

## ECONOMIC DEVELOPMENT OF VIET-NAM

by

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## INTRODUCTION

The consequences of colonialism, of the world wars, of the partition of the country into two parts, and of the internal unrest created by communist subversion, have greatly burdened the future of the economy of the Republic of Viet-Nam<sup>1</sup>. In addition to the common obstacles to economic development faced by almost all under-developed countries throughout the world, such as the backwardness of the people, imperfection of the market, lack of industrial diversification, population pressure, capital deficiency, foreign-trade-oriented production, Viet-Nam confronts two other major difficulties namely the big loss of the natural resources and the industrial bases of the North, and the rushing influx of nearly one million refugees from the North as the consequence of the 1954 Geneva Agreement.

Viet-Nam is primarily an agricultural country with rice and rubber constituting more than 25 per cent of the gross national product, more than 85 per cent of the total export income and providing employment for more than 80 per cent of the total labour force. This high degree of dependency on rice and rubber as an export-capacity-to-import for

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<sup>1</sup>Throughout this thesis, the terms Republic of Viet-Nam, South Viet-Nam and Viet-Nam are used interchangeably, unless otherwise specified.

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consumption and for industrial development has caused a state of great concern among the Vietnamese during and immediately after World War II when the production of these two products dropped dramatically from the pre-war levels due to the destruction and deterioration of roads, buildings and equipment and the political insecurity in the countryside.

In the following chapters, attempt will be made to present and interpret facts in such a way as to point out the great need of and possibility for diversification and industrialization in Viet-Nam. Though the national economic bases will remain agricultural with rubber and rice occupying top priorities, the pattern of expansion must be somewhat different if the economy is to develop with stability and the standard of living is to be substantially improved.

Viet-Nam needs to renovate her social and administrative set-up, modernize the methods of production, and reorient the pattern of economic development.

A period of metamorphosis is painful under any circumstances. In the case of Viet-Nam, difficulties are enormous. Whether or not Viet-Nam will survive the battle against communism and poverty will depend to some extent on the understanding and help from the friendly nations. This brings me to the consideration of the role of foreign aid in the last part of this thesis.

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Finally, the role of the government will be discussed with special reference to the agrarian reform and related policies.

## CHAPTER I

## A GENERAL SURVEY OF THE PEOPLE AND ITS HERITAGE

The partition of the country in 1954 by an agreement at Geneva between the Viet-Minh (Vietnamese communists) and the French colonists, was in a sense the climax of an almost unbelievable sequence of disrupting and destructive events to which Viet-Nam has been subjected ever since the beginning of World War II. The history of Viet-Nam has been one of war; this is probably because of her smallness in size, richness in resources, and of the unwillingness of her people to yield to foreign domination.

Today, Viet-Nam's role and capabilities may be summed up in the following lines of an American writer:

The Vietnamese are destined to play a decisive role in the struggle for Asia. Lying between the southwestern border of China and the Gulf of Siam, Viet-Nam occupies the gateway both by land and by sea between China and the vast region of Southeast Asia. It could serve either as a jumping-off point for communist attacks or as a block against Chinese or Chinese supported communist aggression.

This the West has begun to realize. But only a few scholars know that Viet-Nam has been thwarting Chinese southward expansion for 2,000 years. Fewer still know that the Vietnamese have defeated at least half a dozen Chinese attempts to penetrate into the rich rice bowls of the Indochinese peninsula. Much has been written about the hundred years of western colonial exploitation which come to an end only after one of the longest, most cruel and politically most perplexing of all colonial wars. But the Vietnamese had fought

against Chinese colonial exploitation and political domination for more than 1,000 years before the coming of the French. Even the partition of their country is not a new experience for them. During the last 500 years the Vietnamese had lived through two long periods of a divided Viet-Nam and have come out of them stronger and more united than before.<sup>1</sup>

and on the same level, in the words of President Eisenhower:

Strategically, South Viet-Nam's capture by the communists would bring their power several hundred miles into the hitherto free region. The remaining countries in Southeast Asia would be menaced by the great flanking movement. The freedom of 12 million people would be lost immediately and that of 150 million others in adjacent lands would be seriously endangered. The loss of South Viet-Nam would bring in motion a crumbling process that could, as it progressed, have grave consequences for freedom.<sup>2</sup>

### Brief Historical Background

Briefly, the history of Viet-Nam may be divided into five eras (See Appendix 1):

1. The early establishment of the Vietnamese nation: 2879-111 B.C.
2. The Chinese domination: 111 B.C.-938 A.D.
3. The great national dynasties: 939-1883 A.D.
4. The French administration: 1883-1945 A.D.
5. The Post-World War II period.

<sup>1</sup>Joseph Buttinger, "The Small Dragon", A Political History of Viet-Nam, F.A. Praeger, New York, 1958, p. 57.

<sup>2</sup>Address at Gettysburg College in April, 1959.

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Under more than 1,000 years of foreign domination, it is understandable that the economic development of Viet-Nam had been directed largely to the objectives of foreign political and economic policy, and certainly not toward exploring the nation's maximum economic potential...

Perhaps, the period which has greatest effect on Viet-Nam's economy and therefore interests us the most in the present discussion is that beginning with the French domination.

Under the Nguyen dynasty, Viet-Nam came into contact with the West, in particular with France, following Western expansion to Asia in the 19th century. As with many Asian countries, Viet-Nam committed the error of ignoring the scientific and industrial revolution which had contributed to the might and prosperity of the West. Like China, Viet-Nam remained in the 'splendid isolation' of her ancient civilization. Isolationism, based largely on national pride, brought the Chinese colossus to repeated defeats in her clashes with the western powers. Viet-Nam suffered a similar fate when hostilities broke out with France in the second half of the 19th century. After many battles, the Vietnamese, overwhelmed by the gun power of French troops, were forced in 1862 and in 1867 to yield their southern provinces to France as a colony; and in 1884 to accept a status of a French Protectorate for the rest of Viet-Nam.

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Active and passive resistance, however, continued afterwards and the French had to suppress many revolts, the most important of which were led by Emperor Ham-Nghi (1885-1888), nationalist leaders Phan-dinh-Phung (1893-1895) and Hoang-hoa-Tham (1889-1913) and the nationalist Party in 1930.

This period of French administration was characterized by:

1. The heavy exploitation of Viet-Nam by foreigners. Viet-Nam was considered only as a provider of raw materials and was not given opportunities for any significant industrial development.

2. The exclusion of Vietnamese from the administration and defence of their country to such an extent that when World War II broke out, there was not a single Vietnamese as head of a province, of a city, of a battalion or even as a police commissioner in Viet-Nam.

3. The absence of a Vietnamese entrepreneurial class, and the emergence of a 'dual economy' with French and Chinese monopolizing the export and import sector while Vietnamese cultivated few scattered rice fields in the country-side.

During this era, both the social pattern and the economic structure of Vietnam were subjected to significant changes. The French took over primary responsibility in the

operations of the government. They also undertook various new forms of economic activity, especially in the development of foreign trade, rubber plantations, and the expansion of rice production. Currently with, and in consequence of, the establishment of colonial dominance, Chinese immigration into Viet-Nam increased, and the Chinese assumed important roles in the economy. They were instrumental in distributing the goods imported from France throughout the countryside, and in collecting, processing and exporting rice which was the main source of foreign exchange for the colonial government. This foreign exchange was used in turn for imports from and remittances to France by French colonial and business officials. Thus the Chinese, during the colonial period proved to be able entrepreneurs, and the conditions were favorable to their assumption of this role. Currently with the opening up of new economic opportunities created by the French, the social forces were working to discourage assimilation of the Chinese into Vietnamese society, to establish them as a separate group that not only could afford to deviate from traditional patterns, but could actually enhance its status through closer affiliation with the French. The Vietnamese, on the other hand, sought refuge from the disturbance of the new colonial presence by clinging to their accustomed activities and social relationships. At the same time, they found that the structure of their economy was changing, that the

key roles were assumed by the French and the Chinese, who cooperated closely with each other and within their own groups to render Vietnamese increasingly dependent upon them for the sale of goods, the purchase of necessities, and the supply of credit.

All these made Viet-Nam an easy prey for communist subversion toward the end of World War II when on March 9, 1945, the Japanese disarmed and removed the French administration, the whole country was suddenly deprived of all its public services, for all of them have been run by the French for over 60 years.

The Tran-trong-Kim government was then formed on April 16, 1945, in a desperate attempt to restore law and order, to reorganize the country, and to give it a Vietnamese administration, a Vietnamese head.

But it was too late!

As they were on the brink of defeat, the Japanese had become more and more suspicious and more and more hesitant to give back to a national government the arms, money, tools, services, and the buildings which they had taken from the French and which the Vietnamese government needed to keep law and order. The Tran-trong-Kim was thus forced to resign and the communist-led Viet-Minh had only to step into power under false pretension and concealed names.

However, as soon as the Viet-Minh assumed power,

they discarded their nationalist masks, purged and killed most of their potential opponents and thus plunged Viet-Nam into the most untimely and shameful communist revolution at the time when Vietnamese only needed unity and order -- not hate and anarchy -- to resist French reconquest and to rebuild their country which has been ruined by four years of Japanese occupation and devastation by Allied bombardment which was so terribly effective that toward the end of the war, it destroyed all bridges and means of transportation, cut off the overpopulated North from the granaries of the South and indirectly caused a million deaths from starvation in less than six months.

This communist revolution was contrary to all Vietnamese needs and aspirations, but the Vietnamese people could not resist it for two reasons:

1. They had been deprived of all police, of all administration, of all fire-arms, whereas the communist-led Viet-Minh had been given arms during World War II by the Allies themselves.

2. They had to face the French attempt at reconquering their country and most of them were inclined to join their own government, even a communist one, and fight a foreign army, rather than to join the latter and fight their own countrymen.

All these French and Vietnamese errors led to the

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torturing Indochinese War of 1946-1954, to the Viet-Minh's victory at Dien-Bien-Phu on May 8, 1954, to the Geneva Conference, and to the armistice of July 20, 1954, whereby the French High-Command abandoned to the Viet-Minh approximately half of the territory and almost 60 per cent of the population of Viet-Nam.

During the years when other countries were recovering from the ravages of war and making notable advances in economic progress, Viet-Nam remained the prey of bitter and exhausting warfare. Even at the present, internal strife continues within the national boundaries.

Roads, bridges, rice mills and half of the inland fleet that brought the rice to the market were destroyed by war. The channel of commerce was disrupted as the result of political transition and separation from the North. Manufacturing has been little developed below the 17th parallel and industry which received a wartime stimulus, lost market with the reduction of French forces. Meanwhile the great mass of the population who continued to live by agriculture, still applied methods that were century old with their consequences of limited productivity and income. During the war, thousands of rice-growers abandoned the land and fled to cities for safety, finding precarious or part-time employment or swelling the rank of unemployed.

After the partition of the country, the immediate

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problem of readjustments were made still more difficult by the inflationary pressure resulting from both defence and investment outlays, and by the influx of refugees from the North. A country of some 11 million inhabitants had to absorb within less than a year a body of more than 800,000 newcomers, a situation which in the case of the United States, would be the equivalent of admitting some 13 million displaced persons.

Production remains at a low level. Commerce and industry are slow to resume normal activity. A region that had exported an annual average of 1,513,000 metric tons of rice before World War II, exported less than 200,000 metric tons in 1954, less than 100,000 metric tons in 1955 and practically nil in 1956. Since 1956 the trend is upward though slowly. The government's expenditure devoted to military establishment is substantially high, while more than half of the government's income comes from foreign aid, mostly from the United States.

Despite all these above disadvantageous and difficult consequences of partition, of destruction from hostilities, of huge defence needs and of independence, Viet-Nam does have the potentials for excellent economic progress. While the country is blessed with a favorable supply of good land and other natural resources, its greatest asset is its people. They are hard-working and capable, and have demonstrated their determination and their capacity to suffer and to fight for high ideals and for freedom and independence.

### The People

The Republic of Viet-Nam (that is South of the 17th parallel) is still at the earliest stage of its economic and above all its industrial development. As shown in Tables I and II, the urban population constitutes less than 20 per cent of the total population of over 14 millions, consisting largely of Vietnamese who, from the ethnic point of view, are highly homogeneous, and of an essentially Mongoloid type.

Smaller suboriginal minority groups of Montagnards, such as the Mois, Rhades, Mans, Thos, are the descendents of the original population, who lived in the country many thousand years ago. Some of them are heirs to once-flourishing civilizations; some have fairly highly developed cultures and yet others are still at a rather very primitive stage of development.

The next largest ethnic groups are the Chinese and the French who together made up the controlling power of the Vietnamese economy prior to World War II.

There is hardly any business that is not practised by the Chinese, except the growing and export of rubber, as the ownership of the 'terre rouge' was denied to them by the French. In the rice export trade, the Chinese have set up a well-organized and integrated commercial structure. Their relatives and agents in many Southeast Asian countries keep

Table I

Population of South Viet-Nam estimates  
by regions in 1958  
(round figures)

	Main Cities	Total
Highlands of Central Viet-Nam	75,580	533,800
Lowlands of Central Viet-Nam	407,870	4,248,800
South Viet-Nam	1,645,740	8,151,700
Total	2,129,190	12,934,300

Source: Secrétariat d'Etat à l'Economie Nationale, Institut de la Statistique, Annuaire Statistique du Viet-Nam, Saigon, 1959, VII, p. 19-20.

Table II

Population of South Viet-Nam Distribution  
by Regions and Nationality in 1958

	Highlands of C.V.N.	Lowlands of C.V.N.	South of Viet-Nam	Saigon	Total
Vietnamese	162,378	4,028,552	6,932,194		10,771,184
Montagnard	253,815	211,777	41,238	...	506,830
European	601	362	980	...	1,943
Chinese	1,785	7,682	77,321	...	86,788
Other	21	432	232,401	...	232,854
<b>Total</b>	<b>533,763*</b>	<b>4,248,805</b>	<b>6,932,194</b>	<b>1,219,500</b>	<b>12,934,262</b>

\* Includes the population of Darlac, 115,163.

Source: Secrétariat d'Etat à l'Economie Nationale, Institut de la  
Statistique, Annuaire Statistique du Viet-Nam, Saigon, 1959,  
VII, p. 17-18.

