government policy in the use of commercial aid, these figures explain why it was not merely desirable but necessary to make an extraordinary effort at the outset to speed the use of commercial aid by such devices as liberalizing the range of eligible imports. The figures also indicate, however, that a policy of restricting the range of eligible imports and setting strict priorities on the use of commercial aid is now not only permissible but necessary, since the rate of use of commercial aid now equals, if it does not actually exceed, the amount of foreign exchange likely to be available.

Analysis of Vietnamese Commercial Imports 1955

In discussing the commercial import program thus far, I have emphasized its role as a source of piastres for the military budget and for other purposes, and as a deflationary offset to the deficit financing represented by the use of the counterpart fund. This is not the only, or indeed the main, value of commercial aid. Its main utility, of course, is to finance the imports which Vietnam requires to live and prosper. The importance of the deflationary and counterpart generating aspect of such aid, however, imposes one essential requirement on its administration. The goods it finances must be sold in the economy for cash, real money, not some form of inflationary credit especially created to meet the technical requirement of counterpart deposit. Within this limitation steps can and should be taken to favor the import of those goods deemed most useful to the community.

In determining how to use commercial aid in the future it would be well to see what it has actually bought in the past. We have just completed a careful

analysis of the imports which actually arrived in Vietnam during the calendar year 1955, going into as much detail as the figures available would permit. This study concerns all commercial imports into Vietnam, whether financed with American aid or with other resources. We have used the total import program for this analysis because figures on aid-financed imports alone are not yet available.

These data may be even more useful than those supplied by the aid-financed imports alone, however, because they show how the private sector of the Vietnamese economy uses its foreign resources in a regime of comparative freedom. A substantial proportion of last year's imports were paid for in French francs allocated during the later months of the quadripartite administration. As I have pointed out above, foreign exchange under the previous administration, although limited as to the market in which they could be spent, were virtually unlimited as to the kind of imports they could purchase.

So far as American aid resources used in 1955 are concerned, they were subject to certain sumptuary restrictions. For example, aid funds have never been used to purchase wines and liquors, jewelry, precious metals and a number of other similar luxury items which were imported in 1955. The use of aid funds for financing motor car imports was suspended in September, 1955 and has not been resumed. On the other hand, many of the restrictions imposed by the Government's announcement of February 1, 1956, were not applicable to the aid program in 1955. One can say, in summary, that 1955 imports represent a relatively unrestricted choice by the private sector of the Vietnamese economy.

Notwithstanding this relative freedom, the vast preponderance of last year's imports were clearly useful, indeed essential, to the economic life of this country. Attached to this paper as an appendix is an analysis of the 1955 imports which groups them into three broad categories: (a) investment goods, that is, equipment and partially fabricated capital goods, which cost 1,875 million piasters, or 20% of the total; (b) raw materials for local manufacture, 1,776 million piastres, or 19%; (c) all other imports, 5,560 million piastres, 61%. Obviously any classification of this sort involves many individual judgments on which there may be a difference of opinion. We have, for example, classified sewing machines as capital items, because in Vietnam the vast majority of such machines are used by small seamstresses and tailors who, in the aggregate, constitute the clothing industry of this country. We have classed malt, hops and leaf tobacco as essential industrial raw materials because without such imports two of the important industries of this country would have been compelled to stop work, thus increasing unemployment and reducing economic activity. As a matter of fact, these products are ordinarily ineligible for U.S. aid financing and are admitted to the commercial aid program here only because of their importance in keeping the economy moving. We have tried to be conservative in selecting imports classed as necessary to the present industrial activity of the country. There is enough detail given in the tables in the appendix to permit you to modify the classification according to your judgments of essentiality.

So far as the remaining imports are concerned, the category which we have described as "all other", most of them are clearly essential consumers'

goods. Even a casual glance at the list reveals the fact that the three broad categories of Food (not including beverages), Pharmaceuticals and Textiles account for \$100 million, or 40% of last years's imports. The remaining 20% of the imports includes only a few items which could be eliminated without hardship to some segment of society.

PART II

Present and Future Programs

In the preceding section we have reviewed in general terms the history of American aid to Vietnam since 1954. We have seen that a high proportion of the aid was spent for commercial imports to generate counterpart for military and other budget needs, and have observed that emphasis on budget support was necessary because of the urgent requirements of Vietnam. Finally, we have reviewed the way in which the private sector of the Vietnamese economy uses the commercial aid, and have found that a large portion of it brings in equipment and raw materials needed to maintain and expand the productive enterprises of the country and that the rest goes almost wholly for necessary consumption goods.

Shifting from Budget Support to Direct Aid

Few of the present imports could be eliminated without creating hardship in some section of society, and without adding to the growing black market in restricted commodities. Nevertheless, if the Government of Vietnam desires to restrict imports still further for the purpose of shifting aid from the commercial import program to the direct importation of capital goods, the place to apply such a policy is in the economic and technical assistance program. The authorities to undertake the task are the members of this Committee, and the instrument for accomplishing a shift in policy is the aid program for 1957. For our part we are prepared to go as far in this direction as can be justified. The only practical limitations on such a shift appear to be the ability to find justifiable projects for which adequate technical and economic plans have been prepared, and to obtain from Vietnamese budgetary or private investment resources the piastres now being allocated to economic and technical assistance projects from the counterpart fund.

