PART ONE

THE ECONOMIC PROBLEMS FACING POSTWAR VIETNAM

After the Geneva Accord in 1954, Vietnam was divided into two parts. North Vietnam, the more populous area, contains all of the country's mineral resources, power and heavy industry, but it is barely sufficient in rice production. On the other hand, South Vietnam is endowed with fertile agricultural lands and has been a rice surplus area but with very few mineral resources.

The ethnic Vietnamese compose about 85% of the population, the rest being the tribal Montagnards and the Chinese. The Vietnamese usually prefer to live in the lowlands and have strong family ties which result in crowded communities. The people have often been praised for their special capability and characteristics. For example, Lucian Pye comments that "the Vietnamese proved the most gifted of all Southeast Asians in assimilating Western culture and adapting to Western standards and that they alone, of the peoples of the region, have successfully followed careers in Europe".[1]

The economic development of the highlanders, possibly due to the lack of good communication facilities resulting in a state of isolation, is far below that of the Vietnamese. The Chinese community, concentrated in the city areas, is just a minority group but they played an important role in the industrial and commercial activities in the past.

I AN OVERVIEW OF THE ECONOMIC CONDITION OF VIETNAM

Similar to many Asian countries, agriculture has been and still is the most important activity in Vietnam. The most important crop is rice, followed by rubber, corn, tobacco and sugar. Forestry and fishery are promising, but they are still not fully exploited. During the war, production activities were seriously disrupted. Rice production in South Vietnam, for example, amounted to 4,960,000 tons in 1960, more than enough to feed the whole population; however, by 1970, the level of production had been drastically reduced and rice had to be imported from the United States.

Industry is still in the underdeveloped stage, and consists mainly of light manufacturing and processing of local agricultural and forest products. Most plants are concentrated around the city areas and are principally textiles, chemicals, paints, plastics, glass and rubber products. Due to the unstable situation during the war years, many industrial projects were postponed. However, new industries have been established although at a very slow pace. Industrial resources are very scarce in the South but there is a vast hydro-electric potential which also remains under-exploited.

As the statistics on the economic performance of North Vietnam were hard to come by during the early 1970's when this thesis was written, we had to rely on the following data on the economic performance of the South which serves a partial indication of the economic situation of the entire country. The labor force of South Vietnam in the early 1970's was estimated at about 41 percent of its population, of which only one-tenth are wage and salary earners. Of the total labor force, 84.2 percent were employed in agriculture, 3.7 percent in commerce, 3 percent in fishing, 2 percent in manufacturing and crafts, and the rest in transportation, services and construction.[2] In 1966, the military forces of South Vietnam absorbed 585,000 people which were increased to over 1.1 million just before 1973. While there were not enough skilled workers to fully meet the needs of the military or the industrial sector, unemployment existed among the unskilled labor force and there was considerable underemployment.

After agriculture, domestic trade holds the second most important position. Before the French arrived, Vietnam was a country composed almost entirely of nearly self-sufficient villages with virtually no commercial activities linking them. The French colonial rule has broken the traditional pattern, and with the construction of rail lines, roads and waterways in the latter part of the 19th century, domestic trade has become an important activity. Up until the 1950's, the Chinese dominated the scene, and exercised control in rice trade and most retailing and wholesaling. From 1950, their control diminished, especially after the issuance of the Ordinance Number 53 on September 6, 1956, which closed to foreigners 11 occupations and opened the doors to Vietnamese participation. (This ordinance, however, lasted for just over a year!)

The foreign trade pattern of South Vietnam has been greatly affected by the unsettled conditions. From the position of an export-surplus country before World War II, postwar trade returns showed a deficit gap between export earnings and import payments. The gap has been widening since then and Vietnam had to reply on the substantial foreign aids to cover its huge trade deficit. The war has made all efforts in diversifying export products unachievable, and for over a decade after independence, the country still produces and exports the same foodstuffs and raw materials. Rubber and rice constitute between 80 and 90 percent of the exports. However, the export earnings from these two products have been widely fluctuating due to the disruption of the production machinery by the war and the fall in the world price of agricultural products, especially rubber. On the import side, Vietnam is still buying mostly the same type of goods from foreign suppliers as before. The imports of fabrics, pharmaceutics and most consumer goods have declined, while the imports of machinery and metals show a steady increase. The main change in the trade pattern is probably the decreasing role of France as a supplier and the more important trading role of the U.S. in the South and of Russia and China in the North.