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an eye on the export market and transact sales. They own and operate a great number of rice mills for export trade. They also act as the middlemen between Vietnamese farmers and foreign traders. The whole system is conducted in such a way that outside unorganized competitors have but a slim chance for success. The system is further consolidated by the fact that these middlemen usually play the role of financiers who supply credit at such a high rate of interest that loans can never be repaid entirely and that every year the larger part of the income goes to the lenders as interest payment and not payment towards the principal.

Frenchmen in Viet-Nam were engaged in various professions, notably the liberal professions, administrative bureaux, banking, insurance, transportation, industry and agriculture. They owned almost all the large-scale plantations of rubber, coffee and tea and handled the trade of their products. Most of large industrial enterprises were French and all the administrative power was vested in or controlled by the French.

#### Climate and Resources

Viet-Nam, stretching over one thousand miles from North to South, wholly in the northern tropical zone, provides a striking example of the profound influence of the climate as a determining factor of its demographic characteristics,

the marked regional variations of its flora and fauna and its agricultural activities. Its climate, rainfall and temperature are determined by the monsoons and regional variations conditioned by the Annamite Range, the backbone of Viet-Nam. It may be said that, from the climatic viewpoint, Viet-Nam offers excellent opportunities for exploring the introduction of a wide variety of crop plants and also of a highly diversified animal husbandry.

As far as the knowledge about the soil and mineral resources of Viet-Nam is concerned, the scope is still very limited and fragmentary. A systematic survey should be undertaken.

With the exception of the Mekong Delta, where the thickness of the alluvial deposits would appear to exclude the mineral deposits susceptible of exploitation, past findings in the Highlands and in the Central Viet-Nam suggests the existence of a considerable number of such deposits.

Among the important known resources, we should mention the anthracite deposits at Nong-Son, the phosphate deposits of the Paracel Islands, lignite at Uming (west of the Delta), gold at Bong-Mieu, copper at Duc-Bo as well as other metallic deposits which were formerly worked on a small scale such as ilmenite at Cam-Ranh and molybdenum at Krong-Pha. Finally, the working of high-quality silica sand for glass

making is being made available for export; lime stone deposits (for making cement) of various qualities exist in various parts of the country.

The lack of mineral fuels in Viet-Nam has not been offset by the development of the country's resources of hydrolic energy. The hydroelectric potential of certain mountain streams has however been surveyed and extensive efforts, both nationally and internationally, have been undertaken to harness the Danhim and the Mekong rivers.

#### The Present Structure of the Economy

Economic development in Viet-Nam is taking place in this aforementioned overall framework of social, economic and political structure. Socially, there exist the poverty, suffering and backwardness of the large mass of peasants. Economically, the country is underdeveloped; production and investment are low; the standard of living is at a subsistence level. And politically, injustice<sup>and</sup> exploitation reign in the city, insecurity in the countryside.

Viet-Nam is essentially an agricultural country with more than three-quarters of her population earning their living from the land. The two principal crops of Viet-Nam are rice and rubber; less important products are the coconut palm, sugar cane, corn, beans, soya, tea, tobacco, coffee and cotton.

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But if agriculture contributes substantially to the national product, industry's quota in Viet-Nam appears modest even for an essentially agricultural economy. It is curious, however, to notice from Table III that the contribution of commerce to the national product is quite high. This serves to confirm quantitatively the predominant function of the middle man in the economy of Viet-Nam and at the same time to demonstrate the importance of export trade of foodstuffs in a country where a greater part of the population is underfed.

Though the country is still in a state of disorderliness and insecurity, at least and at least, Vietnamese have acquired the right to think about the future of their own country, to decide what course of action is to be undertaken and in what direction to proceed towards developing their economy. In short they are on the way to reconstructing and building a nation, and developing an economy. The problem now is how to plan for this development: towards agriculture or industry? towards the production for a home market or for export trade?

The prevailing trend for most of newly independent Asiatic countries is to industrialize their economy, since this is, as many Asian leaders including many Vietnamese high officials would think, the best and fastest way to solve

Table III

Domestic Production in Different Areas  
of Economic Activity

(Figures are expressed in current prices)

	1955 Mil. of piastres <sup>3</sup>	%	1956 Mil. of piastres	%	Percentage change
Agriculture	12.330	19	14.404	21	17 plus
Fishing	3.370	5	3.980	6	18 plus
Industry- Handicrafts	6.804	10	7.832	11	15 plus
Commerce	19.030	30	20.516	29	8 plus
Construction	1.361	2	1.095	2	20 minus
Services	11.871	18	11.722	17	1 minus
Government	9.498	15	9.870	14	4 plus
Gross National Product	67.264	100	69.419	100	8 plus

Source: The American Friends of Viet-Nam, Economic and Financial Information, prepared by the American Friends of Viet-Nam (4 West 40th Street,) New York City April 1959, p. 1.

<sup>3</sup> Throughout this thesis, unless otherwise stated, all monetary terms will be expressed in the Vietnamese piastre. The official rate is \$1 U.S. = \$35 V.N.

the problem of under-employment, to increase wealth, and to raise the living standard of the masses.

A moment of reflection, however, makes one wonder whether this is the true course of action for Viet-Nam. As I have already pointed out, Viet-Nam is essentially an agricultural economy. Agriculture constitutes the principal occupation of over 80 per cent of the population, furnishes its basic food supply and provides produce for export as well as raw materials for many local industries.

Moreover, Viet-Nam, unlike many other Asiatic countries, does not suffer from the pressure of population on resources, rather there is still good virgin land awaiting settlement. We are not obliged to welcome industrialization at all costs in order to care for a surplus population. Large areas of rice land, abandoned for years because of war and civil disorder, can be brought back into cultivation with the maintenance of security and order and the restoration of drainage and irrigation systems. Agricultural technique may be improved. The temperate plateaux, so far largely unexploited, offer promise for more varied types of farming, for grazing and for further development of forestry.

Furthermore, the argument that agricultural specialization leads to poverty, does not mean that agriculture is the cause of poverty, nor industrialization is the only way to wealth, but rather simply implies that industrialization

usually yields higher productivity which, in the case of Viet-Nam, may not be true because of the fact that Viet-Nam, by her natural endowment, possesses all favourable conditions for a healthy agricultural economy.

It should also be mentioned here that the conditions in which early 19th century nations progressed, were different from those in the world and in Viet-Nam today, and much more favorable and promising for industrialization: no competition, ample capital reserves, strong social structure.

In Viet-Nam, not only is the territory very favorably endowed for agriculture, but agricultural specialization is also, in the view of most experts, the most effective one in rehabilitating and promoting development of Viet-Nam's war-torn economy. In addition, the Vietnamese labour force already possesses many of the skills necessary to carry out such program. There are other reasons favoring agricultural specialization in Viet-Nam, such as:

1. The capital-output ratio in the agricultural industry is much lower than in industrial sectors, and therefore less initial investment would be needed.

2. It would be relatively less expensive for Viet-Nam to catch up with the high productivity and high standard of living of other countries by exploiting agriculture than by industrializing the nation.

3. The Vietnamese people <sup>is</sup> ~~is~~ undernourished; the improvement in nutrition resulting from agricultural development would have a worth above and beyond economic value. No substantial economic progress can be realized without the active participation of a healthy people.

4. Agriculture is also the pre-requisite for overall economic growth, economic development and industrialization itself because: (a) failure to expand food supplies in pace with the growth demand can seriously impede economic growth, (b) in early stage of development, expansion of export of agricultural products may be one of the most promising means of increasing income and foreign exchange earnings, (c) labour force for manufacturing and other expanding sectors must be drawn mainly from agriculture because in such underdeveloped countries like Viet-Nam, underemployment is a problem of usual concern, (d) agriculture could and should make a net contribution to the capital required for overhead investment and expansion of secondary industry, (e) rising net cash income of the farm population may be important as a stimulus to industrial expansion in a later day.<sup>4</sup>

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<sup>4</sup> Bruce F. Johnston & John W. Mellor, "The Role of Agriculture in Economic Development", The American Economic Review, September 1961, p. 571-572.

Thus we see that specialization in agriculture in early stages of development in most cases and particularly in the case of Viet-Nam, will not be a wholesale industrialization, but rather an industrialization generated by the economy itself.

During the pre-war period, while her people was one of the most undernourished in the world, Viet-Nam exported one third of her rice, five-sixths of her corn, which together made up the two main, almost the only two, food crops in the country. While cotton can favorably be grown and processed in the country, cotton fabrics constituted and still constitute one of the largest items in the list of imported goods; likewise, a relatively large amount of labour force is devoted to the production of coal and rubber, and yet only about one third of coal produced is consumed domestically and practically all the rubber is exported. Thus specialization is applied to the production and exportation of foodstuffs for which a large and unsatisfied home market exists and to the production of industrial raw materials for which no home market is present. In brief, there exists a "dual economy" and lack of a balanced growth.

Any realistic assessment of a development program must also take into account the competitive position of the country in the world market. The prices of our products are high compared with those of other countries. In order to

export, subsidization from the government is unavoidable. Within the country, retail prices are exorbitant, not only for domestic articles and food but imported commodities as well. The underlying reasons are: (1) The people's standard of living is out of line with the production level. The latter declined sharply during and after the war as the result of destruction and deterioration of equipment; meanwhile average per capita income went up due to the increased spending of French forces, refugees and foreign aid. The general wholesale price index on the Saigon-Cholon market, for example, went from 160 in 1954 to 178 in 1955 (1949= 100), an increase of 11 per cent. (2) There exists a maldistribution of population between goods-producing and non-goods-producing sectors of the economy. Because of the insecurity in the countryside, a large percentage of the population shifted to town to find job in service or tertiary segments of the economy such as business and utilities, and thus brought prices up.

In the long run it would appear therefore that if living standards are to experience rapid improvement, great efforts should be made to mitigate the old emphasis on exports. New investments should be geared to agricultural production for domestic consumption and for industrial development. That is to say, in planning for agricultural production, weight should be attached more to producing for domestic market than to earning foreign exchange.

## CHAPTER II

## THE AGRICULTURAL INDUSTRY

Unlike other countries, Viet-Nam emerged from the war with a threefold problem of reconstructing, rehabilitating and developing her economy.

On the one hand, the century-long colonial regime has deprived her of all means to economic maturity and self-support: lack of trained personnel, of an entrepreneurial class, of diversification, of a balanced growth, and the existence of a dual economy. On the other hand, the world wars and the Indochinese war have ravaged her people and her social and developmental assets (schools, hospitals, bridges, highway and such alike), while the partition of the country by the Geneva Agreement of 1954 cut off the industrialized North from the agricultural South and caused the greatest single exodus of people in the history of mankind within such a relatively very short period of time.

Thus, among the most urgent problems faced by the government of the Republic of Viet-Nam after the achievement of political independence was the drawing up of a realistic development programme which took into account the handicaps of these prevailing conditions while aiming at the ultimate goal of increasing Viet-Nam's national revenue and standard

of living by a larger and improved agricultural production. This meant a programme which would provide for more varied production, for higher agricultural yields through additional planted areas and improved methods of cultivation and for better social and rural conditions by means of land reform, cooperative and credit systems.

### Rice

About three-fifths of all agricultural activity and over 85 per cent of the cultivated land in Viet-Nam is devoted to rice growing, mostly concentrated in the southern part of the country. Table IV tells the story of Viet-Nam's rice production prior to the regaining of independence of the country.

It was estimated that over one million hectares of rice-land were abandoned during the war. They are gradually brought back into cultivation. A quick look at Table IV suggests that much could and should be done for increasing the yield which does not seem to keep pace with the increase in the cultivated area.

As soon as the present government assumed power in 1955, it provided an agricultural program aiming at limiting the area of rice cultivation to 1,700,000 hectares, with a production capacity of about 2,400,000 tons of paddy

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Table IV

## Areas of Rice Cultivation and Production

South Viet-Nam	Area 1000 hect.	Paddy product. 1000 met.tons	Yield per hect. metric tons
1935-40(average)	2,182	2,750	1.26
1942	2,303	3,179	1.38
1950-51	1,207	1,570	1.30
1951-52	1,288	1,893	1.46
1952-53	1,349	1,890	1.40
1953-54	1,541	1,976	1.28
1954-55	1,572	1,977	1.26
<u>Central Viet-Nam up to 17th parallel</u>			
1954-55	423	583	1.38
<u>Total, Viet-Nam</u>			
1954-55	<sup>1 995</sup> 4,955	2,560	1.28

Source: United Nations, Les perspectives du développement économique du Viet-Nam, Report de la Mission d'études économiques dans la République du Viet-Nam, New York, August 1956, p. 116-117.

Table V  
Paddy Production and Consumption, by Provinces  
before the Second World War<sup>a</sup>

Province	Total area (km <sup>2</sup> ) <sup>c</sup>	Area under rice (km <sup>2</sup> )	Average yield met.t. (km <sup>2</sup> )	Total yield 1000 met.t.	Estimated local consumption and seed distillation & fodder (1000 met.tons) <sup>b</sup>	Estimated surplus yield 1000 met.t.
Hach-Gia	6,199	3,200	108	345	90	255
Chau doc	2,630	1,313	113	148	65	83
Long Xuyen	2,573	1,475	136	200	66	134
Sadec	1,353	902	160	144	62	82
Can tho	2,191	1,811	178	322	104	218
My tho	2,263	1,602	154	246	102	144
Tan an	3,687	749	142	106	38	68
Ha tien	1,723	61	82	5	7	-2
Soc trang	2,329	1,952	148	288	58	230
Vinh long	1,087	921	167	154	51	103
Cho lon	1,235	926	150	139	66	73
Bac lieu	7,211	2,704	110	297	75	222
Tra vinh	1,987	1,605	148	238	68	170
Ben tre	1,501	1,041	144	150	82	68
Go cong	584	462	145	67	29	38
Gia dinh	1,228	590	100	59	86	-27
Tay ninh	4,801	440	120	53	55	-2
Thu dau mot	4,723	266	86	23	20	3
Bien hoa	11,045	422	88	39	48	-9
Baria	2,215	136	74	10	16	-6
Total	63,180				1,188	-118
Saigon					118	
					1,306	

<sup>a</sup> Calculated from: Secrétariat d'Etat à l'Economie Nationale, Institut National de la Statistique, Annuaire Statistique du Viet-Nam, Saigon, 1951-1952, III, p. 21.