This second limitation, the ability of the Vietnamese Government to reduce its requests for piastre aid in order to increase the proportion of aid used for capital imports, may prove more of an obstacle to the proposed shift in policy than will the problem of selecting and preparing justifiable projects. The aid program is already embarked upon certain useful long-range developments. Mr. Thai's paper suggests other promising possibilities. On the other hand, as you are aware, USOM has been urging for more than a year that a larger part of the piastre cost of economic projects be assumed by the Vietnamese National budget, so that increasing use might be made of economic aid for imported goods and services. Yet we have been told repeatedly with respect to the program as a whole and with respect to individual projects, that the Government cannot dispense with budget support. For example, to generate the piastres required to operate the three dredges supplied to Vietnam under economic aid, we are spending enough money through the commercial aid program to buy another new dredge this year. Yet when we attempted to transfer the operating expenses of the existing dredges to the national budget, we were told that it could not assume the burden. This is a difficult problem, I recognize, because to increase the proportion of direct capital imports in the aid program, it will be necessary for the Government to reduce its current operating expenses or increase its revenues from taxation and other internal resources. The only safe substitute for the aid now going to budget support must be an actual increase in Government revenues and not some form of deficit financing, such as borrowing from the Central Bank or incurring overdrafts in the Treasury.

Of course, increasing the direct dollar proportion of the economic aid program will not, by itself, assure the most effective use of economic aid for

economic development. The program as a whole and the individual projects must be carefully planned to serve this purpose. I doubt that the present program emphasizes economic development as much as now seems desirable. For various reasons, which can best be evaluated by examining the individual projects, a substantial part of the direct dollar aid is used to import consumption goods in programs designed to meet some immediate political or social need. For example, during the current year more than \$2 million of direct aid will be spent to import medicines and similar goods used by Operation Brotherhood, Civic Action and the health program of the Refugee Commission.

This question of priorities in the use of aid is of such importance that I think we might profitably at this time spend a few minutes reviewing the actual aid program for 1956. I do not propose to go into great detail. I agree with Mr. Thai that the task of planning and executing the detailed program must be left to the Aid Administration and the various Ministries working in cooperation with USOM. This Committee must, however, supply policy guidance, particularly as to the priorities of work desired by the Government of Vietnam. For that purpose a look at the 1956 program will be helpful.

The 1956 Economic and Technical Assistance Program

You will recall from the table presented in Part I that United States economic and technical assistance aid to Vietnam, plus aid to refugees, will total \$91,500,000 during 1956. Of the total, \$37 million is for refugees, and the remainder for the general program. So far as the form of the aid goes, 75%, or \$68 million, will enter the economy as commercial aid and will be spent in the program as piastres.

The table above shows in some detail the way in which 1956 aid for economic and refugee purposes is allocated among the different sectors of the program and forms of assistance. It also shows the extent to which both dollars and piastres have been committed. I call your attention, for example, to the fact that of \$22,795,000 in direct aid, nearly \$17,700,000 has been expended or committed by the issuance of firm orders. The uncommitted balance is covered by project agreements and will be expended within a short time. Piastres have been committed more slowly. Of \$68.7, only a little more than \$29 million has been released. (You will find if you examine the financial records of the Government that far too little of the money released has reached the actual projects.) Releases of piastres are proceeding rapidly, particularly in the refugee program, and the full amount will be committed in a few months.

Faced with these figures, however, one may very well ask why, so near the end of the United States fiscal year 1956, so much 1956 aid remains to be committed. Has not the program been unduly delayed? Can we not revise procedures so as to speed up the use of aid?

There is no one simple answer to these questions. So far as last year is concerned, there was more than the usual delay in Washington in approving the 1956 program, but this is not likely to be repeated in 1957. Nevertheless, Congress seldom approves the aid appropriation before the beginning of the fiscal year for which it is made, so one cannot count on firm figures as to the new aid appropriation before two or three months of the fiscal year have elapsed. On the Vietnamese side there have been delays also, particularly in making the money available after it has been released. In addition, some projects, notably sub-projects in the refugee program, have been held back by slowness in preparing

AMERICAN ECONOMIC AND TECHNICAL AID
U. S. FISCAL YEAR 1956

Showing Division of Aid by Sector and Purpose and
Showing Status of Counterpart Releases and Orders for Direct Aid Goods and Services

	Total US\$ Rqts.	US\$ COMPONENT					PIO/C,CS Issued	Local Curr. US\$ Equiv. Programmed	US\$ Equiv. Released
		Total	Commodities	US Tech.	Part.	Contracts			
10 Agricultural and Natural Resources	18,374,500	2,012,500	1,680,000	270,000	62,500		1,583,029	16,362,000	9,927,510
20 Industry and Mining	620,124	534,124	389,124	21,000		124,000	513,124	86,000	57,504
30 Transportation Communication and Power	13,147,166	5,757,166	3,269,290	244,000	49,000	2,194,876	3,729,645	7,390,000	3,946,900
40 Labor	338,700	58,700	43,700	15,000			41,300	280,000	38,815
50 Health and Sanitation	2,733,000	1,155,000	855,000	250,000	50,000		836,020	1,578,000	1,391,604
60 Education	3,951,000	327,000	204,000	100,000	23,000		194,479	3,624,000	2,561,127
70 Public Administration	6,299,970	2,611,970	1,256,470	132,000	65,000	1,158,000	2,184,000	3,688,000	1,922,142
80 Community Development	2,332,000	500,000	500,000				500,000	1,832,000	14,376
90 General and Miscellaneous	6,703,540	1,838,540	1,250,540	319,000	35,000	234,000	1,078,430	4,865,000	1,554,588
<u>T O T A L</u>	<u>54,500,000</u>	<u>14,795,000</u>	<u>9,448,124</u>	<u>1,351,000</u>	<u>285,000</u>	<u>3,710,876</u>	<u>10,660,027</u>	<u>39,705,000</u>	<u>21,414,566</u>
Refugee and Resettlement	37,000,000	8,000,000	7,315,610	286,000		398,390	7,023,285	29,000,000	7,984,670
<u>G R A N D T O T A L . . .</u>	<u>91,500,000</u>	<u>22,795,000</u>	<u>16,763,734</u>	<u>1,637,000</u>	<u>285,000</u>	<u>4,109,266</u>	<u>17,683,312</u>	<u>68,705,000</u>	<u>29,399,226</u>