In 1957, a Five-Year Plan for industrial development in South Vietnam was announced but it was never formally adopted. However, a list of plants to be completed by 1965 was released. Scheduled for completion between 1961 and 1964 were two paper mills, a spinning and weaving mill, four sugar mills, two cement plants, a rice-bag plant, four bicycle-tire plants, a soda plant (for the manufacture of sodium carbonate, hydrochloric acid and calcium carbide), a plant for the manufacture of prefabricated houses, an oil refinery, a fertilizer plant and several pharmaceutical plants. By mid-1962, some of these plants were in operation and others were under construction.

A second Five-Year Plan for the South, launched in 1962 was later abandoned as a result of the deteriorating security condition. In February 1966, the rural development program was launched, its objectives being the clearing and holding of hamlets, consolidating government control in villages, building classrooms, roads, and bridges, and digging canals and training people.

By the end of 1966, even when the Vietnam war was still at its climax, suggestions were put forward to make a plan for the postwar period. The result was the establishment of the Joint Development Group, which consisted of a group of "private Vietnamese citizens and a private American company, communicating freely with governmental and non-governmental agencies, but developing judgments and opinions which were their own and independent with the purpose of undertaking the studies necessary for the design of measures, program and projects for the development of the economy of Vietnam in the postwar period, and to make recommendations concerning them to the Government".[3] In March, 1969, the study was completed. "The Postwar Development of the Republic of Vietnam: Policies and Program" presented a framework within which postwar development could take place, as well as a general program for agriculture, forestry, industry, the infrastructure, and a development program for the five geographical regions of South Vietnam. The Joint Development Group believed that Vietnam would be able to achieve economic independence within ten years after the war was over.

And finally in 1972, the Government of South Vietnam inaugurated the "Four-Year National Economic Development Plan, 1972-1975". The objectives of the Plan were to provide guidelines for all of the essential governmental activities during this four-year period, creating a foundation for the postwar economy.

II THE INTERNATIONAL TRADE ISSUES OF DEVELOPING COUNTRIES

Being a developing country, Vietnam has to face similar problems to those which other developing countries have been and are still struggling with. The war only makes the task much harder and once it is over, Vietnam will have to follow the same path which many developing countries have already travelled before. It will be aiming at basically the same objectives, and facing more or less similar problems, only being in a more disadvantageous position as a late comer.

What are the prime concerns of the developing countries? The two most important ones are basically(a) to achieve political independence and (b) to achieve economic growth, i.e. to raise the standard of living of their people, and to improve the quality of life, etc. There have been tremendous efforts devoted to the explaining and understanding of the nature as well as the instruments to achieve economic growth. Among the many factors often cited, industrialization and economic diversification have always been considered as the means to this end, and with trade, they form a powerful combination toward economic growth. In the following pages, we will take a look at some issues related to the above development triad, namely the commodity export, import substitution, and export diversification problems.

A THE COMMODITY EXPORT PROBLEMS

Despite all efforts aiming at diversification, the two main products which compose the biggest share of the export receipts of South Vietnam were still rice and rubber. The problems with commodity export can be briefly described as follows :

On the demand side :

1 Most of these products are imported into richer countries which have very low per capital income elasticities of demand. The price elasticity of world demand for most of these products is also very low.In other word, poor countries do not have much command over the price of these products in the market. If they increase the price, the demand for their products will drop sharply.

2 Big increase in demand is not expected because the population growth rate in the market for these products is very low.