<sup>b</sup> Based on a rough population estimate for the various provinces in 1937.

<sup>c</sup> Square Kilometer.

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annually, of which 1,750 thousand tons were to be reserved for local consumption. A surplus of 650,000 tons would enter into foreign trade. The intention of the government was to divert part of rice fields into the cultivation of other crops.

Obviously, any elementary analysis would reveal that such policy must have been based on very poor statistical tools. First of all, given the average yield of 1.3 metric tons per hectare (see Table IV), the allotted area 1,700,000 hectares would actually produce only 2,210,000 metric tons of paddy instead of 2,400 thousand metric tons as desired. Allowing 7 per cent of this total tonnage for seed and wastage, it only remains a net quantity of 2,055,300 metric tons of paddy which is equivalent to 1,335,945 tons of milled rice at an extraction rate of 65 per cent. This would allow less than 95 kilogrammes per year to each of the more than 14 million people in South Viet-Nam which is hardly sufficient to keep them alive, not to mention human dignity and capability of resisting against communist infiltration.

A survey conducted by the Institute of Statistics of Saigon in 1955 showed that the average per capita consumption in Viet-Nam is 430 grammes per person per day or 156 kilogrammes per year. Another independent survey found that per capita consumption in the country ranges from 150 to 220 kilogrammes. If we take the average per capita

consumption of 160 kilogrammes per year and multiply it by the 14 million people in South Viet-Nam, we will find, as shown in Table VI, that in order to have any rice for export at all, the cultivated area must be increased to 3,000,000 hectares.

This, however, still does not yet take into account the annual population increase which is estimated at a rate of from two to three per cent. This means then that the government cannot depend indefinitely on surplus land for additional requirements resulting from the population growth, provision for reserve stock and for export, but must intensify its efforts to improve technological know-how, cultural practices, and to encourage the use of fertilizer and better seed.

Since rice is the staple food of the population and the main source of revenue and foreign exchange, the government should:

- a) provide the people with an annual per capita consumption of at least 160 kilogrammes of rice;
- b) allot a minimum area of 3,000,000 hectares for rice;
- c) exercise all possible efforts to increase yield and therefore the level of production, not only to meet domestic requirements but to allow for export and reserve stock as well.

Table VI

Quantity of Rice Available for Export  
at different levels of cultivated area

Level	Area 1000 hect. (1)	Total paddy produc- tion 1000 metr. tons (2)	Allowance of 7% <sup>a</sup> for seed and waste 1000 metr. tons (3)	Balance available paddy 1000 metr. tons (4)	Rice equi- valent of col. 4 at 65% <sup>b</sup> extr. action 1000 metr. tons (5)	Food req. at 160kgs per head per year 1000 metr. tons (6)	Quantity of rice available for export 1000 metric t. (7)
1	2,000	2,600	182	2,418	1,572	2,240	-
2	2,500	3,250	228	3,023	1,965	2,240	-
3	3,000	3,900	273	3,627	2,357	2,240	117

<sup>a</sup> Rate of allowance used by the Institute of Statistics in Saigon.

<sup>b</sup> Average extraction rate in Viet-Nam is 65 percent; rate used by the Institute of Statistics in Saigon.

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General Features of Rice Growing

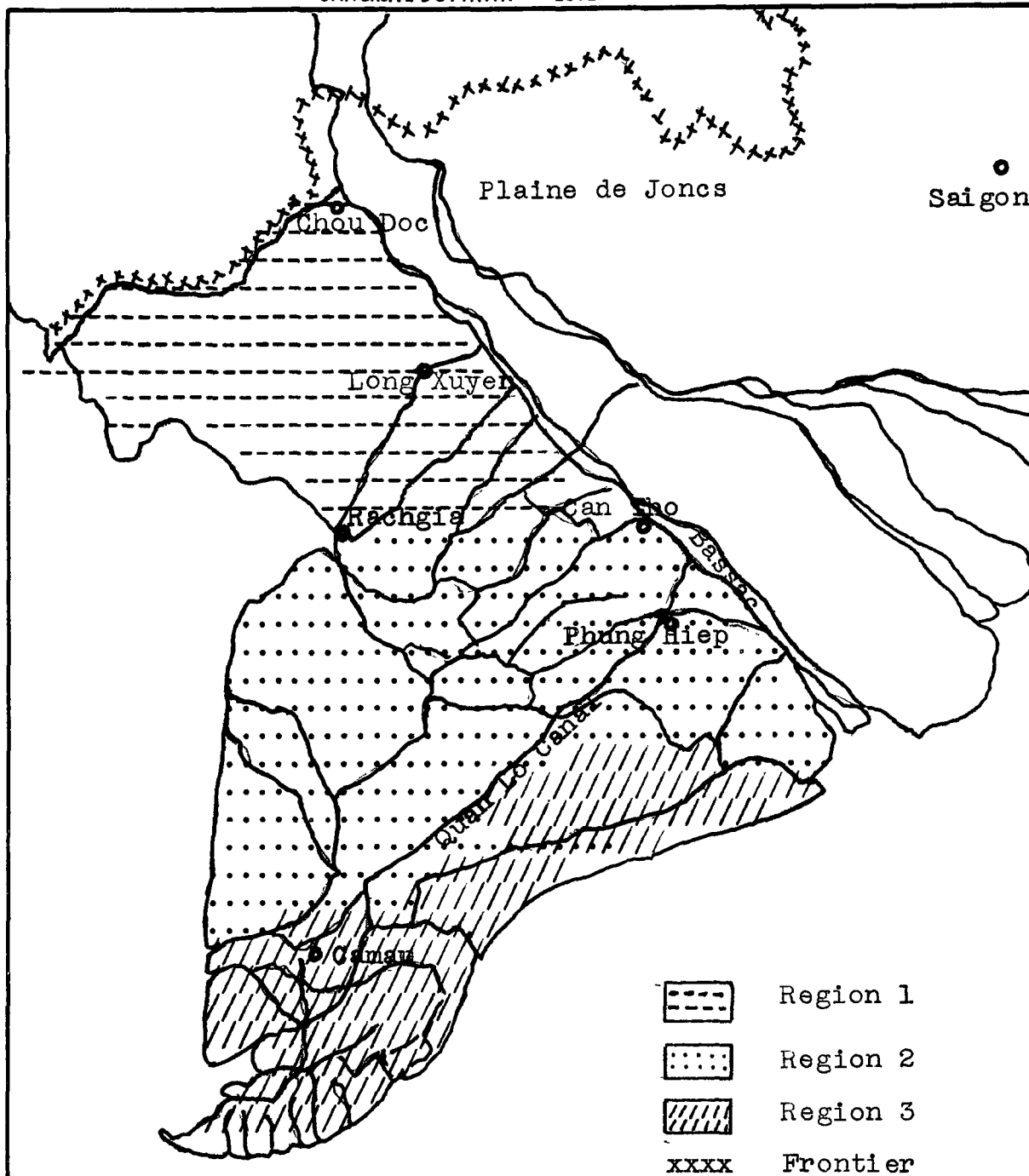
One of the unfortunate outcomes of the past years' trouble is that the quality of the seeds has deteriorated and seeds have become mingled, making it next to impossible to obtain paddy that can produce pure long grain rice. The varieties of grain groups are distinguished by their period of maturity, generally as follows:

Group	Growing period in days	Percentage of area occupied
Early	120-150	10
Medium	165-185	38
Late and very late	200-225	50

The choice of different maturity group depends on the location, the irrigation and(or) drainage facilities of a given rice field. Wherever the growing of early-maturing rice is possible, two annual crops are sown, the early maturity group being followed by a medium maturity one. South Viet-Nam has for its characteristic the late-maturing varieties.

Broadly, the principal rice fields of South Viet-Nam can be divided into three geographical zones. (See Map 1):

1. The first area includes the provinces of Chau-doc, Long-Xuyen and a small part of Rach-gia. This region gets the



MAP I

Hydro-Agricultural Engineering Areas  
in South Viet-Nam

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benefit of silt deposited from the river. Floods of the Bassac and of the Mekong are particularly strong here. The higher water level often rises up to ten or twelve feet, and floating and semi-floating rices are planted. The seed is sown directly when the soil is dry in April and May. From 80 to 100 kilogrammes of seed are sown per hectare. The rice is of an inferior quality, known commercially as feed rice.

2. This second area, lying south to the first one, having its southern line of demarcation running from the Bassac, through Phung-hiep and boarding the Quan-lo canal, reaching the edge of the Rach-gia and Can-tho provinces, is characterized by the constantly wet soil and by the abundance of rank vegetation during the off-season (mainly grasses and sedges) which must be cut and cleared before rice can be planted. Cultivation is carried out by single or double transplantation requiring between 24 and 35 kilogrammes of seed per hectare depending upon the method of transplantation. The large scale practice of double transplantation, peculiar to South Viet-Nam, serves two objectives: it provides the grower with sufficient time to clear the weeds and to prepare the land and it also helps to stop rapid early vegetative growth which may otherwise cause premature lodging of the crop. The rice from this region is of very high quality, often designated as Saigon rice.

3. The third area, along the sea coast, too far from the Bassac to be floated with muddy water, is criss-crossed by 'Rach' and canals carrying salt and brackish water that are harmful to the rice plant and therefore has to be cultivated with rain water which varies with the pluviometry. Here we have the problem of irrigation. The customary method of cultivation is by single transplantation requiring about 35 kilogrammes of seed per hectare.

Difficulties in irrigation and drainage are the main obstacles to short maturity rice seeds. Improvement in irrigation and drainage could yield two rice crops annually or permit the growing of some other crops in rotation with rice, and also improve soil fertility and aeration.

#### Methods of Improving Rice Production

Improvement of strains: The improvement of rice in Viet-Nam involves two important problems: a) to improve yield, and b) to improve the quality of rice. The increase in yield depends on technological advance, mechanization, improvement in soil fertility while the improvement of the quality of rice depends on the method of seed selection.

Traditionally, the Vietnamese used the mass selection technique. Records, however, showed that other methods such as the pedigree selection, biological selection and

mechanical selection have also been used. Nothing, however, is known about why and when these latter methods were abandoned and mass selection resorted to.

Mass selection is no doubt suited for producing immediate results and also has the theoretical advantages that a mixed population of biotypes has a greater flexibility than any pure strain in its adaptability to varying environmental conditions. Nevertheless, in the long run, pedigree method would be a better means of preserving the quality of rice.

Viet-Nam also should experiment varieties from other countries like Philippines, Burma, Malaya, India. Some of these varieties are of salt-resisting type with good grain and short maturity period and could prove to be most suitable to the Vietnamese soil.

Up until now, the seeds of recommended varieties were distributed from provincial warehouses to seed farms. Each farm covers about 900 hectares of land and sometimes receives over 1000 metric tons of seed of different varieties annually, of which only a small fraction is required for each locality. Thus a waste of stocks, supervision and management is almost unavoidable. It seems that a consolidation of seed farms into fewer but larger units and a restriction of the number of varieties handled at each farm to those most adaptable to the locality, is economical.

Soil fertility: It is obvious that to obtain the maximum benefit out of an agricultural programme, the introduction of improved varieties must be accompanied by the use of fertilizers.

Fertilizer experiments have been carried out in South Viet-Nam only since very recently. In the past, the work has been undertaken in the northern part of the country. To be of great value, such programme must include not only analysis of soil and organic composition to determine the type of fertilizer required for each particular area but also a large scale simple demonstration on trail plots in the farmers' fields. This implies a better provision of personnel and other facilities such as the re-education of the farming population, the availability of soil fertility experts, credit facilities and so on.

It is believed that an increase in production of 10 to 30 per cent, by means of fertilizer, is within immediate possibility.

Method of Cultivation: In Viet-Nam, both methods, transplanting and sowing, are practised. The latter one is adopted in region where labour is scarce or where floating rice is grown. Experience, however, shows that the former method yields higher results. Whenever the transplanting method is adopted, and if maximum yield is to be obtained, great care must be taken for the method of raising in nur-

series, the age of seedling at planting time, the spacing between seedlings upon transplanting, the number of seedlings transplanted per hole, the control of weeds, and the intervals between harvests. Field observers in Viet-Nam noticed that the spacing allowed between plants are either too wide (40 to 50 centimetres, as in Can-tho and Soc-trang provinces) or too narrow (10 centimetres as in Nha-trang); also that seedlings are weak as a result of thickly sown nurseries.

Much more research and experimental work should be undertaken. Improved practices of cultivation should be tried out and results brought to the notice of all farmers by special handbills and demonstration plots, and this should form an important activity of the demonstration agents.

As to the problem of weed control, in the case of direct sowing, deep ploughing definitely has beneficial effect. Arrangement therefore should be made so that expensive equipment could be leased by government agencies or non-profit cooperative scheme to farmers. Herbicides, insecticides may also be feasibly used but tests and experiments are required to determine the effectiveness of their use.

Organized Research: Until presently, rice research has been carried out on a small and decentralized scale. The work has been of a demonstration rather than research

type. The reason given was that coordinated research and experimental works require too much money and staff. This sounds paradoxical. We, however, cannot help thinking that any new practice must be preceded by experiments and research. Of course, research here should not mean basic or fundamental research, but rather practical type which is usually carried on at an experimental station.

There should be at least one well-equipped research center and two sub-stations (one in Central Viet-Nam and the other in the Long-Xuyen province) to deal with such problems as breeding, soil science, pathology (entomology and mycology) and rice technology. Since rice is the most important crop of the country (which it actually is) and if rice production is to be improved to any significant level, extensive research and experimental works relating to selection, fertilizers, method of cultivation, pest, weed and disease control, crop rotation, soil and organic composition must urgently be undertaken with the following objectives in mind:

a) to improve both the quantity and quality of rice production and to reduce cost;

b) to determine the most suitable alternate crops that may replace rice whenever possible.

Personnel Training: Besides training graduates of agricultural colleges, the government should explore all

possibilities for organizing short courses forming field testing and demonstrating personnel. Here, however, many difficulties will have to be overcome. The first one encountered will be the choice of trainees for this agricultural staff. Most of the farming people who love the countryside and therefore are capable of becoming efficient agents, are usually illiterate and uneducated; while those who have a certain amount of education or the urban people often have the prejudice that rural life is primitive, uncivilized and therefore try to get away from the villages to seek refuge in cities and towns.