the necessary project agreements. All things considered, however, the performance this year has not been bad. It must simply be made better in the future. That, however, it seems to me, is a job for the regular administrative services of the Government, pushed and supported by this Committee and the other Ministries of the Government concerned.

Let us now survey briefly the technical and economic assistance program for 1956. It is divided into 88 projects (not 333) which are grouped in accordance with a standard ICA classification system under nine main headings. I do not intend to discuss all of the projects, but would like to say a few words about each of the major sectors, particularly those to which the largest amounts of money have been allocated.

Agriculture and Natural Resources

In recognition of the importance of agriculture in the Vietnamese economy, we have allocated one-third of the economic aid, or \$18 million, to this sector. Most of that sum is to be spent in piastres. The largest agricultural project, to which \$1 million U.S. and the equivalent of \$10 million in piastres has been allocated, is one to provide agricultural credit and assist in the organization of a nationwide farm credit organization and a series of local farmers' cooperatives to administer the credit. The \$1 million is intended chiefly to continue the program of importing buffaloes from Thailand to sell to farmers on credit; the piastres provide the basic capitalization for the national farm credit organization.

The second largest agricultural program, from the point of view of funds allocated, is the restoration of drainage and irrigation works - projects like

the one completed at Tuy Hoa last September, to which \$2,500,000 has been allocated. Although American technicians provide advice and assistance and a small amount of equipment has been purchased for this program, the aid contribution is largely in the form of piastres. For the creation of an agricultural extension service, for support of the National Agriculture College at Blao, and for a small program of research in agronomy and agriculture, aid is providing \$1,400,000 chiefly in piastres. An equivalent sum is programmed for support of the administration of agrarian reform. The equivalent of \$600,000, both technical advice and some piastre and dollar support, is used to support programs in the fields of forestry and fisheries. The remaining funds, \$1,400,000, half of which is in the form of piastres, is financing programs in crop and livestock development, including the importation of breeding stock and the distribution of fertilizer.

Agriculture is a fruitful field for critical review by this Committee. The amount of money involved is so large and agriculture is of such importance to Vietnam that the Government should make certain it is making the most effective use of aid in this field. With respect to most of the basic technical programs, for example, agricultural extension and education, support for research, the irrigation program, the program for improving livestock and seed, and the work in forestry and fisheries, I have no doubt about the usefulness and the basic soundness of the projects. I do question the necessity of using American aid to provide the piastre support of most of these activities. The National budget should begin next year to make a larger contribution to this work. In this connection, aid funds now pay 16 million piastres annually in salaries to 841 government employees in the field of agriculture who should be transferred to the regular rolls of the government.

About distributing fertilizer below cost, I have serious doubts. When the subsidized distribution of fertilizer to small farmers was initiated with American aid, it was done to teach the use of fertilizers and demonstrate their value. Now that the demand for fertilizers has been built up among rice farmers, they must be led to pay an economic price for the fertilizer they use.

Support for the agrarian reform administration, which is almost wholly a piastre cost, will not be justified in the future, in my judgment, unless the Government launches a widespread new program in this field. Finally, the agricultural credit program would appear to be sufficiently capitalized by the 1956 allotment of 350 million piastres, and if successfully administered, should be able to obtain such additional capital as it requires from the budget or from the banking system. The main problem is one of administration which additional grants of American aid will not help to solve.

I have offered these comments about the elements of the agricultural aid program, not as definitive judgments but as an indication of the kind of evaluation which this Committee might profitably make.

Transportation, Industry and Mining

Chiefly because of the importance of reconstructing the public works of Vietnam, this sector of the aid program is second in the amount of money it receives with a total allotment of \$13,700,000. Highways receive the largest amount, \$4 million in piastres being used to aid in the restoration of the National highways. An equal amount in U.S. dollars is being expended to obtain a complete stock of modern highway construction equipment, to engage an experienced American firm of highway engineers, and to finance the first phase of a major highway reconstruction effort, using modern machinery and the latest

engineering methods. According to present plans, the sum thus allocated will be tripled in the 1957 program.

The ports and waterways of Free Vietnam will receive nearly \$3 million, largely in piastres. This fund pays the operating expenses of three new suction dredges (with a fourth now being assembled in Saigon), is doing work of reconstruction in the Port of Saigon, and will restore the aids to navigation on the Saigon River. For this work 238 government employees at an annual salary of 6 million piastres are paid from aid funds.