3 Technical changes can produce cheap substitutes, for example, synthetic rubber.

4 Market access is limited because of the protective policies of many richer countries.

Table 1

Estimated income-and price-elasticities of demand for selected agricultural products in industrial country markets.

	Income	Price
Coffee	0.8	under 0.5
Natural rubber	n.a.	0.5 - 1.0
Sugar	0.4	under 0.5
Cocoa	0.5	under 0.5
Lauric acid, oil & oilseeds	0.4 - 0.7	0.5 - 1.0
Hard fibres	0.7	under 0.5
Tea	0.1	0.5 - 1.0
Bananas	0.2 - 0.7	0.5 - 1.0

Source : G.K. Helleiner, International Trade and Economic Development. Middlesex : Penguin Books Ltd, 1972, p. 39.

On the supply side :

1 The volume of agricultural commodities production can fluctuate excessive since these products are subject to many natural and unnatural causes which are not under control : for example, drought, excess rainfall, floods, plant diseases, and especially in the case of Vietnam, the war.

2 In order to achieve the optimum price, one has to know the supply and demand situation and be able to adjust production accordingly, i.e. one should not expand production when price elasticity is less than unity and should not restrict supply when world market can absorb larger quantities. However, in developing countries, the production structure is so rigid, due to limited resource base and specific soils and climate, that it is inflexible in response to change in market conditions.

Heavy reliance on export proceeds from a small number of commodities has placed developing countries in a very difficult position. Looking at some of the neighboring countries of Vietnam, the yearly fluctuations in the export receipts of their commodities have been significant. Receipts from rubber in the Federation of Malaya and Singapore where they accounted for 47 percent of the exports showed an average annual fluctuation of 23 percent between 1948 and 1961. Rice, the price of which has been falling since 1952, was the most important export item for Vietnam was also the commodity subject to the greatest changes. the average annual post-war fluctuation for Thailand has been 22 percent.[4]

B IMPORT SUBSTITUTION ISSUES

It is clear that developing countries should not rely entirely on the production and export of primary products and that the development of their economies requires a more comprehensive program of industrialization and economic diversification. Industrialization, however, is not the cure of all problems and needs to be carefully planned. Otherwise its adverse effects can be as bad as having no industrialization at all.

What is the pattern of industrialization in developing countries? The normal path has always been with the home market as a starting point. New industries will be established to turn out products which formerly had to be imported from aboard. The utilization of totally new products can be developed but at a very slow rate, especially when the domestic market is small. Therefore, domestic production can safely start with the existing utilization, i.e., by substitution. Besides the fact that this import-substitution activity will increase national income and save foreign exchange, another advantage is that the new industries established will pave the way for many lines of activities. "These industries increase the demand for material and equipment and may furnish by-products for further processing. They promote the growth of technical skills among the workers and encourage improved organization and management among the entrepreneurs. More important, they help to activate the minds of workers and management alike so that they seek new opportunities for innovation. If well nourished and supported with adequate training facilities and an infrastructure, these import-substituting and export industries may carry the seeds for general economic growth." [5]

The reality, however, is far from perfect, and import substitution has not been without heavy criticisms. The main line of arguments against this policy can be categorized as follows :

1 The problem of industrial favoritism : The new industry comes into existence at a much higher production cost than importation cost, and therefore has to be protected by high tariffs, import controls and foreign exchange restrictions. It is hoped that differences in production costs and quality can be overcome in a short time, or at least diminished considerably. However, it is a real and evident problem in developing countries that it is not easy to eliminate the productivity gap within a reasonable time. Over-production for a too long period of protection often tends to lead to stagnation in all aspects of production, a disappearance of export prospect in the long run and unexploited capacities.

2 The problem of inducing further import : It is generally argued that the intended import-substitution development augments import rather than dimisishes it. The reason is as follows. The new industry will require heavy investment in machinery at the start but when production begins, the problem is not over since spare parts and raw materials must also be imported. For example, in the case where new textile industry was established, it was found that the import of cloth had been reduced while there was a big increase in the import of cotton yarns. The import-substitution progress of a few selected developing countries can be seen in Table 2. From this table, it is evident that the impact of these import substitution efforts has been to shift the import bill from consumer goods towards intermediate and capital goods.