Nevertheless, whether we like it or not, the selection of a group of young men and women with a minimum level of education for this purpose is urgent and important. But this certainly will not be the solution for a long-run programme, because as I have already suggested, most frequently these young people are far from being content with the countryside life, and if they ever come to these regions, they do it out of necessity and obligation.

We now come to the most difficult problem which is the formulation of the training programme, which should include two parts: theory and practice.

For the peasant farmers, we could say that they possess experience and practical knowledge though this knowledge may be the result of old tradition and custom of 'the

sons succeed the fathers' type, rather than of systematic judgment or scientific understanding. Thus, for this agricultural staff, the theoretical knowledge appears to be more important. Theoretical knowledge here should not suggest very advanced principles or complicated theories but rather simple solution and explanation capable of reasoning out the secret of farmers' daily successes or failures. Once they agree with these simple reasonings, more advanced techniques and theories can be introduced to assist them in the application and utilization of modern equipments and chemical products such as fertilizers and vaccines. Here applied knowledge is carried out and thus the first degree agricultural staff is formed and gradually more advanced courses will be organized to enable capable persons to develop their talent and abilities.

Rightly applying these above principles, we could expect a satisfactory fulfilment of the national needs, because such approach would (a) conform with the popular spirit of liberty and equality of the Vietnamese people; (b) stimulate and generate a sense of responsibility and self-confidence among the peasants.

Marketing: Prior to the world wars, Viet-Nam was the third largest rice exporter in the world market, competing favorably with Bangkok and Rangoon. Between 1935-1939, her annual average export was 1,200,000 metric tons.

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The Second World War and the Indochinese War have, however, transformed Cholon into a vast cemetery of ruined rice mills and of junk barges rotting in the canals. The port of Saigon where formerly ships come to and from over the world taking away rice with them creating an impressive center of attraction, now becomes lying dormant with times when not even a single ship is in the harbor.

In 1956, rice exports from Viet-Nam were practically nil. The figures for 1957, 1958, 1959 and 1960 can be found in Table VII.

For the present, Viet-Nam has no real rice export problem in the sense that it is not too difficult to dispose of exportable surpluses under favorable conditions. The main problem is how to increase yield in order to secure a larger export surplus which could well be the surest and promptest contribution to the recovery of a seriously impaired economy. Experience, however, tells us that a shift from a seller's market to a buyer's market (that is instead of producers and distributors being sought out, purchasers were in demand) did happen when some countries, for reasons related to cost, price and organization, were reported to encounter difficulties in exporting their rice surpluses. Though Saigon exporters were used to competing against foreign rice traders all over the world and have never been up against such serious situations, measures must be designed to improve the

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Table VII

Viet-Nam's Rice Exports  
1957-1960

Year	000 tons	000 piastres
1957 <sup>a</sup>	192,672	730,112
1958 <sup>b</sup>	119,508	517,000
1959 <sup>b</sup>	245,000	818,000
1960 <sup>c</sup>	346,195	n.a.

<sup>a</sup> Calculated from: Secrétariat d'Etat à l'Economie Nationale, Institut National de la Statistique, Annuaire Statistique du Viet-Nam, Saigon, 1957, VII, p. 241.

<sup>b</sup> The American Friends of Viet-Nam, Economic News from Viet-Nam, prepared and distributed gratis by The American Friends of Viet-Nam, 4 West 40th Street, New York 18. Series VIII, p. 8.

<sup>c</sup> Embassy of Viet-Nam, News from Viet-Nam, Press and Information Service, Embassy of Viet-Nam, Washington 8, D.C., January 9, 1962, p. 11.

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quality of rice and to reduce the cost of production if Saigon exporters are to be kept in such a privileged position in the future.

Considering the point of view of domestic cost-price relationship, field observation reveals that the prices of paddy received by farmers vary from 1500 to 2200 piastres per metric ton which are somewhat cheaper than those in the neighbouring Burma and Thailand. The cost of transportation to Saigon, and of milling and conversion into rice were estimated at 1,300 piastres per ton. The actual milling charge in Saigon is only 22 piastres per bag or 132 piastres per ton of paddy. This means that the transportation costs are extremely high, apparently due to inadequate transport facilities and the prevailing insecure conditions. Moreover, export rice is subjected to various types of taxes which make Viet-Nam's rice more expensive than rice of comparable quality from Burma or Thailand. This brings us to the problem of competitive price in the world market.

Prior to 1956, the practice was to adjust Viet-Nam's export prices to the official exchange rates in order to keep in line with the prices of rice elsewhere in the world. The usual method adopted was the French system of "Exportation Frais Accessoires" (E.F.A.) accounts, a form of aid to exporters.

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In 1956, in order to discourage the black market in foreign currencies, the Vietnamese government established what is called 'The Controlled Free Market' whereby foreign currencies can be sold at higher rates than the official exchange rates. The "Exportation Frais Accessoires" accounts were closed but exporters were authorized to redeem 65 per cent of their foreign currencies at official rates, and the remaining 35 per cent at the controlled free market rates.

Rice is the staple food of nearly one half of the population of the world. And despite the fact that many countries are trying to become self-sufficient in the rice production, and to increase the imports of wheat flour, it is safe to predict a larger and increasing demand for rice due to rapid population growth and fast improvement in living standards. How much Viet-Nam shares in the world export market will depend on the ability of the government to increase production and to reduce costs.

Rubber

Another important agricultural product is rubber, imported into Viet-Nam in 1897 by the great French bacteriologist Yersin, cultivated in large plantations in South Viet-Nam. The red soil in which rubber is grown covers a total area of about one hundred and sixty thousand acres,

stretching from the north-west edge of the Mekong delta northwest-ward into Cambodia.

This vast red soil region, virtually unexplored, malaria infested and inhabited fifty years ago, has become by far the most important source of foreign exchange for Viet-Nam. Indeed, rubber constitutes more than 60 per cent of the total export value of the country. (See Chart I) Today, it is estimated that nearly 100,000 persons are living in this area; in fact, the population concentration was so rapid that until very recently, there existed only a very sketchy scheme of administration.

From 1919 to 1925, 25 per cent of the rubber area in South Viet-Nam was planted; the remaining 75 per cent was planted between 1925 and 1945. The area under plantation had reached a peak of more than 108,000 hectares in 1945 but it was in 1940 that the largest area was under exploitation (almost 92,000 hectares).

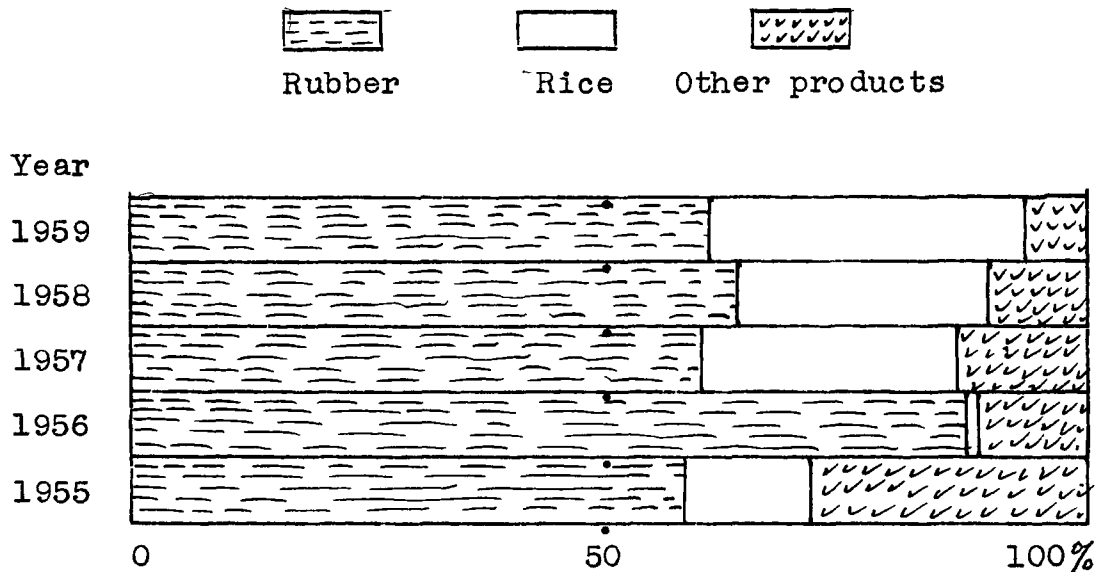
The Franco-Japanese and the Second World War caused serious damage to the rubber plantation and rubber industry of Viet-Nam. The cultivated area dropped to some 60,000 hectares; many plantations were abandoned, processing plants destroyed, replanting almost paralyzed. In 1945, the number of workers employed was reduced by 40 per cent and tapping area was reduced to some 24,764 hectares. This situation was aggravated by the Indochinese war of 1945-1954, when

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CHART I

Relative Value of Viet-Nam's Principal Exports  
1955-1959

(100 = 1949)



Source: Secrétariat d'Etat à l'Economie Nationale, Institut de la Statistique, Evolution de l'Economie du Viet-Nam en 1959, Saigon, 1960, p. 73.

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every large plantation had to maintain, for security reasons, a private army, the cost of which ranged from one to two piastres per kilogramme of rubber produced. During the eleven years from 1945 to 1956, only about 5,000 hectares were planted compared with 6,000 hectares for the year 1944 alone and the record of 12,500 hectares for the year 1931.

A recent survey estimated that a complete rehabilitation and reorganization of the Vietnamese rubber industry would cost in the neighbourhood of 1,500 million piastres. Since it takes seven years for a plantation to start producing, the rubber business is a very expensive and risky one, and requires tremendous initial capital. It is estimated that a cost of 60,000 piastres would be necessary for planting and maintaining each hectare of rubber in an entirely new area, that is the cost from the start to the time when rubber trees begin to produce. Besides these, there is a host of other costs and problems such as housing, school, hospital and so on.

Ownership of the larger part of Viet-Nam's cultivated land was concentrated in the hands of a few big French companies. In 1929, for instance, out of 63,000 hectares planted in South Viet-Nam, only 5,700 hectares belonged to Vietnamese. On the eve of the Japanese coup in 1945, there were some 9,000 plantations of which only 556 were owned by Vietnamese. There are many reasons for this. First of all,

French companies have enormous capital and export rubber directly to France thereby making large profits, while Vietnamese borrowed loans at very high rates of interest (ranging from 3 1/2 to 12 per cent per month) and frequently the selling of the product must go through the Chinese middlemen.

French ownership was further enhanced by the fact that their plantations have had a highly increasing production because (a) their trees are selected grafted stocks with high latex yield, (b) French plantations are better cared for, with right amount of fertilizers while Vietnamese planters, having been unable to become members of the rubber Research Institute, could not afford to pay for trees, soil analysis, and fertilizers. Each single analysis, for example, covering 15 hectares and one of the species of rubber tree, would cost 2,500 piastres; if there are three different species planted in the same area, three analyses are required. Fertilizers are likewise expensive - the requirement of 1 1/2 tons of potassium sulfate for each hectare of rubber land would cost about 6,000 piastres.

Moreover, large plantations are usually better organized, tapping methods are carefully chosen to guarantee high future yields. Small holders, on the other hand, normally tend to overlap their trees which will have detrimental effect on future production.

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Market Outlet: Despite the fact that Viet-Nam is an important rubber producing country, her imports of manufactured rubber products amount to three or four metric tons per year. (See Table VIII). This state of affairs can easily be avoided if efforts are made to diversify the country's rubber industry.

Graph I serves to compare the average yield at different stages of development. We notice that due to the increasing yield, total rubber production in Viet-Nam not only has not suffered a great set back, but has in fact exceeded pre-war levels during the last few years, despite the fact that there is a great reduction in the area cultivated.

Since the war, there is a growing concern about the future of natural rubber facing the threat of synthetic product. Currently, the struggle between the two products looms like a price war. A closer analysis, however, reveals that the problems are far more complex than a matter of price which is but merely a facet of the whole issue involving such factors as the inherent properties of each product, the capability of satisfying consumer's demand and financial arrangements.