Funds have been provided for engineering surveys of the needs and resources of Vietnam in the production and distribution of electric power and in telecommunications. In addition, a new automatic telephone exchange is being installed in Cholon. For improvement of the Saigon airport and the aerial navigation facilities there and elsewhere in Vietnam, the sum of \$1,300,000 is allocated. This program will be enlarged and extended in 1957. During the course of the year, a survey of Vietnamese handicraft products has been made by a prominent American industrial designer for the purpose of finding foreign markets for Vietnamese handicrafts. One-half million dollars is earmarked for the importation of machinery and for the training of personnel in improved handicraft production, both for export and for domestic consumption. All of these activities in the field of public works and industry are accompanied by programs for training Vietnamese personnel here and abroad.

The present program of aid in the field of transportation, industry and mining, plus the expansion planned for next year, will greatly strengthen the economic base of this country. In addition, the surveys included in the program

will lay the basis for further long-range developments. The needs of the country, however, greatly exceed the resources which can be provided from American aid. One of the main problems of the Government will be to coordinate the use of its own budgetary resources, the construction work of the Vietnamese armed forces, and the contribution which can be made by private enterprise, particularly privately owned public utilities, in such a way as to make most effective use of the available American aid.

Public Administration

Third in importance, as measured by the allocation of aid funds, is Public Administration, to which a total of \$6,395,000 has been allotted this year. Of this amount almost half is being expended for the support and expansion of the National Institute of Administration. Something over \$1 million pays the cost of American professional staff and the expenses of sending Vietnamese officials and students to the United States for training. Another \$800,000 in piastres is allocated to pay the local currency expenses of the Michigan State University specialists in public administration and police training, together with a staff of Vietnamese personnel which assists them. An additional sum of nearly \$1 million in piastres has been allocated but not yet expended to pay the cost of constructing additional classrooms, dormitories and other facilities for the National Institute of Administration. \$1 million and \$500,000 in piastres will be spent to re-equip the civil guard and the other civilian security forces of Vietnam with vehicles, communications equipment, a modern laboratory, weapons and other facilities, and to provide for their training. Personnel of the American Aid Administration, the National

Import Committee, the National Bank and the National Institute of Administration, numbering 197 with an annual cost of 8,500,000 piastres, are paid from this allotment.

The priority accorded the sector of public administration in the 1956 aid program is a recognition not only of the importance of improving the efficiency of public service and the competence of the security services, but also of the priority accorded to this field by the Government of Vietnam itself. Re-equipping of the security forces begun this year will be continued in 1957, and additional qualified training personnel will be provided.

Health and Sanitation

In the field of health and sanitation \$2,700,000 is available in 1956, something over \$1,500,000 in piastres, and the remainder in imported supplies and materials. The health program includes four broad categories of service:

- (a) campaigns against specific diseases - malaria, trachoma and tuberculosis,
- (b) assistance in the improvement of environmental sanitation, (c) construction and equipment of hospitals and health education facilities, and (d) support for training programs for nurses and sub-professional medical assistants. At a cost of 13,500,000 piasters, 394 government employees are paid from this fund.

The present health program is essentially the continuation of work which has been going on over the course of several years.

Education

For the educational aid program in 1956, \$3,969,000 is available, 90% in piastres. By far the bulk of the aid goes for the construction and equipment

of schools at all levels, including a School of Law and Letters for the University of Vietnam, a technical school at Phu Tho, a national normal school and popular, secondary and elementary schools throughout the country. \$800,000 is allocated to youth activities. Popular and community schools employ 2,243 teachers, costing 14,000,000 piastres per year at the expense of American aid. The program, except for the allotments for youth activities which are under reconsideration at the present time, has moved substantially on schedule and will be completed by the end of September, 1956. Despite the assistance which American funds have provided for the restoration of school facilities in Vietnam, I have some doubt that American aid should be used so exclusively in the future for the construction of school buildings. Some months ago USOM proposed that future American aid be used to support a nationwide program to provide universal elementary education. We realize that this is not an objective which could be achieved in one or two years, but with the help of American aid it does seem possible that such a program, if made a matter of national policy, could be achieved within a reasonable length of time. In any case, if American aid is to continue to make an annual contribution to education running into millions of dollars, it must be more closely coordinated than in the past with the educational budgets of the country, both national and local, and should be made a part of a comprehensive, long-range national plan for educational reconstruction.

Community Development

For programs in Community Development \$2,332,000 has been allocated. Of this amount \$500,000 has been committed for the purchase abroad of supplies and

equipment to be used in the Civic Action program. The remaining funds in piastres are intended to support a program of community development, a village self-help program of small works, and a fund for emergency disaster relief, if needed. Most of the piastres available for community development are as yet unprogrammed because of lack of agreement on the way in which they should be used.

General and Miscellaneous

This includes a sum of \$6,700,000 which covers two broad categories of expense - information and public relations activities, administered chiefly by the Ministry of Information, and the general administrative and program expense of American technical personnel and of the Vietnamese staff employed by USOM. Included in this program is 17 million piastres to pay the salaries of 687 employees of the Ministry of Information.

Resettlement and Rehabilitation of Refugees

The 1956 economic aid program includes \$57 million for the resettlement and rehabilitation of refugees. This supplements the \$55,785,000 provided in 1955 to pay costs of moving refugees from North Vietnam, provide subsistence and the expenses of their initial settlement. By and large, although there were many administrative difficulties and considerable hardship for the refugees, last year's emergency program was successful. Undoubtedly, the program compares favorably with any of the several mass refugee movements to which the United States has contributed its assistance. The 1956 appropriation, of which \$8 million is to be extended for imported goods and service and \$29 million

in the form of piastres for internal expenses and limited subsistence, was provided to finance a program designed to permanently re-establish the refugees and to make them not only self-sufficient but to lay a basis for their full integration into the economic life of Free Vietnam.