3 The linkage effects problem : It has been found that import substitution might not generate any linkage effects as was expected. Inefficient import substitution may inhibit the development of further progress by creating the high cost inputs to potentially forward-linked industries. On the other hand, those first industries may block the development of backward-linked industrial suppliers for fear that the local products are of inferior quality than the imported products.

Table 2

The structure of imports in selected developing countries, 1877 - 1969.

	Consumer goods %	Intermediate goods %	Capital goods %	Total
Brazil				
1948-50	15	47	38	100
1960-62	9	62	29	100
Nigeria				
1950	60	10	30	100
1965	45	24	31	100
Mexico				
1877-78	75	15	10	100
1910-11	43	27	30	100
1940	28	44	28	100
1960	11	45	44	100
Argentina				
1900-04	42	37	21	100
1910-14	37	33	30	100
1925-29	37	31	32	100
1960-63	5	62	33	100
Tanzannia				
1962	51	14	35	100
1969	33	21	46	100

Source : G.K. Helleiner, International Trade and Economic Development. Middlesex : Penguin Books Ltd, 1972 p.104.

C EXPORT DIVERSIFICATION ISSUES

Disillusioned with the prospect of achieving quick economic growth through import substitution, many developing countries have switched to an export diversification policy. It has been argued that "... Increasing export is desirable, because of the necessary foreign currency income that export will get in order to bring the foreign trade balance into equilibrium, because an increasing specialization is economically favourable and also absolutely necessary. It is also desirable because technical development and the increase of productivity and a decrease in prime costs are preconditions for taking part in competition".[6]

Except for a few countries like Vietnam, the industrial exports of other developing countries have increased in recent years. From 7 percent of total exports from developing countries in 1953, exports of manufactured and semi-processed goods have increased to over 20 percent in 1969. The success with manufactured exports in the Third World, however, is highly concentrated. In 1969, 48 percent of the total manufactured exports came from Hong Kong, Taiwan, India, and Yugoslavia; and 75 percent came from only thirteen countries (these four plus Israel, Mexico, and Malaysia).[7] Export diversification is indeed a recommended course of action for developing countries, however we should also be aware of several constraints and drawbacks:

On the demand side :

> The most serious problem facing developing countries in this respect is the barrier erected by developed countries to restrict entry of their products. The tariff structures of the rich countries have been found to be highest for products which are relatively labor intensive, and these happen to be the chief exports of the poor countries! The income-elasticity of demand for manufactured products is generally higher than that of primary products, and even though there is wide variation from commodity to commodity, it is still better to export processed materials than primary products. However, the tariff structures in developed countries are such that the higher the degree of processing, the heavier the duties imposed. For example, while the U. S. import tariff on raw hides and skins is zero, its tariff on finished leather is 10 percent and on leather footwear is 13 percents.[8] A

similar tariff structure is imposed on cocoa beans, cocoa butter, chocolate, copper, copper bars, etc.

Another device is the physical quotas used to restrict entry of particular items such as cotton textiles, clothing and processed agricultural products. Physical import quotas, "voluntary" (but basically mandatory) export quotas, variable import levies, and anti-dumping duties, also restrict import of other semi-processed and processed agricultural products from developing countries. Finally, the so-called "non-tariff barriers" - sanitary and safety regulations, public procurement policies, domestic content regulations, border delays, etc - impede still further the Third World's access to the rich nations' markets.

Developing countries have long been pressing for the relaxations of these many restrictions, but the results have not been very encouraging. The second UNCTAD in New Delhi in 1968 did not bring the results expected since many important products are still excluded from consideration for a reduction in tariff. Processed agricultural foodstuffs were excluded from discussion even in this second conference, and cotton textiles were recognized as a "special case". These two categories make up almost half of the manufactured exports from developing countries.