Generally speaking, Viet-Nam should not have any fear of synthetic rubber - her economy is being gradually

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Table VIII

## Rubber Production in Viet-Nam\*

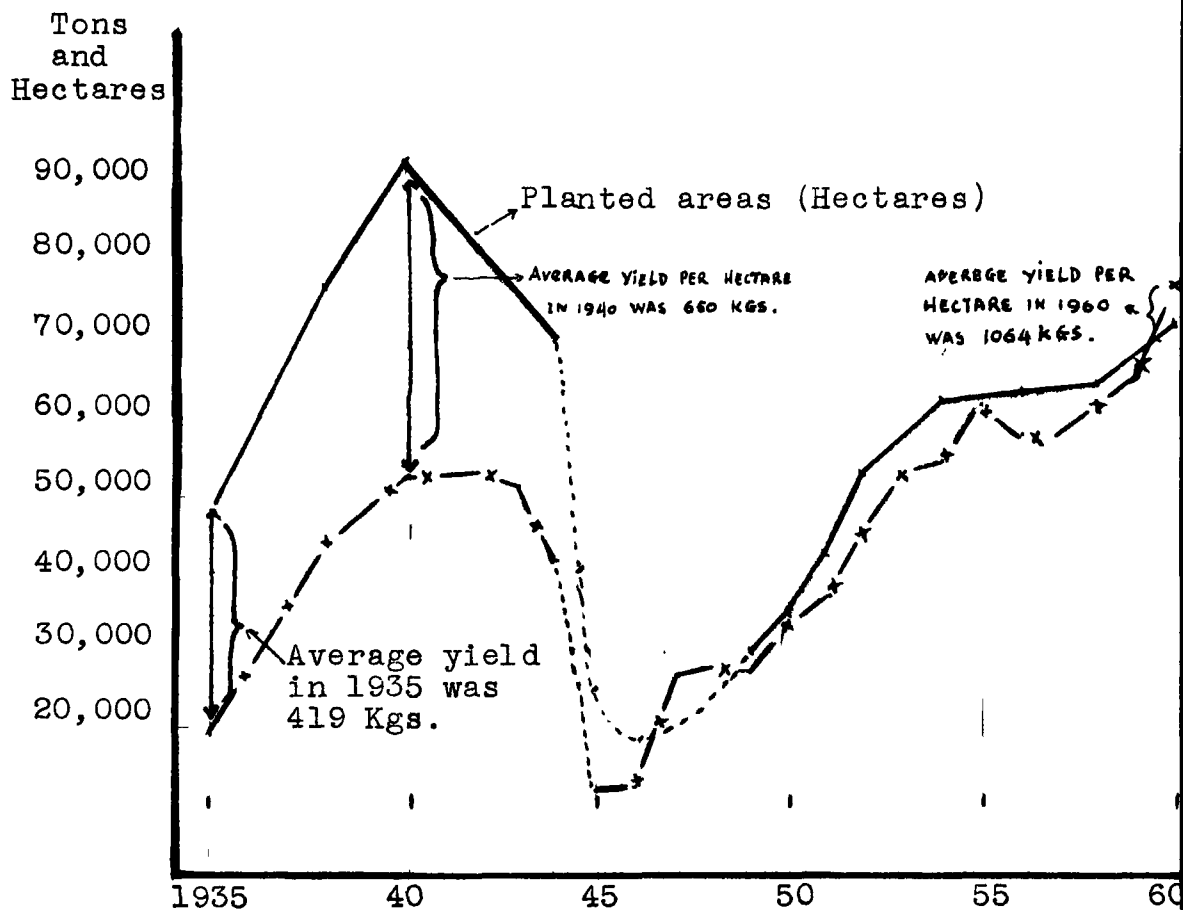
Year	Production (metric tons)
1942	52,638
1943	51,516
1944	42,933
1945	12,000
1946	12,921
1947	27,231
1948	28,753
1949	28,059
1950	33,936
1951	37,279
1952	45,602
1953	53,258
1954	54,917
1955	65,000
1956	59,435
1957	59,379
1958	62,657
1959	65,610
1960	76,611

\* Prepared from: Secrétariat à l'Economie Nationale, Institut de la Statistique, Annuaire Statistique du Viet-Nam, Saigon, V N, Volumes I, II, III, IV, V, VI, VII; and Evolution de l'Economie du Viet-Nam en 1958, 1959 et 1960, Saigon, 1959, 1960, 1961.

GRAPH I

Exploitable Areas and Rubber Production  
in Viet-Nam, 1935-1960<sup>a</sup>

— Exploitable areas (hectares)  
 -x- Production (tons)  
 ..... Projected by the author, no data available



<sup>a</sup> Prepared from: Secrétariat à l'Economie Nationale, Institut de la Statistique, Annuaire Statistique du Viet-Nam, Saigon, Volumes, I, II, III, IV, V, VI, VII; and Evolution de l'Economie du Viet-Nam en 1958, 1959, 1960, Saigon, 1958, 1959, 1960.

diversified, her population as well as the population elsewhere in the world is growing and growing fast, and most significantly, there is something superior in the quality of her rubber that produces favorable effects on its price and on the choice of its foreign customers. The problem now is how to keep up with technological advance, to cope with rising costs, to mobilize more funds for investment both foreign and domestic, and lastly how to deal with old foreign investors, mostly French who own more than four-fifths of the rubber plantations in Viet-Nam.

Techniques for Improving Rubber Production: First of all, something has to be said about the Rubber Research Institute (Institut de Recherche sur le Caoutchouc de l'Indochine - IRCI), with headquarters at Lai-Khe and affiliated with the French Rubber Institute of Paris, because in discussing its objectives and work, we study improvement factors that could aid natural rubber in its struggle against synthetic rubber.

The Rubber Research Institute is maintained by its members, plantation owners, at the rates of \$.20 (\$ V.N.) per kilogramme. Its aim is to study scientific ways and means to increase yield and cover costs of rubber production through better methods of planting, grafting, tapping, reducing initial investment, fertilizing plants and selecting stocks.

As has been pointed out, rubber plantation is a risky, expensive, time consuming yet rewarding business. Stock selection, for example, may take as much as twenty-five or thirty years to give absolute confirmation of its results. The first grafting operation made the yield climb from 400 to 700 kilogrammes per hectare and through subsequent planting of the first selected grafts production soared to around 1,500 kilogrammes per hectare. It is believed that the eventual yield of selected stock planted over the last ten or fifteen years may be as high as 2,500 kilogrammes per hectare.

Tapping method can also be greatly improved. The use of stimulants, the treatment of old trees with hormone preparations for example, enable trees to maximize yield while the quantity of notches and tapping is reduced. The Rubber Research Institute also made great headway into the physiological diagnosis and the possibilities for practical application of rubber.

When considering the future of the rubber industry, the problem of replanting in old plantations must be taken into account. The economic age of a rubber tree can be divided into three stages: increasing, stable and decreasing yield. When and how long the rubber tree gives highest latex production is yet to be determined. Perhaps the best informations available on this subject are those found in

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the report of the Mission in Enquiry into the Rubber Industry of Malaya, published in 1954. It appears that, in Malaya, the rubber tree comes into production at the age of seven years, increases its yield, on the average, up to the age of 17 years; stabilizes its yields till reaching the 25th year, and then begins to diminish its yield; after the 30th year tapping usually becomes uneconomical. As a general rule, it has been accepted that, in order to maintain a plantation at a uniformly high level, replanting should be done at an annual rate of about three per cent of the existing trees, so that a complete substitution of the trees may take place every 30 or 35 years. If that procedure is adopted, each plantation would, in theory, show the following age distribution at any given time:

- a) 1 to 6 years (not in production)..... 17 per cent
- b) 7 - 17 years (increasing prod.)..... 32 per cent
- c) 18 - 35 years (stable and declining  
prod.)..... 51 per cent

The last mentioned age group might further be subdivided, especially in the case of well-cared for plantations, as follows:

- i) 18 - 25 years (stable prod.).....23 per cent
- ii) 26 - 35 years (declining prod.)..... 28 per cent

Unfortunately, information of this sort are not available

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in Viet-Nam. Estimates of the present age of Viet-Nam's rubber trees can be obtained from Table IX.

Assuming that the data in Table IX are reasonably reliable, that no new plantations took place between 1944 and 1954, and that the reduction from about 108,000 hectares to about 63,000 hectares of planted area in 1955 occurred at random as far as age is concerned, we can see that the present condition of the rubber production is not very healthy - trees are reaching their old age and no young ones are ready for tapping.

The data in Table VIII, however, do not seem to confirm what has just been said above. This is due partly to improved yield and method of tapping and partly to the overtapping of smallholders.

However, we should not be too optimistic about this increased total production. Greater efforts should be mobilized to study ways and means to improve the future of this industry.

In a recent speech, Mr. Le-van-Ngoi, vice-chairman of the Vietnamese Rubber Plantation Association, predicted that "...in 1965 about 2,500 thousand tons of natural rubber will be needed, but, according to estimates of rubber planters, the world annual production of natural rubber in 1965 will be approximately equal to the 1957 levels or

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Table IX  
Area under Rubber in Viet-Nam  
(1897 - 1944)

Year	Area (hectares)	Age in 1955 (years)	Percentage		
1897-1920	7,201	35-58	-		
-----	-----	-----	---		
1921-1925	5,904	30-34	5.83	) 39.49 )	
1926-1929	34,074	26-29	33.66		
1930	5,214	25	5.15	) 71.40 )	
1931	11,357	24	11.22		
1932	6,887	23	6.80		
1933	3,230	22	3.19		
1934	2,486	21	2.45		) 31.91 )
1935	390	20	.38		
1936	1,214	19	1.21		
1937	1,507	18	1.51		
1938	814	17	.81		) 28.60 )
1939	6,404	16	6.32		
1940	4,636	15	4.58		
1941	3,225	14	3.18		
1942	3,949	13	3.91		
1943	3,703	12	3.65		
1944	6,229	11	6.15		
Total	101,223		100.00		

Source: Figures provided by the Rubber Research Institute, Saigon.

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less than two million tons."<sup>1</sup>

What will be Viet-Nam's share in this grand total will depend on how much:

- a) the government can guarantee and authorize foreigners to export a part of their income derived from their plantations;
- b) the government helps Vietnamese to benefit from the work of the Rubber Research Institute;
- c) the government can encourage the incorporation of smallholders into the already existing "Syndicat des Planteurs de Caoutchouc";
- d) the government can encourage local production of chemical fertilizers which are too expensive to import;
- e) the government can encourage planters by
  - i) providing land-clearing equipment;
  - ii) exempt planters from taxes (especially land and regional security taxes), for the first few years of investment in this industry;
  - iii) establishing schools to train extension crews;
  - iv) furnishing the necessary credits for the rehabilitation and re-exploitation of abandoned rubber plantations;

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<sup>1</sup> The American Friends of Viet-Nam, Economic News from Viet-Nam, prepared and distributed gratis by the American Friends of Viet-Nam, 4 West 40th Street, New York, 18, p. 13.

f) the government can foster the expansion of local industry in order to reduce or eliminate imports of manufactured rubber goods.

To realize these projects, the government must without delay appoint a Commission represented by both government and planters to study the problem into details and make recommendations accordingly.

The Vietnamese economy is somewhat a lopsided one, with the external trade and commerce sectors highly developed and the domestic market extremely limited. This leads us now to the consideration of various possible ways of improving the national economic well-being. The enlargement of the domestic market, the balanced growth and the national economic independence will be the main topics of discussion in our next chapter on 'Industrialization and Diversification of Viet-Nam'.

## CHAPTER III

## INDUSTRIALIZATION AND DIVERSIFICATION OF VIET-NAM

Independence Versus Dependence

If I were to define our prime (economic) objective for the man in the street, I would put it this way: what we want is to be able to stroll through the streets of Saigon or to travel about the country, and to find in shop display windows nothing but current articles of home manufacture, without encountering the familiar signs of "American aid" except on the heavy machinery and equipment that are serving to increase our production capacities.<sup>1</sup>

These words of Mr. Vu-van-Thai, administrator of foreign aid, reveal clearly the position of the Vietnamese government: to strive for the economic independence of Viet-Nam.

Economic independence is the expressed hope and ambition of many leaders in various parts of the world, especially in countries where the direction of economic affairs has been for centuries under the control of colonial regimes or where national income depends precariously on the export of one or two products to the more highly industrialized nations. This frequently leads to the

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<sup>1</sup> Vu-van-Thai, "Viet-Nam's Economic Problems", Marchés Tropicaux et Méditerranéens. Ed.: Christian Moreux et René Moreux, 190 Boulevard Haussmann, Paris 8<sup>e</sup>, Saturday, November 29, 1958, p. 71.

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unfortunate pursuit of a policy of economic autarky, a ruling out of the utilization of foreign investment, private or public, in the economic life of the nation which are contrary at the same time to the traditional international trade theory of comparative advantage and to the accepted modern philosophy that a high degree of international co-operation is necessary for the well-being of the world as a whole as well as for those particular countries themselves.

In the case of Viet-Nam, it is my hope that the terms 'economic independence' would be usefully conceived to denote first, the improvement of the national budget which requires that (a) current expenditures are met by currently locally-raised revenue, except aid for military emergency, and (b) locally-raised funds should constitute the main part of the national investment in the national budget; and second, the reduction of the distressing disequilibrium in the balance of payments which requires that (a) current exports balance the imports used for the current consumption of the Vietnamese population and thus (b) the net excess of imports over exports, except imports for military emergency, may be devoted to capital equipment for developmental purposes to which foreign investment and foreign aid make their contribution.

Viet-Nam emerged from the wars economically more dependent than ever before. This can be estimated from Table X.

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Table X

National Income, Gross Private Investments  
Total Government Expenditures, and Exports\*

	National Income	Gross Private Investments	Total Gov. Expend.	Exports	Military Aid
Viet-Nam (1954)	102,019	5,000	15,276	2,744	15,270
Percentage	100%	4.9%	14.7%	1.96%	14.7%

Source: Banque Nationale du Viet-Nam, Estimations du Revenu du Viet-Nam en 1954, Saigon, 1956, p. 14.

\* In thousands of Vietnamese dollars.

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Prior to World War II, foreign capital (mostly French and Chinese) enjoyed a monopolistic position in Viet-Nam. The recent anti-Chinese reaction, for example, can be explained by pointing out abuses created by the Chinese in intermediary sectors: wholesale and retail trades, land and river transports, rice collecting, and especially in the practice of usurious credit lending. Furthermore, the Chinese, possessing what is called the 'immigration complex', frequently find themselves, justifiably or unjustifiably, exposed to malversations on the part of local authorities and people, and thus bind themselves together into a solid community where secrecy is a rule, and camouflage, bargaining, compromises or flight to other lands are defensive weapons. The importance of Chinese capital is difficult to assess due to the Chinese secret system of bookkeeping and accountancy. One thing, however, is certain: it has permitted the Chinese to play a dominating and determining role in Viet-Nam's economy.

We, however, should not overlook the favourable aspects of Chinese investments. For example, the Chinese, once settled down in a country, have no plan for repatriation, and thus create no such problems as income or profit transfers.

French investment constituted about 78 per cent, in average, of total private investment. Hence the magnitude

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and timing of investment were determined largely by conditions prevailing in the Paris money and capital markets. No conflict, however, existed between French investments on the one hand and Vietnamese and Chinese investments on the other. A division of work seemed to operate for these different investments. French investments were concentrated in the field of international and key sectors; the Chinese monopolized wholesale and retail trades, river transport, rural credit and some small industries; and the Vietnamese laboured with the communal sector, small commerce and handicrafts both rural and urban.

Between 1945-1955, the progressive elimination of French political influence and the political instability within the country covered up Viet-Nam with a general feeling of uncertainty susceptible of paralyzing the existing enterprises, of discouraging new initiative and most importantly of causing massive withdrawal of foreign capital from Viet-Nam.

This explains why the Vietnamese economy became so highly vulnerable and dependent after the Geneva Agreement. Domestic private investment contributed a negligible amount to the gross national product (hardly 4 per cent). Exports were less than one-sixth of imports and about two percent of national income. Government expenditures, largely spent on defence and financed by foreign aid which was not only

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large enough to cover imports but also to leave a substantial surplus, became an important income generating factor.

