

THE ECONOMIC CONSEQUENCES OF THE PARTITION INTO TWO VIETNAMS

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The consequences of partition on the economy of South Vietnam were many. Some were apparent and had immediate effects. The influx of refugees for instance, which we shall study in another chapter, added to the problem of unemployment already existing in urban and rural areas. Another rather easily discernible consequence of the partition was its immediate effect on the monetary situation in the South. Bank deposits in the North, in general belonging to French and Vietnamese industrial and commercial firms, were transferred almost in toto to the South, thereby swelling the money supply and causing partially the inflation of 1955.

However, many other consequences of the partition did not appear on the surface at once. International Aid, generous as it was, acted as a shock absorber, and concealed the ill effects of partition rather than cured them. But it would fail in the long-run to adapt the economy of Vietnam to the new situation if the problem of structural distortion were not fully understood. An analysis of a hypothetical balance of payments existing between North Vietnam and South Vietnam over a long period preceding the partition would reveal the extent of the distortion. Unfortunately, statistical data now available do not enable us to venture into such enquiry, and here we shall do no more than suggest some elements of the problem.

Prior to World War II, South Vietnam was a surplus area in rice, and it used to "export" this commodity to other areas of the former Indochinese Union, in particular to North Vietnam. In return, it received from the North chemical products for its rubber processing, coal for its factories, much paper, cement, glass, and textiles in the production of which North Vietnam had an

effective monopoly.⁽¹⁾ The invisible items of our hypothetical balance of payments weighed in favour of North Vietnam. As Hanoi was the Federal capital of the Union, all Administration Offices of the Government-General, and most head offices of industrial firms were located there, and so was the University. Further, as Table 1 may show, skilled labour (artisans and industrial workers) was rather concentrated in the North. Not included in the statistics were Northern Vietnamese traders, who, better than their compatriots in the South, could effectively compete with Chinese traders. On the other hand, South Vietnam had a higher total income as well as per capita income, due to her larger receipts from rice and rubber exports, the sea traffic from the Port of Saigon, and her low density of population. Consequently, her contribution to the Federal Budget of the Union was always the largest (yearly average about 40%),⁽²⁾ and which was often used to subsidise other local budgets, particularly that of the North.

Table I

Regional distribution of Artisans in Undivided Vietnam. (1937)			
Principal crafts	Tonkin	Annam	Cochinchina
Basketry	15,521	277	357
Woodworking	1,426	2,783	4,347
Textile	56,850	2,988	303
Embroidery	2,315	62	81
Lace Making	22,833		
Leather work and tanning	1,057	117	277
Metal work	1,143	994	1,554
Silver and jewelry	471	333	843
Paper making	2,771	41	97
Pottery	522	460	145
Mother-of-Pearl	232	20	
Food processing	1,404	427	193
Miscellaneous (hat, dye)	9,525	4,150	10,837
<u>Total</u>	<u>95,670</u>	<u>12,652</u>	<u>19,034</u>

Source: Gouvernement General de l'Indochine, Bulletin Economique de l'Indochine, 1938

(1) See, for instance, U. S. Department, Economic Development of Indochina, Washington, 1943.

(2) See Paul Bernard, Les Problemes Economiques Indochinois, Paris, 1934.

Note: To avoid confusion, the former names of Tonkin, Annam, Cochinchina designating the three States of unified Vietnam are used here. The territory under the jurisdiction of the Republic of Vietnam includes the areas below the 17th parallel, namely half Annam, and the whole Cochinchina. No statistics are available concerning the distribution of labour between two Annams divided along the 17th parallel.

Table II
Regional distribution of industrial workers. (1939)

<u>Mining</u>	Tonkin	Annam	Cochinchina
Coal	37,000		
Tin	2,000		
Tungsten			
Zinc (including a zinc smelter in Quang Yen)	1,000		
Gold		(South) (1)	
Phosphate	1,500		
<u>Manufacturing</u>			
Cement	4,000		
Glass	225		
Chemical industries	(2)		(2)
Paper	3,000	200(North)	
Match		2,000(North)	
<u>Mechanical plants</u>	(3)		(3)
Textile (cotton spinning)	10,800	1,300(South)	
Rice milling	(4)		(4)
Alcohol distilleries	(5)		(5)
Breweries		2,000	2,000
Sugar refineries			1,200
Tobacco			1,500

Source: Estimates from Dr. Andre George, Autonomie Economique, Cooperation Internationale et changements de structure en Indochine, Paris 1954, page 50-57.

The estimates are for the year 1939 and include only important firms. They are classified according to each individual company. The re-classification above is made by the present author according to the location of the factories.