The direct dollar portion of refugee aid is allocated for the purchase of equipment and supplies from abroad. It has been committed for the following purchases:

Tractors and farm equipment	\$1,200,000
Medicines	1,200,000
Small tools	1,000,000
Buffaloes	1,000,000
Vehicles	1,000,000
Irrigation pumps	150,000
Seeds and fertilizers	500,000
Uncommitted	1,950,000
TOTAL	<u>\$8,000,000</u>

Among the uncommitted funds a portion is reserved for the employment by contract of Filipino and Japanese specialists in agriculture, fishing and handi-craft industries.

Most of the refugee aid, of course, is to be expended in piastres to provide for land clearing, purchase of seeds, equipment and livestock, new housing where necessary, limited subsistence, and pay other expenses necessary to make the existing refugee villages economically self-sufficient, or where necessary to move refugees to more suitable locations. Funds are allocated on the basis of project agreements based on village plans which describe the work to be done and the various kinds of aid to be paid for from the refugee allotments. The purpose of the village plans and the accompanying agreements is to insure that

local conditions and needs are taken into account and that the available funds will be used in such a way as to provide each village with the essentials it requires to become economically self-supporting. This is not a program of public assistance to indigents but a program for aiding the refugees to put themselves through their own efforts in a position to earn a living.

Obviously this programming procedure is time consuming, since it requires the preparation of carefully laid plans to meet the needs of a variety of situations. It is encouraging to report that at this date funds have been allocated to cover the requirements for permanent rehabilitation of 75% of the refugees. These are located in 203 separate villages in every section of Free Vietnam. The largest number are in South Vietnam. This seems desirable since the majority of refugees are rice farmers, and it is in South Vietnam that there still remains thousands of hectares of uncultivated rice lands. However, resettlement efforts in the PMS and CVN have not been neglected. In the PMS, for example, there are 30 refugee villages with a total population of over 55,000, for which over 120,000,000 piastres have been allocated. Although the per refugee expenditures during 1955 were highest in CVN, this year the individual costs are the lowest, indicating that in that area at least they are approaching a self-sufficient status.

Execution of plans, however, needs to be accelerated. The total releases to date amount to only 284,375,142 piastres. The delay in implementation is due in part to the time necessarily consumed in preparing adequate village plans, but it is our view that a serious problem at the moment is the appointment and assignment to the field of competent, imaginative and dedicated

officials to direct the execution of the agreed upon plans. If that is done with dispatch and these persons are clothed with adequate authority to make decisions under previously determined policy, there seems to be every reason to believe that all refugees will be totally rehabilitated upon implementation of the present program. In fact, based upon this judgment, no aid for refugees has been requested for 1957.

1957 Program of Economic and Technical Assistance

I am sorry that I cannot give this Committee a firm estimate of the aid which will be provided during the United States fiscal year 1957. As you are perhaps aware, the question is still under consideration by the United States Congress, whose action cannot at this time be predicted. Based on last year's experience, however, and what I know about plans for 1957, I will take the risk of giving you certain general forecasts about next year's aid program in the hope they will provide some guidance to this Committee. These are not authoritative figures, however, and they may prove to be too optimistic.

So far as commercial aid is concerned, I do not think you should count on having more money in 1957 than was provided during the fiscal year 1956, that is, approximately \$200 million. Four-fifths of this amount will probably be derived from the military support program, and the remainder from economic and technical assistance. The economic and technical assistance program will probably be somewhat larger than that in 1956 but smaller than the total of economic and technical assistance plus refugee aid. In 1957, as in 1956, a portion of the aid will be offered as a loan rather than a grant. A portion will also again be provided in the form of triangular currencies.

Since the present import program of Vietnam exceeds by a substantial amount the commercial aid likely to be available next year, we believe that the use of American aid should be restricted to goods of urgent necessity. In order to simplify the administration of commercial aid and to expedite its use, we propose that aid not be employed to finance miscellaneous products of small monetary value or licenses of a value of less than \$10,000 for any commodity. Since to meet its full import needs next year, Vietnam will have to use some of its own foreign exchange earnings for the importation of goods, we suggest that licenses of less than \$10,000 and miscellaneous goods of small monetary value be paid for from Vietnamese foreign exchange earnings.

Pressure from Washington to increase the proportion of commercial aid provided in the form of Procurement Authorizations is likely to increase. As I explained earlier, provision of aid in the form of dollar grants was an exceptional procedure initiated in Vietnam in order to insure the prompt availability of piastres for the military budget. To permit such grants certain provisions of the United States Law were waived temporarily. Washington has already indicated that it desires to reduce drastically or, if possible, eliminate the granting of dollars in 1957. Moreover, no dollars in any form are likely to be made available from the 1957 appropriation until late August or September, 1956. These various factors: the probable stringency of commercial aid dollars, the fact that greater use will be made of procurement authorizations, and the fact that there may be some interruption in the availability of dollar aid during the next few months, all make it very important that we agree speedily upon an annual program for the use of aid.