Another factor which made Viet-Nam so highly dependent was the degree of its export concentration. Rice and rubber alone accounted for 79 per cent of the total export value in 1953 and 81 per cent in 1954. The terms of trade also caused great trouble. While the import prices were largely independent of our demand, the prices of our exports were completely beyond our control due to the fact that our exports only contributed a negligible amount to the world supplies. The drop of world price of rice in 1953, for example, caused a general state of bewilderment among the Vietnamese. Furthermore, there existed no advisory or industrial control set-up for guiding and encouraging manufacturers by revalorizing their products for domestic consumption. Protective custom tariffs cannot be used without limit.

Internally, the economic dependency of a nation can be seen through the high degree of monopolistic or monopsonistic power exerted by foreigners over industry, commerce and transportation which, coupled with the concentration of political power in the hands of a small minority, leaves no chance of entry for nationals and thus creates economic dualism within the national boundaries. The argument for monopoly based on the high level of saving and profit

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required for development could not be applied to Viet-Nam because very often, saving and profit were transferred to the mother country or to other hard currency nations.

Logically, economic dualism could not exist because the expansion of one sector should generate that of other sectors. In Viet-Nam, unfortunately, conditions were different and problems were far more complex than what normally would be expected. The trouble was that when the economic laissez-faire policy was sponsored by a government which was in favour of one group of people, a distinctly lopsided development was bound to occur.

Even in the agricultural sector, peasants became virtually slaves of big land owners because of high rent and usury. Peasants and labourers were furthermore subjected to a number of direct and indirect taxes, some of which like the corvee and the gabelle, were exclusively of an exploiting type. Public works were performed by Vietnamese labour, paid for by Vietnamese taxpayers and built on Vietnamese soil and yet, in the words of a French authority, Paul Bernard, "the present interest of the network of roads and railroads is much more political and touristic than economic, and in any case, their extension does not correspond to the state of parallel development of the private economy."<sup>2</sup> Nationalists complained that the

<sup>2</sup> Paul Bernard, Nouveaux aspects du problème économique indochinois, Paris, Hachette, 1937, p. 156.

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essential concern of the French was to make conditions safe and comfortable for themselves rather than to pursue a policy of improvement for Viet-Nam whether in the field of science, medicine, or building of roads over which Europeans might travel while Vietnamese lacked vehicles, money and passport. Outside and independent observers remarked that the savings and profits of Frenchmen in Indochina contributed little to the welfare of the Indochinese because they were all sent back to France.

But perhaps the worse policy that the French have ever formulated in Viet-Nam was the threefold monopoly on salt, opium and alcohol. The fishermen were obliged to sell all the salt produced by themselves to the French administration and then bought back at higher prices whatever amount they might need for the conservation of their fishes which constitute the main Vietnamese diet. In the mother country, opium smoking was a criminal offence; in the colony, it was one of the financial props of the colonial government. To describe the conditions of peasants let us use these words of Pierre Gourou: "There was a real competition between man and beast. Animal labour is as expensive as human labour, as a man does not earn much more than what is strictly necessary to feed himself, and the

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feeding of an animal is as costly as the feeding of a man."<sup>3</sup>

The dualistic tendency was further aggravated by the fact that innovations did not come as the result of slow development of internal forces within the country but rather from abroad. The lack of the knowledge of French of the large masses of people was also a great impediment to the transmission of innovations and modern technique of production to the common man. So also were the conservative attitude of farmers and the lack of a Vietnamese entrepreneurial class.

Under the present conditions, the survival of Viet-Nam, as a sovereign state, is underwritten by American aid which depends precariously on the year-to-year American Congressional reaction to a multitude of influences, many of which are completely divorced from the Vietnamese facts of life. A great percentage of this aid fund is used in a manner that maintains an extravagant standard of living, raised to its present level as a result of eleven years of heavy foreign spending in Viet-Nam.

Political independence is threatened and shaken by the lack of even a bare minimum degree of economic self-sufficiency. Viet-Nam's independence and probably her freedom, in other words, is at the mercy of the United States

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<sup>3</sup> Pierre Gourou, Land Utilization in French Indo-china, Paris, Hachette, 1949, p. 224-225.

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Congress. These facts should be matters of embarrassment to both nations because they have become solid base for communist propaganda accusing the government of South Viet-Nam as traitor selling out the country to another western imperialist, the United States.<sup>4</sup>

It is obvious now that if Viet-Nam is to remain free, not only of communism but of foreign aid, efforts must be mobilized to formulate a realistic developmental programme which takes into account not only the predominant position of agriculture, but also the need of diversification and industrialization which will determine the extent to which the present standard of living can be maintained after foreign aid is reduced or eliminated and Viet-Nam must stand on her own.

#### Reasons for Industrialization

It is true that Viet-Nam is fortunate in her possession of an abundance of land and favourable geographic conditions for an agricultural economy. It is also true that strategically Viet-Nam is situated in the gateway to intra-regional trade. Both the giant and prosperous neighbours,

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<sup>4</sup> Lawrence Morrison, "Industrial Development Efforts", Viet-Nam: the First Five Years, ed.: Richard W. Lindholm, The Michigan State University Press, 1959, p. 215.

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Japan and India, can supply Viet-Nam with manufactured goods and they, in turn, import foods and agricultural and forest products over which Viet-Nam has comparative advantage. Nevertheless, unreasonable and exclusive concentration on agriculture for export would be a very unwise policy. There are products that can be locally produced cheaper than imported. To ignore the national industrial potentialities would be very bad economics indeed for the following reasons:

1. Our exports consist almost exclusively of rice and rubber. Any change in the prices of these two products in the world market may cause great fluctuations in the national income. Industrialization thus eliminates or reduces the risk of instability caused by factors from abroad. Furthermore, since heavy imports of consumer goods are responsible for Viet-Nam's chronic deficit in the balance of payments, any improvement in this balance must mean a partial substitution of some of domestic products for imported finished goods.

2. There is the problem of unemployment and under-employment which constitute the hotbed of political unrest and dissatisfaction and can be alleviated only through the creation of light industries.

3. There are industries which not only can be produced in Viet-Nam, but should be produced even at the

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expense of agriculture. Take for example cotton which Viet-Nam can produce at a comparative advantage cost, yet half of Viet-Nam's yearly total export income is devoted to the purchase of cotton goods from abroad.

Obstacles to Industrialization

The building up of a viable economy would necessarily require time, patience, energy and sacrifice. But unless Viet-Nam grasps the opportunity while she can, it would be much tougher, if not impossible, later on when gratuitous aid is no longer available.

Considering the main obstacles to effective pursuit of Viet-Nam's industrial development, we find that (a) historically the Vietnamese economy is a complementary one with the Southern part of the country endowed for agriculture and the Northern part enriched with coal, mineral resources and other industrial raw materials. The partition of the country disrupted this reasonably balanced economy, created distortions and caused great loss to both sides of the demarcation line. Among the losses to the South the most important ones are: the textile industry, the large supply of coal upon which South Viet-Nam's electricity and power heavily depend, and the large market for its agricultural products.

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(b) As has been and will be discussed again in the next chapter, one of the biggest obstacles to industrialization is the lack of capital. This explains why development programme must be carefully examined and planned to direct investment into industries where favourable capital-output ratio exists.

(c) The lack of technical know-how is another obstacle to development. Not only does Viet-Nam lack well-equipped industrial statistics centers and technical survey bureaux, but also managers, technicians and supervisory personnel.

(d) Also there is the problem of excessive production costs resulting from (i) the discrepancy between the artificially high standard of living and the low productivity. The former remains high due to the increased spending of foreign military forces and foreign aid, while the latter continues to decline as a result of destruction and deterioration of equipment by the wars, and (ii) the maldistribution of the population between goods-producing and non-goods-producing sectors of the economy caused by the political insecurity in the countryside.

(e) Moreover, there are related difficulties confronted by certain industries such as low tariff programs and the lack of quality product control which put local producers in a helpless competitive position with foreigners.

Prerequisite for Industrialization

Whether the Vietnamese leaders like it or not, two things must be kept in mind while drawing up any development programme for Viet-Nam: (i) South Viet-Nam is essentially agricultural and (ii) the development of Viet-Nam has been, is and will continue to be for some time to come, heavily dependent on foreign capital and foreign technicians. These two important facts bring us to the following considerations:

1. Industries that are to be set up must be those which

- (a) process agricultural products (e.g. sugar);
- (b) utilize local raw materials (e.g. paper and paper products);
- (c) satisfy a large domestic market (e.g. cotton goods);
- (d) utilize available technical potential;
- (e) have <sup>low</sup> favorable capital-output ratio.

2. Policies designed to encourage investment must not be based on historical resentment of foreign initiative and control but rather must be realistic, direct, definite and specific statements which would show the government's intention to cooperate with both foreign and domestically owned enterprises for the development of Viet-Nam.

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After the regaining of political independence in 1954, there was a great fear of expropriation and confiscation of foreign ownership by the government which not only caused substantial capital flight out but also prevented others from getting into the country. In fact, certain enterprises have come to a virtual standstill because of the uncertainty as to what, if any, punitive or restrictive measures might have been taken by the government.

Consequently, on March 5, 1957<sup>5</sup>, the government of the Republic of Viet-Nam officially promulgated its investment policy, (1) reaffirming that "within the country, free enterprise in the framework of a plan in which the role of the State will be essentially to orient, coordinate and assist private enterprise (and) in relations with foreign countries, Viet-Nam desire to cooperate and increase exchanges with friendly countries";

(2) Listing all fiscal, monetary and administrative advantages likely to be granted to new investments. These advantages have been reaffirmed in a circular note issued on September 11, 1957, by the Supreme Council of Money and Credit presided over by the President of the Republic himself.

Furthermore, the Vietnamese government, within the framework of the Mutual Security Act of 1951, signed with the government of the United States an agreement by virtue

<sup>5</sup> See Appendix II.

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of which the United States government guarantees American investments against

- (a) the risk of inconvertibility of currency;
- (b) the risk of nationalization;
- (c) the risk of war.

In October 1957, an Industrial Development Center was created to centralize all investment proposals in the industrial field, to facilitate their implementations and to help foreign investors find Vietnamese associates.

#### Financing Industrial Development

As has been mentioned, the regaining of Viet-Nam's independence was followed by an exodus of many foreign enterprises and personnel, an intensive repatriation of French capital and a complete stoppage of new foreign investments. This leads us now to the problem of investment financing and related problems.

In dealing with the subject of sound development financing, we have no choice, but to consider both short-term and long-term problems involved. First, there is inflation, the elimination of which is an essential precondition to the implementation of a sound long-term development programme. And next comes the choice of a government spending policy which includes effective ways and means of

securing necessary funds for short-term financing as distinct from those adopted for a long-term programme.

Short-term Development Financing: In Viet-Nam, inflation originated from the lack of direct controls during World War II when considerable procurement demand of the Japanese army caused large increase in the money supply and rocketing prices. Between 1939-1945, for example, the cost of living index rose thirty-three per cent and between 1945-1948, this rate of increase was 9 per cent yearly. The state of extreme insecurity, heavy military spending, deficit financing by the national bank, all contributed to the inflationary pressures.

A close analysis of both supply and demand will reveal the main causes of inflation. On the supply side, the level of production is low due to destruction and deterioration of equipment by the war. Also, for security reason, a great number of people move to towns and thus create an imbalanced shift of population from goods-producing sector to non-goods-producing ones. Supply shortage coupled with the huge masses of refugees from the North bring prices up far above the costs of production and thus raise the profit margins of intermediaries of which one of the indicators is the disparity in the movement of wholesale and retail prices. For example, by 1955, the wholesale price index had risen 30 per cent above 1939 while the retail price index had risen as much as 70 per cent despite the decrease in

the yield of indirect taxes.<sup>6</sup>

On the demand side, although all through the Second World War and the subsequent hostilities and civil strife, deficit financing of military operations by the central banking authorities prevailed, a major part of these expenditures were financed directly by France in the form of purchases of Vietnamese piastres by the French treasury to meet the needs of the French expeditionary corps. These increases in foreign assets, however, did not provide Viet-Nam with corresponding increased capacity to import for domestic consumption for two reasons: (1) the continuing currency depreciation and (2) the heavy outpayments for the repatriation of profits and investments held by foreigners.

Furthermore, the partition of the country and the dissolution of the Monetary and Customs Union of the former associated States of Indochina at the end of 1954, certainly have aggravated the inflationary conditions in Viet-Nam. The transfer of both the bank deposits and the great bulk of notes from the North has virtually doubled the per capita money supply in the South. In 1955 and 1956, piastre counterpart funds<sup>7</sup> continued to be generated by the United States

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<sup>6</sup> Economic Commission for Asia and the Far East (ECAFE), Working Party on Economic Development and Planning, Second Meeting, United Nations, Document No. DPW 2-13, September 18, 1956, p. 5.

<sup>7</sup> See explanation on page 79

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dollar aid and thus created a further expansionary influence on money supply and income.

Actually, what is of a more serious nature is not so much the problem of excess circulation of notes but rather the extremely large volume of deposits and reserves owned by foreigners and deposited with the central bank by commercial banks. These large idle deposits create two great concerns: the problem of latent inflation and the fear that the funds, if put to improper use, will damage the economy. Thus it is obvious that the excess liquidity must be first absorbed either by the freezing or blocking of bank deposits or by compulsory loans, or else, an unfavourable balance of trade must be resorted to, and then through gradual reflationary methods (for example by means of the sale of treasury bonds to the banks with the proceeds credited to the development fund) the available assets will be put into utilization for development purposes.

Long-term Financing: The speculation of some officials of the government is that development should be financed through credit expansion. While this has been the successful practice of some countries, it is my hope that the Vietnamese government would not resort to it but rather to those fiscal and monetary measures which not only increase public and private savings to such an appropriate

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level that may provide the State with funds to finance social services but also leave to private initiative adequate incentive and resources to keep up with the desirable rate of investment, and thus generate confidence beyond national boundaries and thereby creating a favourable climate for foreign grants, foreign borrowing and foreign investments.

It is not my intention to discuss monetary and fiscal policies here. A few words, however, should be mentioned about possible measures that the government can take to improve the nation's economic conditions.