On the supply side :

Even if the market prospects were excellent, there remain great difficulties in developing an industrial export base. Faced with virtually identical market prospects, each developing country will react differently depending upon their supply structures. Shortages of the industrial infrastructure skills and experience have placed the least developed countries, especially those of tropical Africa, at a serious disadvantage relative to such semi-industrialized countries as Argentina, Mexico and Brazil. Furthermore, the pattern of production of manufactured goods in developing countries has always started at the domestic market with similar types of products. This would place the small countries at another disadvantage because as they move to the international market, these countries are likely to be comparatively successful at the export of standardized semi-manufactured goods, for which the demand is restricted due to competition, and weak in the development of finished and differentiated manufactures. This is due, in large part, to the policy of the newly industrializing countries which have offered few incentives to develop industrial exports and concentrated largely on substitution of manufactured imports.

III THE POST-WAR EMPLOYMENT AND BALANCE OF PAYMENTS PROBLEMS

On the subject of post-war Vietnam, one can touch on many aspects, such as political, social, or economic. Within the economic consideration, one can still go into the post-war economic, monetary, fiscal policy, the employment problem, the agricultural, industrial and institutional development, etc. However within the limit of this thesis, we will emphasize on only two aspects which are most important to us, namely the employment and the balance of trade problems after the war.

A POSTWAR EMPLOYMENT PROBLEM

As soon as the hostilities end, postwar employment will be one of the most important problems facing Vietnam. The dimensions of this problem can be seen as follows :

First, there is an army of over two million men for both North and South Vietnam, a large number of which will be released. Second, there is a refugee population of another two million to be cared for. Third, there is the rising generation coming on to the labor market and, fourth, there will be a reduction in the civil servant work force.

In general, it was estimated that possibly as many as 2 million people will have to be immediately provided with jobs or some kind of assistance. In addition, it will be most desirable to find productive uses for another 600,000 to 800, 000 people who may still be in uniform. The task of providing employment for this formidable number of people is indeed a tremendous burden. The magnitude of this task can be seen from the Postwar Plan of South Vietnam cited earlier which basically represented only half of the picture for a united Vietnam. The Plan attempts to establish an estimate of its potential magnitude in all sectors of the economy and derive an estimate of the potential demand for labor.

Some of the important results are as follows :

- The greatest demand for labor will still be in agriculture, and it is expected that only in the South 410,000 refugees will return to the lands which they abandoned.

- The Armed Forces will continue to be another safety valve, besides agriculture, at least for the immediate postwar period. Due to the remaining tension after a cease fire, no sizeable demobilization is expected within five years. Furhermore there may be a net increase in the Armed Forces and the National Police of 100,000 men.

- Of the total 330,000 civil servants employed by the government, the suggested substantial reduction in force should not be carried out. Instead, the approximately 100,000 of the redundant civil servants should be re-assigned to other public service, thus expanding the activities of the government in many areas, and in many regional develop ment authorities.

- 60,000 people can find work in forestry; 10,000 in new and expanding industries.

- Construction activities such as infrastructural reconstruction and re-housing could provide 100,000 jobs (75,000 pre viously released from war-related construction and 25,000 new jobs).

- Trade and service provide a further 20,000 jobs.

- 40,000 to 60,000 workers can be employed in some forms of labor-consuming programs created by the government until normal economic growth is resumed.

> Under extreme conditions, with a population of 20 million and a labor force of 9 million after the war, the economy would be required to create work at the rate of 500,000 new jobs a year in order for full employment to be maintained.[9]

It must be emphasized once again here that the above figures were only for the South as the plan for the North was not available at the time this thesis was written. However, looking at these estimates, we find that the role of industry in the creation of new employment is very limited. The Postwar Plan argued that "Manufacturing will not absorb very much surplus labor in the immediate postwar years. It cannot, at least at the start, provide opportunities for employment comparable with those offered by agriculture. Industrialization is a long process in which valuable employment effect will not be felt for a number of year." [10] The projection of early postwar demand for industrial workers was only 10,000 in new and expanding industries, which was indeed a very insignificant amount!