- Notes: (1) Gold mines are located in BengMiêu (South Vietnam). The output in 1939 was 173 kilograms.
- (2) Chemical industries included mainly the manufacture of gas. Two important firms, the Société Indochinoise de Pyrotechnique had its factories both in Haiphong (North) and in Saigon.
- (3) Mechanical plants include ship repair yards, and railroad repair shops, and the manufacturing of a number of simple machines, including steam cylinders, certain machine tools, grinding machines. Their factories were located in Haiphong, Saigon, and PhnomPenh. The total number of workers were about 2,000-2,500 persons.
- (4) Rice mills were located in Saigon, Cholon. But the bulk was in Cholon.
- (5) Five factories, belonging to the "Société française des distilleries de l'Indochine, were in Hanoi, Namdinh, Hai Duong (North), Sholon (South) and PhnomPenh.

Table III

Regional Distribution of National Income (in million piastres) for 1931

	Tonkin	Annam	Cochinchina	Undivided Vietnam
<u>Agriculture</u>	107	89	135	311
Paddy	72	40	110	
Maize	5	3	1	
Rubber			2.5	
Pepper			1.5	
Others	30	46	20	
<u>Livestock</u>	25	13	10	48
<u>Forest</u>	12	8	10	30
<u>Fishery</u>	2	6	4	12
<u>Industry</u>	59	22	24	105
Mining	14	1		
Other	20	6	6	
Trade	25	15	18	56
<u>Handicraft</u>	20	10	8	38
<u>Services</u>	30	15	42	87
<u>Total</u>	225	163	233	621
Population (millions)	7.5	5.2	4	16.7
Income per capita	34	51	58	37

Source: Estimates made by Paul Bernard, in Le Problème Économique Indochinois, Paris 1934, pages 14-15.

Such was the interchange between North Vietnam and South Vietnam during the prewar period. Little was known about the economic consequences of this relationship brought about by the Japanese invasion, the Allied Occupation (1945-1946), and lastly the Colonial, International and Civil War of 1946-1954. It is not even possible to determine to what extent the Northern industrial equipments were sabotaged by guerrillas, or dismantled by withdrawing French and Vietnamese forces, and the number of skilled workers among the Northern refugees to the South. During the last two years before partition, 50% of cement and 20% of the coal used in South Vietnam were imported from the North. In 1954, foreseeing French withdrawal from the North, many French firms succeeded in dismantling their plants (Sociétés Cotonières de Nam Dinh, Filleseries d'Indochine in Haiphong, Brassières et Glacières in Hanoi, Société d'Oxygène et d'Acétylène d'Extrême Orient in Haiphong). After the partition, American Aid made it possible to import from the outside world what was

necessary for the survival of the South. Further, the policy of the Republic of Vietnam was to encourage the production of commodities which had been produced in the North, in particular textiles, cement, and glass.⁽¹⁾ Steps were taken by the Government to develop a number of hitherto unexploited natural resources such as the Nong Son coal deposits, the water power of the highlands (the Danhin project), the phosphate deposit of the Paracel and Spratley Islands.⁽²⁾ The loss of land is not so serious for the economy of the Republic of the South, because the distribution of land used between North and South weighs in favour of the South. The South received 2.8 million hectares out of the total number of 4.3 million hectares of paddy fields. The loss of market is more noticeable. The volume of manufactured products, including consumers' goods of many firms had to fall because of the loss of the market in the North. However, with the support of International Aid, partition may not be so detrimental as was expected, particularly if the Government would pursue a policy with the immediate aim of adjusting Vietnam's economy as completely as possible to the loss of the pre-partition markets, and sources of supply. But from the long-run point of view, when we bring into focus the dynamic problem of growth, partition seems to be a serious blow to the normal functioning of the two halves of the economy. The geographical and geological features of the Vietnamese peninsula are such that it forms an economically integrated unit, with the South more endowed for agricultural production, and the North more adapted for industrial output. In point of fact, the faith in the industrial potentialities of Vietnam ("la vocation industrielle du Vietnam", as French economists put it)⁽³⁾ was based largely on the

(1) Republique du Vietnam. Banque Nationale du Vietnam. Rapport Annuel. Exercice 1955. Saigon 1956. p 14.

(2) See United Nations - Economic and Social Council. Full Employment and the Balance of Payments Policies, Oct. 26, 1956. p 18.

(3) Indochine, Service des Etudes Economiques, Le developpement Economique de l'Indochine, Plan Decennal, Saigon 1946.

complementary nature of both North and South. If development of North and South is to be carried on separately, as it is likely to be, there is some danger of duplication of facilities in the two halves and hence of excess capacity when North Vietnam is liberated. There is also the danger of improper locations of some facilities from the viewpoint of a unified Vietnam. The economic cost of partition should however be weighed carefully against the political price of union, which will be the assignment of the political analyst. For our economic reasoning, the problem is relatively simple. We will assume that the impermanent dividing line will remain with us for a long time to come, and shall hold this assumption till the end of this book, - or maybe longer.