First of all, it is the general belief that the present system of taxation is too complicated and the administrative mechanism lacks skilled personnel. The multi-level rice sales tax for example not only renders its enforcement difficult but minimizes its returns. It is expected that once the National Institute of Statistics secures the needed informations, and the required minimum amount of personnel is trained, more reliable forecasts of savings and investments could be developed to determine how much Viet-Nam can really finance her development plan out of her own pocket and how much must she rely on foreign assistance.

It should be stressed that in formulating fiscal policies the government should not only seek to increase tax revenue but also must take positive actions to encourage

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savings and channel them towards high priority projects.

Such actions should include:

(a) Measures to increase saving potential by increasing agricultural production:

- (i) Regressive as opposed to the present progressive tax on increased agricultural output.
- (ii) Tax concession on land improvement and cooperative efforts.
- (iii) Penalties on abandoned lands or failure to replant rice or rubber.

(b) Measures to discourage luxury, conspicuous, and non-essential spendings and to encourage spending on capital goods.

(c) Measures to stimulate business investment and re-investment:

- (i) Higher allowance for depreciation charges on capital equipment.
- (ii) Tax concession on reinvestment capital.
- (iii) Elimination or reduction of the registration tax on newly formed and approved enterprises.
- (iv) Lower custom duties and sales taxes on capital goods.
- (v) Measures to encourage farmers investing their surplus income in industrial project.

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(d) Measures to attract foreign capital: The government of the Republic of Viet-Nam does not regard foreign investment as a necessary evil, but as a condition "sine qua non" for economic development. It realizes that not only can foreign investments provide the country with the needed credit for the development of its natural resources but they also bring in technical know-how and business experience. An influx of foreign capital also means new business trends which will be introduced by foreign businessmen on behalf of their own countries and of the country with which they are dealing.

Besides fiscal policies, monetary policy with its quantitative control can be very helpful in channelling credit towards development purposes. Unfortunately, there exist factors which impede the effective operation of the National Bank. We find, for example, the lack of an organized securities market, the foreign-trade-oriented commercial banks and the prevalence of usurious money lenders. To counteract these forces, the government has established the Industrial Development Center, the National Investment Fund and other specialized credit institutes.

The Role of Foreign Aid

In the following paragraphs, I will concern myself only with the analysis of the meanings and relationship of foreign aid to economic development, not with the size or quantitative aspect of aid. Though foreign aid, relating to its existence, is overwhelmingly appreciated by almost everybody everywhere, the form and use of aid frequently cause controversy. Some say that it is too small; others, too large; and still others complain that it is too much for consumption and too little in the form of capital goods. A closer analysis of aid concept and procedures will clarify some of these apparent misconceptions. Foreign aid comes under two forms: direct aid and commercial aid.

Direct aid, that is aid in kind either for consumption or for investment, implies two things: first, the material goods and second, the actual saving made by the government from not-having-to-buy these goods. The commercial aid, on the other hand, operates through a counterpart fund, which is that amount of dollars credited to the Vietnamese government's account by the American Treasury in proportion to the value of goods purchased from the United States by private Vietnamese importers with their private savings. Or in other words, whenever there is a purchase of American dollars by private Vietnamese importers for

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importing American goods, the counterpart fund is credited with that amount by the United States Treasury. This fund is in turn used to finance government outlays either on current or investment accounts. Here again, we notice two things involved: first, the goods bought with dollars, that is the private spending; and second, the counterpart fund, that is the foreign aid proper.

In the case of direct aid, there could be no room for misunderstandings. Under the commercial aid program, however, misconception and misinterpretation arise. It should be understood that, just as taxation channels domestic savings into the treasury, counterpart fund channels foreign savings. Spending under the commercial program, that is goods bought with dollars, represents merely private spending, while only spending from the counterpart fund can be considered as foreign aid proper.

As to whether aid is too large or too small, we need profound examination and analysis. Foreign aid aims at two objectives: (a) financing an external (foreign exchange) deficit; and (b) financing an internal (budgetary) deficit. The latter, under the counterpart scheme, is determined by the former, in the sense that the counterpart fund is generated by the private spending on goods and services under the Commercial Import Program. But if this is so, then, how can it be said that the internal deficit is larger

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than the external deficit? The answer is that this can happen when goods and services made available to finance the former tend to exceed the normal requirements of the latter. This frequently occurs in countries where the external deficit consists largely of so-called luxury goods and where the demand for capital goods is weak.

In Viet-Nam, this trend to luxury imports can cause serious damages to the economy by artificially raising the standard of living and the propensity to consume, thus leaving no room for savings and investments. But if luxury imports create troubles, why could not we stop importing them? The dilemma, of course, is how to generate the counterpart fund and at the same time cut back luxury imports.

It has been suggested that instead of dollars, may be gold can be sold to the public against piastres. This suggestion, in my opinion, would not make Viet-Nam better off because such approach would simply channel funds into idleness or Asian typical way of hoarding or investing money in unproductive wealth such as gold and jewelry. Perhaps, a more productive solution would be to sell registered dollar bonds to the public in lieu of dollars or gold. Unfortunately, these are merely speculations or at most desirable solutions; they are not applicable under the present terms of American aid. A third solution, and this again has to be negotiated with the United States government

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before it can be applied, would be to allow dollars to be used for financing transfers abroad on current or capital accounts. This move may not only cut back imports of luxury goods and create additional resources for development, but also encourage foreign investment.

Those who hold that aid is too small are thinking of the counterpart fund and in the last analysis of direct aid as contrast with those hereabove mentioned people who hold that aid is too large and who, in this context, are thinking of the Commercial Import Program. Those who complain that aid is inadequate in the form of capital goods, also have in mind the Commercial Import Program which constitutes private spending and over which the government has little, if any at all, direct control.

During the period of 1955-1956, the role of United States aid was to enable the Vietnamese government to restore internal order and political stability, particularly by:

- (a) Replacing French military expenditures
- (b) Maintaining a strong armed force
- (c) Assisting the Vietnamese government financially and technically in the consolidation of its political and administrative institutions
- (d) Sharing the burden of more than 800,000 refugees from North Viet-Nam.

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- (e) Financing external deficit (a deficit of 80 per cent of the total imports in 1955)
- (f) Maintaining monetary stability and fighting inflation
- (g) Creating a climate of confidence.

During the period of preparation for development 1957-1958, the role of United States aid was to enable the Vietnamese government to:

- (a) consolidate its political position, to suppress Communist subversion, enforce law and order;
- (b) reinforce the administration and train personnel;
- (c) lay down a framework for development, establish specialized developmental institutions for both agricultural and industrial development such as agricultural credit, cooperatives, agrarian reform, agricultural extension, Commission for Agricultural Development, Bureau for the Employment of Agricultural Machinery, the Industrial Development Center, the National Investment Fund, the Superior Council of Money and Credit, and so on;
- (d) reconstruct transport and public utilities facilities;
- (e) stabilize the economic and financial situation;
- (f) rehabilitate, modernize and expand developmental plants such as electric power, transportation and communications;

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- (g) redistribute the working population, both within and between regions;
- (h) rehabilitate war veterans;
- (i) initiate studies and research for new projects such as outlined in the Day and Zimmerman report, the James and Macheaux report on water control, the Leerburger report on electric power, the Lindholm study on general budget control, the Carter Goodrich report.

Needless to say, without the United States aid during this preparatory period, the breaking of bottlenecks and therefore the opening of the way for a real economic growth would have been extremely slow and difficult if not impossible.

The Vietnamese economy is still miles away from a sustained and balanced growth. Most of the projects begun so far, will not bear fruit until a few years from now. Although Viet-Nam is determined to become independent of United States aid, she can achieve this goal only if the United States continues to aid and make possible for a satisfactory rate of new agricultural and industrial investment.

A complete discussion of foreign aid should also cover such topics as the forms of aid (gratuitous gifts or loans), the aid institutions (whether aid should be accomplished on a bilateral or multilateral basis), and the use of aid. Unfortunately, here, we are not concerned with how and how much but rather with the role of aid in economic development and industrialization.

## CHAPTER IV

## THE ROLE OF THE GOVERNMENT

Historically, no economically advanced country of today has ever initiated economic development without positive stimulus from intelligent governments, most of all Germany and the U.S.S.R. since World War I, and Japan after 1870, and least of all, the United Kingdom and the United States whose governments' promotion of development was greatly favored by the early economic, social and political conditions which no longer are the same in underdeveloped countries today. In underdeveloped Viet-Nam, for example, savings and investments are low; industries suffer severe competition from abroad; the price mechanism functions inadequately. All these and the farmers' conservative attitude require strong government actions to break the bottlebecks and set the economy in motion. Moreover, such services like research, training personnel, depend to a greater extent upon public than upon private funds. But just as the poor countries need more savings than the rich countries and they cannot afford as much, so also they need better governments and they usually get the worse of them. The most obvious reason for this is that these governments are not only inefficient, inexperienced and corrupted but also overloaded with tasks.

Broadly speaking, the role of the government in economic development consists of influencing attitudes, shaping institutions, maintaining public services (keeping law and order, organizing research, transportations and communications, surveys, public health, schools), improving the use of resources and the distribution of income, controlling the quantity of money, stabilizing fluctuations, ensuring full employment, stimulating the level of investment, and directing foreign affairs. A comprehensive discussion of any one of these general topics would require too much time and space. Besides, we can find them well-explained in almost any textbook of economic growth. One particular function of the government which I did not touch on, and which I consider to be of extreme importance if development is to take place in Viet-Nam, is the problem of agrarian reform.

#### Agrarian Policy

In agricultural countries, especially in poorer communities, land usually is not only regarded as a source of wealth but also as an indicator of social and political status, a symbol of family pride and prestige. This points to the need of making land more productive, particularly in a country like Viet-Nam where agriculture is the main industry, as the conceivers of India's first five-year plan

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put it: "The future land ownership and cultivation is perhaps the most fundamental issue of national development. The pattern of economic and social organization will depend upon the manner in which the land problem is solved."<sup>1</sup>

But before going further, I must point out here that prior to 1954, the agrarian conditions in Viet-Nam were such that tenants were constantly threatened with eviction and could not hold the land for a long period. Written lease was non-existent. Farm rents were extremely high, from fifty to seventy per cent of the yearly crop. During bad seasons, a tenant might not even be able to support his family after paying his rent, and very frequently he was compelled to borrow in order to live and thus become the prey of usurious money lenders, the other evil of poor rural life. Under such conditions, it is obvious that speedy and thorough agrarian reforms are necessary if the standard of living of the peasants is to be improved and communist propaganda is to be checked.

The agrarian reform program of the government of the Republic of Viet-Nam consists of two phases. The first phase covers the government's efforts to better the landlord-tenant relationship which involves such problems as compensation for displacement, right of tenure, the form and amount of rent.

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<sup>1</sup> India, Planning Commission, First Five Year Plan, People's Edition, Delhi, 1953, p. 88.

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It is a matter of common sense that if the tenant is to make any investment in the land, he must believe that he is in a position to get his money back, plus some reward for taking that risk. Thus the landlord tenant relationship must be carefully regulated, if the tenant is to have an interest in maintaining the fertility of the land and in making permanent improvements.

Today, most countries have legal security of tenure of some sort. In some countries, like the United Kingdom, where the law gives the tenant a right to remain on the land so long as he maintains good husbandry and may even ensure to his heir a right of succeeding to the tenancy, if reasonably competent, it becomes almost impossible to get rid of even a bad tenant, unless he is obviously ruining the land; whereas in other countries, the law is operated to afford little protection even to the best tenants.<sup>2</sup>

In Viet-Nam, the government has made a long step forward in the Ordinance No.2 of January 8, 1955, amending and completing the Ordinance No.20 of January 4, 1953, specifying that

...a serious and legitimate motive such as non-payment or excessive and repeated delays in payment of farm rent by the tenant, or damage to real property caused by the farmer,

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<sup>2</sup> W. Arthur Lewis, The Theory of Economic Growth, Homewood, Illinois, Richard D. Irwin, Inc., 1955, p. 122.

or else, evidence must be provided if the landlord

....wishes to take back the land to cultivate it himself or to give it for cultivation to one of his direct descendants who is at least 18 years of age. In this case, the lease must have been in effect for at least 3 years.

A six months' notice to the other party is required in case of cancellation or non-renewal of the contract.

In case the landlord wishes to sell the land, the tenant is entitled to obtain it by pre-emption. If the tenant does not exercise this right, and the land is sold to a third person, such third party will be bound to fulfil the provisions of the contract in lieu of the former landowner.

As far as the form and amount of rent are concerned, the Ordinance No.2 stated that:

The leases have a minimum duration of five years and are renewable by tacit agreement.

The rent cannot be less than 15 per cent nor more than 25 per cent of the value of the main crop. The landowners should set forth the amount of rent in the contracts signed with their farmers. The farmer is not bound to pay the rent in case of unexpected circumstances which cause a minimum loss of two-thirds of the crop.

If, in addition to land, the landlord supply seeds or fertilizers, the leasee must reimburse him at their purchasing prices plus interest not exceeding 12 per cent per annum.

Many economists object to the use of proportional rent on the ground that it lessens the farmers' incentive

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to adopt improvements. This certainly is quite true, especially in rich countries. Poor farmers, however, feel more secure with proportional rent. Fixed rent usually causes hardship in bad seasons; if in kind, it bears more heavily when hardship is due to poor harvests; but if in money, it may cause misfortune when prices decline substantially. To alleviate these mishaps and to eliminate the misdeeds of exploitation of the peasants by usurers and middlemen, the government is sponsoring and subsidizing cooperatives for stockpiling the purpose of which is to warehouse the crops of their members and sell them in the best possible conditions.

To encourage recultivation of abandoned lands and to guarantee the security of the peasants, the Ordinance No.7 of February 5, 1955 provides that the owners of abandoned lands are bound to make a declaration of all non-cultivated parcels; and that they must have these lands cultivated, either by themselves or by farmers of their choice. If in the latter case, the leasees will sign with their landowners a special contract for three years. The leasees will be free from rent for the first year of the contract. They will pay half the rent in the second year, and three-quarters of the rent in the third year. On their part, the landlords are exempted from land tax.