The largest pool of manpower is still the Armed Forces and those related to the military sector. Finding employment for this huge pool of people will be the biggest challenge for Vietnam and in this respect, maybe we should turn to the experience of other countries such as the U.S.A. and China when they had to absorb a huge mass of troops into the civilian life. It is possible that we should create some quasi military cum civilian operations as transitional vehicles. For example, an entire combat batallion with their family members can now be assigned to a fully integrated forestry operation at a certain location where they will be involved in all aspects of the industry from log cutting, sawmilling, processing, transporting and selling to local trading companies. The objective is for each such unit to be self sufficient and at best profitable. The transition from soldiers and military officers to business managers will be arduous and difficult to many but with their discipline and determination, this plan is not impossible to achieve. All efforts should be dedicated to support this strategy, for example, the existing military academies and other institutes of political and guerilla warfare should now aim at turning high level army officers and generals into business executives etc...

Anyway, this is just a passing thought but one which merits attention nevertheless.

B BALANCE OF PAYMENTS PROBLEM

As expected, the balance of trade deficit has been and will continue to be a major concern for Vietnam. In 1968 for example, imports in South Vietnam were at US$750 million while exports were less than US$30 million. This big gap has been financed half by the sale of Vietnamese piasters to foreigners, especially to the Allied Armed Forces, and the other half by U.S. aid. Obviously, this situation should not be allowed to continue any longer. The Postwar Plan has made the following estimations :

- The value of imports should decline from US$750 million (1968) to about US$450 - US$550 million beginning in 1972. In 10 years, the percentage of imports to GNP must be reduced from 20% - 25% to about 15%.

- The value of capital goods as a percentage of total imports should increase from 20% - 30% to 50% - 60% after 10 years.

- The value of exports should reach at least US$250 million to US$350 million, and with a determined effort, could climb to over US$400 million. [11]

The Postwar Plan predicts that "in the 10th year, it is quite possible that the deficit in the balance of payments will not be eliminated completely; however the deficit should be at a level of about US$100 million and can be financed by capital inflows caused by foreign investors, supplier loans and other revenues." [12]

As we have noted, the role of export is very important in narrowing the gap in the balance of payments. It is expected that exports should jump from US$30 million (1968) to US$350 - US$400 million during the postwar period. A detailed export projection was infeasible at the time, but some possible ranges of exports to be achieved within a period of ten years after the war have been estimated in the Postwar Plan as follows: [13]

Table 3

Annual Export Potential of S. Vietnam

Commodity group	(US$ million - 1967 prices) Low Estimate	High Estimate
1. Rubber	40	60
2. Rice	40	90
3. Fish products	10	40
4. Other agricultural products, (Cinnamon, vegetables, animal feed, tea, etc.)	20	80
5. Industrial	50	170
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	160	440

From this table, we can see that rubber and rice were projected at a much lower percentage than in the past, when they accounted for almost 90% of total exports. Industrial products, on the other hand, would become more and more important.

The unemployment and trade deficit are, no doubt among the most pressing problems for the postwar Vietnam. As such, great efforts have to be made in search of new projects with potential foreign exchange earnings or with high level of employment possible. With this purpose in mind, we now turn our discussion to the Export Processing Zone as a possible money-making and job-creating vehicle for Vietnam.

References

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[3] Joint Development Group, *The Postwar Development of the Republic of Vietnam : Policies and Programs*, Volume One, p.x.

[4] United Nations, *Import Substitution and Export Diversification in ECAFE Countries*, p.10.

[5] Ibid., p. 16.

[6] Gyorgy Cukor, *The Role of Import Substitution and Export Development in the Industrialization of Developing Countries*, p. 11.

[7] G. K. Helleiner, *International Trade and Economic Department*, p.66

[8] Ibid., p. 10.

[9] Joint Development Group, *The Postwar Development*, pp. 123-148.

[10] Ibid., p. 142.

[11] Ibid., p. 10.

[12] Idem.

[13] Ibid., p. 26.