With 18 months experience on which to base a program, however, it should be possible to prepare firm requests for a full year's requirements in each of the commodities financed with American aid, spaced according to the seasonal demands. This will permit ICA/Washington to take the time it inevitably requires in the review of firm requests without interfering unduly with the orderly licensing of imports and the regular flow of goods.

Continuity of Piastre Program

Although I am obliged in candor to warn against the possibility of some interruption in the availability of dollars, because of the change from one U.S. fiscal year to another, the situation with respect to piastres is fortunately more favorable. The piastres which have been allocated by project agreement to approved activities during 1956 will be available in 1957. Similarly, piastres in the approved program which have not yet been committed by project agreement can be made the subject of agreements which will permit their expenditure. Because of these facts, the counterpart phase of the economic and technical assistance program is assured of continuity. For example, although two-thirds of the counterpart allocated to the refugee program remains to be released, most of it has been committed by project agreements and can be used as needed throughout the coming year. In much the same way, dollar goods and services ordered during 1956 will arrive during the coming year and will be used in the program as planned. Thus, the task of administering 1956 aid will occupy our respective services during the next several months even if there is some delay in the approval of the 1957 aid program.

In fact, if there is any danger in the present system of aid administration, it is that projects will be continued from one year to the next without a sufficiently critical re-examination to make sure they fit the changing situation and best serve agreed economic objectives.

Fortunately this year this Committee has undertaken in time the task of reviewing the aid program. Fortunately, also, the Administrator General has carefully analyzed the problems with which the Committee should deal and has made a series of recommendations which deserve the most thoughtful consideration. With most of his suggestions, we are in full agreement, particularly his comments on the policy which should govern the use of aid, his suggestions as to improved procedures and his choice of specific projects for priority consideration. I have not attempted in this prepared statement to comment in detail on Mr. Thai's paper, although you will have observed, I am sure, that on a number of points the views I have expressed are identical with those he has set forth. I would like now to conclude these remarks with comments on two or three projects which seem to us to be of particular importance, and with some recommendations as to the future work of this Committee.

Sugar Production

This is a combined agricultural and industrial development to which we feel the highest priority should be accorded. In 1955 Vietnam spent approximately \$6 million for the importation of sugar. It seems likely that in a few years domestic production could replace this entire expenditure. This

project involves a basic question of national policy, however, on which Mr. Thai's paper is entirely silent. To what extent will the Government of Vietnam rely upon private enterprise to develop the sugar plantations and rebuild the refineries? There are phases of this problem in which public support will be necessary, for example, support for basic research and agricultural education to improve the production of sugar cane. For the most part, however, reconstruction of the sugar industry illustrates the advantages of private initiative in economic development. Sound investment in this, as in any other economic enterprise, requires managerial and technical skill quite as much as capital. One question to which I would like to know the answer, therefore, is whether the present producers of sugar in Vietnam or other private individuals with experience in this field are willing to invest in the restoration of this activity on terms consistent with national economic objectives. If so, these private investors are likely to have or to be able to obtain, piastres required for the necessary investments. In such case they can, by making use of the commercial aid, obtain the imported equipment they require while at the same time providing piastres for the counterpart fund.

Land Development

That the experience of CaiSan should lead to other projects for the rapid redevelopment and re-occupation of idle land, we fully agree. The contribution which CaiSan has already made to political and military security and to the economic base of the country, as well as to the resettlement of refugees for which the project was originally designed, is evident, although the full

potential of the project will not be developed for several years. At the same time CaiSan has taught several lessons which we would like to see applied to any future development to which American aid is allotted:

(a) More time must be given for preliminary planning than was possible at CaiSan, in order to permit the most economical solution to engineering and construction problems, to reach agreement as to the costs in the new project, to have a clear understanding as to who will be placed on the new land, and what the rights and obligations of landlords and tenants will be.

(b) Although we feel that refugees should share in the benefits of any new project, there will be no aid funds in 1957 specifically for refugee resettlement. This means that the United States contribution must come from funds for agricultural development or other sectors of the economic aid program, and that the project must be justified in purely economic terms.

(c) Any new project should be financed by the coordinated use of budget funds and aid. As a general principle, wages and other local costs should be borne by the budget, while equipment, fuel and other imported requisites, including possibly technical engineering services, can be financed with direct dollar aid. Greater use of heavy construction machinery than was possible at CaiSan would increase the aid contribution in such a joint project and would also reduce the cost of works such as canals and roads.

Basic Economic Studies

I endorse most strongly the recommendation that certain basic economic and engineering studies be undertaken during the coming year, with full use being made of experienced private engineering companies. Specifically, I

recommend a comprehensive transportation survey, and a survey of telecommunications to be coordinated with the regional telecommunications survey for which ICA funds have already been allotted.

Importance of Economic Stability

To be effective, any effort to use American aid to foster economic development must be accompanied by a special effort on the part of the Government to maintain economic stability. Any extraordinary effort in economic development carries with it a certain risk of inflation, but nothing would more quickly destroy the basis for sound economic growth than a runaway inflation. There is already so much inflationary pressure in the Vietnamese economy, as evidenced by the rise in prices during the past year and the depreciation of the piastre in relation to gold and other currencies, that great care must be taken in planning economic expansion so as to avoid adding to the pressure.

Closely related is the problem of maintaining strict control over the public budget. Unfortunately, under the stress of emergency in the last 18 months, the Government of Vietnam has been compelled to operate without strict budgetary control. Not only the central government, but the regional and provincial governments have been allowed to obtain informal advances from the Vietnamese Treasury. The Government has not used its authority to borrow from the Central Bank, but instead has relied upon Treasury overdrafts as a source of deficit financing. This is clearly inflationary. It is tantamount to issuing new paper money. I do not have accurate figures on the full amount of such deficit expenditures, but I am sure that they have been large enough to

constitute a major source of inflationary pressure. If we are to make effective use of aid for economic development, such deficits must be scrupulously avoided in the future.

Working Parties

Obviously this Committee cannot complete a review of the entire aid program today. I hope we can reconvene, however, as often and as long as is necessary to complete this task. I should also like to recommend that as an aid to the Committee's work, three working groups, composed of representatives of the Government and of USOM, be established to study and make recommendations on certain important aspects of our work.

A. A group to review and recommend policy and procedure for the use of commercial aid in 1957. This working group should, among other things, prepare an annual import program to be financed from American aid.

B. A group on project administration in the technical and economic assistance program. This group should review and make recommendations on procedures for the presentation and approval of projects, the release of counterpart, the accounting for counterpart and dollar aid, and reporting on progress.

C. A group on priorities in the 1957 aid program. This group should review existing and proposed projects and make recommendations as to those which should be approved or eliminated.

I also recommend that this Committee meet at frequent intervals to hear reports of the working groups and to complete the task of program review begun here today.

Appendix AImports into Vietnam
during C.Y. 1955Classified as Investment Goods,
Raw materials and Others.

1. For purposes of analysis and planning, selected categories of the imports into Vietnam during the calendar year 1955 may be classed as "investment" goods. Certain others are raw materials. The remaining total includes items in almost all of the commodity groups. Following that pattern, this Appendix consists of three tables which classify 1955 imports into Vietnam into :

Investment goods	1,875 mil. ps.	(20%)
Raw materials	1,776 " "	(19%)
Other imports	<u>5,560 " "</u>	<u>(61%)</u>
Total :	9,211 " "	(100%)

Total imports into the present Republic of Vietnam during 1955 amounted to 9,169 million piastres. The higher total above includes 42 million piastres that were imported into North Vietnam and can not now be extracted from the detailed raw data with which we work. The "error" resulting from this problem is less than one percent in any total or sub-total.

2. In classifying the imports a very large number of individual items or classes of items in the customs designations were considered. However, this is in no sense an item-by-item classification. Rather, the table of Investment Goods includes some entire sections and others where goods of a non-investment nature have been omitted. Explanatory notes indicate the omissions. The table of Raw Materials contains one entire section (2-digit code), numerous entire chapters (4 digit code) and various selected items or groups of items. (codes containing an x). In Table III, code numbers contain an x whenever a part of the chapter has been extracted as raw material or investment goods.

TABLE IInvestment GoodsImported into Vietnam

C.Y. 1955
(millions of piasters)

Machinery		531
includes 195 million piasters for sewing machines. Among machinery items, air conditioners are not labeled as a separate class of imports; thus their value is not available.		
Metal manufactures		351
includes chains, nuts, bolts, hand tools, locks, etc. includes also 4.8 million of metal furniture, chiefly for offices.		
Metals		424
includes ingots, blooms, billets, castings, wire, bars, strips, shapes, rails, sheets, tubes, etc. in all metals.		
Electrical equipment		254
includes	38 million of radio receivers,	
also :	17 " " portable lamps	
	16 " " electric bulbs	
	1 " " radio tubes	
	2 " " radio parts	
	2 " " cooking appliances	
	18 " " "apartment" fans	
which are as likely to be used by business firms as by households		
Commercial transport equipment		240
includes railway equipment	39	
busses, trucks, etc.	84	
boats and equipment	83	
airplanes and parts	34	
Scientific instruments and meters		75
Total		1,875

TABLE IIRaw MaterialsImported into Vietnam

(C.Y. 1955)

(millions of piasters)

<u>Customs Code</u>	<u>Commodities</u>	<u>Value</u>
02-66	Malt	30
02-72	Seeds for planting	7
02-76	Hops	5
02-7x	Oil bearing seeds and grains (flax seed, coprah, peanuts, castor beans, cotton seed)	13
02-80	Raw materials for tanning and dyeing	9
02-90	Bamboo and reeds for weaving	2
04-91	Raw and leaf tobacco	202
05-6x	Petroleum products	269
05-xx	Cement, tile, coal and other minerals	223
06	Chemical products	112
07-20	Fertilizers	56
07-30	Wood and resin distillates	23
07-4x	Dies and paints	25
07-6x	Fat products, less soap and glue	4
07-9x	Abrasives and miscellaneous, less insecticides, etc .	20
08-10	Cellulose and resin plastic compounds	64
09-xx	Hides and skins	46
10-10	Lumber and wood	57
10-50	Cork	8
11-10	Paper scraps for making paper	36
11-2x	Paper and cardboard stock, less newsprint	140
12-10	Textile fibers	10
12-20	Yarn	313
12-30	Thread and cord	31
15-xx	Stone, clay and glass, less possible household items	71

Total 1,776

TABLE IIIImports into Vietnam

OTHER THAN Investment Goods and Raw Materials

C.Y. 1955

(millions of piasters)

01	<u>Animals and animal products</u>		543.4
	1/		
01-10	Live animals	30.6	
01-20	Meat	5.2	
01-30	Fish, crustacea, molluscs	74.3	
01-40	Milk and milk products; eggs	430.8	
01-50	Other animal products	2.5	
02	<u>Vegetable and vegetable products</u>		583.3
02-10	Live plants	0.4	
02-20	Roots and vegetables	119.7	
02-30	Edible fruit	129.3	
02-40	Coffee, tea, spices	25.1	
02-50	Cereals	5.7	
02-x	Flours and starches	193.6	
02-7x	Oleaginous fruit and grains	109.5	
03	<u>Fats and Oils</u>		56.5
03-10	Fats of animal origin	2.2	
03-20	Vegetal fluid oil	34.0	
03-30	Fat products	20.3	
04	<u>Food, drinks, tobacco</u>		779.1
04-10	Canned meats	78.3	
04-20	Sugar and sugar products	261.6	
04-30	Coca and derivatives	4.9	
04-40	Flour products	36.9	
04-50	Products from, Vegetables, Roots, Fruits	90.7	
04-60	Other food preparations	59.4	
04-70	Beverages and vinegar	229.1	
04-80	Food waste-products	0.4	
04-9x	Tabacco manufactures	17.8	

1/ Live animals can not be separated into a/ draft animals b/ breeding animals and c/ animals for meat. The total for animals commonly used as draft animals (buffalo, oxen, cattle; there were no horses imported in 1955) was 643,000 piasters. Otherwise this section includes 30 million piasters of pigs and chickens from Cambodia, probably for food.

TABLE III (Continued)

05	<u>Minerals products</u>		135.2
05-6x	Petroleum products (butane, propene, kerosene, gasoline 2/ for private consumption)	135.2	
07	<u>Allied chemical products</u>		485.5
07-10	Pharmaceuticals	350.9	
07-4x	Pencils	4.3	
07-50	Perfumes	61.2	
07-6x	Soap and glue	15.6	
07-70	Powder, explosives, matches	4.2	
07-80	Films; photographic materials	42.0	
07-9x	Insecticides, desinfectants, etc.	7.3	
08	<u>Rubber and plastics</u>		217.3
08-20	Plastic articles	12.1	
08-30	Rubber products	205.2	

2/ Gasoline used for commercial purposes may be roughly estimated to be at least one half of the total, on the following basis :

1. At December 31, 1955, there were operating in South Vietnam :
 - 22,000 private cars
 - 7,000 public passenger cars
 - 9,000 trucks.

That is to say, two fifths of all automobiles were commercial vehicles.

2. In Center Vietnam and the P.M.S., the proportion of private cars must have been much lower.
3. Commercial vehicles run much more constantly than private cars.

Accordingly the figure for petroleum products is reduced by one half the value of gasoline imports, or 82 million piasters.

TABLE III (continued)

09	<u>Hide, skins and leather products</u>		8.3
	09-50	Leather products (luggage, etc)	8.3
10	<u>Wood and wood products</u>		2.4
	10-20	Seating	0.9
	10-30	Furniture other than seating	0.2
	10-40	Beds	0.5
	10-60	Basket-ware	0.8
11	<u>Paper and paper products</u>		145.1
	11-2x	News print	28.9
	11-30	Paper & cardboard, transformed	15.4
	11-40	Paper & cardboard products	35.4
	11-50	Books	65.4
12	<u>Textiles</u>		1,356.7
	12-40	Cloth	1,065.7
	12-50	Cloth of hard fibers	0.4
	12-60	Ribbon, velvet, carpeting	6.5
	12-70	Tulle, lace, netting	47.3
	12-80	Felt and padding	3.4
	12-90	Special textiles	233.4
13	<u>Clothing</u>		172.0
	13-10	Embroidery	1.8
	13-20	Clothes	6.6
	13-30	Clothing accessories	6.9
	13-40	Other cloth articles	44.1
	13-50	Hosiery	24.3
	13-60	Used clothing	88.3
14	<u>Hats, shoes and accessories</u>		18.6
	14-10	Footwear	3.7
	14-20	Hats	13.9
	14-30	Umbrellas, etc.	0.7
	14-40	Trimming	0.3
15	<u>Stone, clay and glass products</u>		124.3
	15-2x	Household ceramics	54.7
	15-3x	Household glass	69.6

TABLE III (Continued)

16	<u>Jewelry and precious stones</u>		20.3
	16-10	Pearls & stones	8.6
	16-20	Precious metals	0.3
	16-30	Jewelry	11.4
18	<u>Metal manufactures</u>		110.0
	18-2x	Domestic household items	55. est.
	18-32	Lamps and lanterns	53 "
	18-3x	Pins and ornaments	2 "
21	<u>Transportation equipment</u>		558.0
	21-2x	Passenger cars, cycles, etc.	516.5
	21-2x	Car + truck parts	39.3
	21-3x	Pleasure boats, canoes	2.2
22	<u>Scientific instruments and clocks</u>		90.5
	22-30	Clocks and watches	90.5
23	<u>Musical instruments</u>		35.3
	23-10	Musical instrument	16.0
	23-20	Accessories, spare parts	19.3
24	<u>Arms & ammunition</u>		3.5
	24-10	For military use	0.4
	24-20	For commercial use	3.1
25	<u>Miscellaneous</u>		113.8
	25-10	Ivory articles, etc.	0.2
	25-20	Brushes and brooms	7.7
	25-30	Toys; sports goods	32.6
	25-40	Miscellaneous	73.3
26	<u>Art objects</u>		0.7
27	<u>Parcel post</u>		0.6
		<u>Total.....</u>	<u>5,560.4</u>