In case of the absence of the landowner, the Communal Council of his village will sign the above-mentioned special

contract in his place with the leasees. The amounts of rent are deposited with the Treasurer or with the "Credit Agricole"<sup>3</sup> of the province and will be turned over to the landowner on his return.

On expiration of the special contract for three years, the normal contract for five years will be enforced.

The second phase of the land reform program of the government of the Republic of Viet-Nam aimed at redistributing rice fields. The main objectives of Ordinance No.57 of October 22, 1956 were:

1. to equitably redistribute land and improve agricultural production;
2. to enable poor peasants to become small landowners;
3. to orientate big landowners with their entrepreneurial skill and capital into industrial activities.

Under this Ordinance, all individuals owning more than 100 hectares of ricefields must sell that excess amount to the government which will in turn sell them in small lots of about from three to five hectares to less fortunate people according to the following priorities:

- (a) Peasants having cultivated the land for two years;

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<sup>3</sup> See explanation on page 100 infra.

- (b) Closest relatives of those having sacrificed their life for their country or those wounded during the war;
- (c) The refugees and displaced persons being re-settled;
- (d) The unemployed;
- (e) Farmers owing less than three hectares of land and having more than five children; and
- (f) Landless persons.

Peasants benefitting from such allotment of lands will pay the price of the ricefield in six equal instalments within six years. The value of the land is based on the amount of compensation paid by the government to the expropriated landlords and fixed by a regional Committee approved by the National Council of Land Reform.

These distributed lands cannot be sold, leased or mortgaged during the first ten years of cultivation by the new landowners. And in case of failure to cultivate the lands, the government is entitled to take back those lands without having to refund the instalments already paid by the concerned parties.

As to the methods of payment by the government to the big landowners, Ordinance No.57 of October 22, 1956 provides that:

- i) A cash payment of 10 per cent of the value of the expropriated lands.

- ii) For the remainder, payment in registered bonds guaranteed by the government, untransferable, bearing an annual interest of 3 per cent and paid off within twelve years.

Such registered bonds can be used for the payment of mortgage debts which have been contracted with the 'Credit Agricole Office' for the payment of land and death taxes due to properties now expropriated, or for the subscription for shares of various industrial enterprises to be set up by the government.

The government hopes that with the existence of national corporations and joint corporations, this scheme will allow big landowners who hold land reform bonds every opportunity to participate in its industrial development program.

Several economists and foreign observers criticize this land reform program saying that it renders land less mobile, causes bad husbandry, fragmentation and excessive indebtedness; and advocate that small farmers and peasants should remain as tenants and subject to controls. The fact is that if adequate controls are given, on the one hand, to guarantee the tenants' security, and on the other hand, to enforce husbandry on landowners, the economic distinction between tenancy and ownership could be largely overlooked. Actually, the form of land ownership in itself need not handicap agricultural output, rather the security of tenure is more essential. Some people argue that landlords should be allowed to change tenants freely, and to alter the size

of the farming units as circumstances change; that small farmers are slow to react to changing conditions. These arguments are based on the assumption that landlords are alert to changes, keen and knowledgeable agricultural economists, always looking for better ways of using land. While this may be true of some, it is probably false of most who are normally absentees and know not much more about the land than the amount of rent it yields. This line of argument resembles much to the saying that people should not own what they use because there is always someone else who could make better use of it; that resources would be much more accessible and productive if they are in the hands of some few monopolizing powers who could pass them freely from one user to another at short notice. Experience, however, proves otherwise: that land is much more easily accessible if its ownership is widely distributed than if it is regarded by few powerful families as their social and political status.

As to fragmentation, it is the result of a system of family inheritance which ensures each of the children a piece of property after the father's death, rather than of the form of land ownership. Fragmentation causes waste in many ways, waste of time to travel from one plot of land to another, of land for boundaries, duplication of capital and so on. Fragmentation, however, can be avoided without resorting to leasehold tenure. It does not exist under

primogeniture, or even under a system of family inheritance with a joint administration. It is no more impossible to administer a farm jointly than to join a business partnership. Laws and impartial tribunals can also be established, instead of landlordism, to restrict the farmer's right over his lands.

Still other economists argue that the Vietnamese government should encourage large-scale farming operations. It is true that, generally speaking, large-scale operations are more efficient if there exist economies in mechanical cultivation, uniform quality of product, large amount of capital, large-scale processing, control of irrigation, and so on.

Mechanical cultivation, for example, may not only be uneconomical but also create mass unemployment and waste of foreign exchange on imported equipment and fuel, unless there is a relatively high labour-capital cost ratio, or a situation when net output per worker is to be maximized rather than net output per acre. On the other hand, under conditions like in Viet-Nam, where labour is abundant, and masses of immigrants keep flowing in from the North, small farms may be more desirable since they yield higher output per acre as a result of greater care and more intensive cultivation of lands.

But even given that the relationship between the three factors of production is such as to justify mechanization, considerations still have to be given to the topography and the crop before any choice between mechanization and small farming can be reached. Hilly lands, lands planted permanently to grass or to trees, region of extreme rainfall and so on, are all restrictive to mechanical cultivation. Another point to be considered is that small farm operation does not require large supervisory staff which is rather scarce in Viet-Nam and can be used for agricultural extension and demonstration services.

But perhaps beyond and above economic reasons, there are social and political reasons for promulgating such agricultural laws and regulations like those of Viet-Nam. For so many centuries under the yoke of Feudalism and Colonialism, the poor peasants cannot help but be filled with hatred and revenge which can be ready for any kind of reaction if communists are allowed to infiltrate the masses with their utopian concepts of freedom and equality. Thus measures to ease off tension and to gain confidence of the people towards the government and toward themselves are necessary for and pre-requisite to economic development.

There are some economists who advocate that if landlordism does not work, why should we not try some form of collective ownership of lands which can be run either by the

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State or on a democratic basis by the farmers themselves.

Obviously, it is out of the question to consider the possibility and feasibility of a state ownership of all lands. As to the large-scale cooperative enterprise run by the farmers themselves, though it has great attraction as a form of social institution, history has proved it to be of very little success, except a few cases involving cooperatives of not more than four or five families.

Probably the close-to-ideal form of collective farming would be the compulsory-combined farming in which land is owned and cultivated by each individual farmer on his own account but he is subject to various controls, such as those of a central agency who ploughs the land mechanically for him, advises him of the improved seeds to be used, selects fertilizer for his soil, collectively processes and markets his product, and so forth. This system, however, requires a tremendous degree of preparation beforehand. Perhaps, the creation of the 'agrovilles' and the 'strategic hamlets' recently in Viet-Nam are the two very long steps towards this compulsory-combined farming scheme.

Each strategic hamlet is a thoroughly regrouped and re-organized center in which each family is given a house and a piece of land for cultivation; teams of technicians and workers are organized to help with building, to plan and provide services such as helping farmers planting their new

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crops, protecting the villagers against communist terrorism, supplying teachers for the children, medical care for the sick, recreational and cultural facilities for all. It is, thus, part of an all-out strategy designed to fulfill a national revolution at the very base of the society: to eradicate the backward living conditions of the people on the material as well as moral side, to destroy all attempts of fomenting internal troubles or division made by the colonialists and communists, to consolidate the village defense system and compel the communists to retreat into the jungle area where they will be dealt with by mopping operations. In brief, it is a national defense unit against three enemies: communism, internal division and under-development.

The above-explained efforts of the Vietnamese government to improve the farmers' conditions and their incentive to work are set in the right direction. Agricultural productivity in Viet-Nam can be greatly increased without resorting to landlordism or communism. Viet-Nam still has much to learn about the methods of cultivation, of selection of seeds, irrigation and drainage system, use of fertilizer, extension and demonstration services. Incidentally, it is interesting to mention here that even in Japan, where agricultural productivity ranks among the highest of the world, the typical size of a farm is still between two or three acres.

Agricultural Credit and Cooperatives

As a result of the scarcity of capital loans at reasonable rates of interest, moneylending has become a key industry in Viet-Nam with its sponsors making great fortune out of the peasants' sweat and tears. Farmers' security, incentive to work and standard of living cannot be improved without some definite steps on the part of the government to curb the exploitation of peasants by moneylenders and to provide farmers with credit they legitimately need.

Neither the need for agricultural credit institutions nor the provisions to serve this need is new in Viet-Nam. The first of these societies was instituted by the French in 1912 under the name of "Sociétés Indigènes de Crédit Agricole Mutuel" (or Local Societies of Mutual Agricultural Credit). Between 1927 and 1942, the French were working towards centralizing and unifying all credit lending activities with the result of a centralized body called "Office du Crédit Populaire" (or Popular Credit Office) in 1942 with headquarters in Hanoi, North Viet-Nam.

To broaden the scope of credit lending to other sectors of the economy namely handicraft and small industry, the "Service National du Crédit Agricole Artisanal et Coopératif" (or National Service of Agriculture, Handicraft and Cooperative), established in 1952, began operations in

November 1953. Besides its regular activities, the Service granted long-term loans to enable tenants to become small landowners.

In April 1955, following the Geneva Agreement, the "Commission Nationale de Crédit Agricole Populaire" (or National Commission of Popular Agricultural Credit) and the "Administration du Crédit Agricole Populaire" (or Administration of Popular Agricultural Credit), were established to grant cash loans (short-term loans at 12 per cent interest per annum and medium-term loans at 6 per cent interest per annum) and distribute agricultural equipment free of charge from United States supplies. These agencies operated side by side with the National Service of Agriculture, Handicraft and Cooperative Credit. The duplication of goals and loans thus led to the need for a more centralized system which was soon to come.

In April 1957, the National Agricultural Credit Office was set up with the following principal objectives:

- (a) To develop the rural economy;
- (b) To improve the people's standard of living by granting loans at low rates of interest to individuals or groups with legal entity, in order to enable them to increase production in the fields of agriculture, livestock, fishing, forestry and handicrafts.

The National Agricultural Credit Office requires no

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collateral on short-term loans and operates within the framework of the cooperative movement, which is designed to advance both industrialization and agriculture throughout the nation.

It is managed by a committee composed of:

1. The Secretary of State for Land Property and Agrarian Reform;
2. A Director-General;
3. A Delegate from the Department of Agriculture;
4. A Deputy-Director General;
5. A Chief Controller.

Coordination between the above-mentioned Management Committee and the individuals is effected by Provincial Farm Credit Committees headed by the chiefs of the provinces, and by village Farm Credit Communal Committees, consisting of the Communal Council members plus one representative of the landowners and one representative of tenants. Close liaison between the farmers and the credit organization is provided through field agents numbering one or two per county. It is they who are responsible for explaining the credit policy, its rules and regulations to the farmers. In addition, they help borrowers to fill out applications for loans and assist the agency in collecting debts on time.

Loans to individuals are of three types: short-term loans from six to eight months bearing an interest rate of

1 per cent per month; medium-term loans from eighteen months to five years, 8 per cent per year; and long-term loans from five to fifteen years, 6 per cent per year. The interest rate on cooperative loans is uniformly set at 5 per cent per annum. This last type of loan occupies top priority; next come propertyless farmers working in new lands; small land-owners working on lands abandoned during the war; and finally, other propertyless farm workers.

It has been suggested that multi-purpose cooperatives should be established in Viet-Nam. The difficulty is that these types of cooperative involve complex auditing and bookkeeping problems which require highly qualified personnel and experienced auditors and accountants who are not presently available in Viet-Nam, nor will they be in the near future. Perhaps what could be done for Viet-Nam now is to establish a centralized organization capable of meeting all needs for agricultural credit. Such an organization should consist of three groups of institutions: a Central Office, the provincial banks, and local cooperatives; all of which would supply credit to both farmers and craftsmen.

The effectiveness of the organization will still depend greatly on the competency of agricultural staffs, especially at the village level. It is hoped that with the development of the strategic hamlets, the cooperative movement will be carried out with greater efficiency. It is

hardly possible to overemphasize the importance of cooperatives in Viet-Nam. Rather, we can almost be sure that if the government can start and keep cooperatives properly moving, the bottlenecks will be broken, the vicious circle disrupted and the whole economy will be on its way to prosperity.

The role of the government in economic development is ~~of~~ manifold~~s~~. In previous chapters, we discussed different measures that the government can and have to take to initiate growth in the national economy. In this chapter, we have turned our attention almost exclusively to the role of the government in the agrarian reform of Viet-Nam. To manage a smooth transition to national economic independence is difficult under any circumstances. In the case of Viet-Nam, the task became truly formidable. The government of Viet-Nam has proved itself to be quite capable in the fight against backwardness, poverty, exploitation and communism, and in the creation of favourable conditions for economic growth. Confident in his people, the president of the Republic of Viet-Nam has assigned a new role to every Viet-namee: "In principle and in practice, all initiative must come from private individuals. The government could provide guidance, control and support; but how could it replace private enterprise in all branches of activity?"<sup>3</sup>

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<sup>3</sup> President Ngo-dinh-Diem, Speech delivered at the opening session of the Viet-Nam National Assembly on October 7, 1957.

## CONCLUSION

The programs described in the foregoing chapters are to demonstrate the economic possibility for raising the standard of living of the people and at the same time for building an economically independent Viet-Nam. They also reveal weaknesses and inadequacies within the national boundaries which impede economic progress.

Agriculture in general, and rice and rubber in particular have been, are and will continue to be the main sources of foreign exchange and of income and employment in Viet-Nam. Great fluctuations in the prices and production of these two products are sure to create bewilderment and frustration among the Vietnamese people and their leaders. New horizons for economic expansion and improved economic research programs are therefore needed if progress with stability is to be achieved.

Communism and colonialism are mainly responsible for the economic under-development and dualism in Viet-Nam. In order to free Viet-Nam not only from these two enemies but also from the need of foreign aid, great diversification and reorientation of the production program are necessary. A program for industrial development, furthermore, demands an adequate supply of skilled labour which, because of political reasons, cannot be expected from abroad, and thus must

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be provided by a well-planned vocational training program of nationals.

The future development of the Vietnamese economy will depend to a very great extent on the capability of its government to cope with the internal political and economic instability, the administrative corruption, the harmful economic dualism, and finally on the immediate prospect of foreign investment, aid and loans which share a very substantial proportion in the gross national expenditures. All these necessitate a high degree of central planning which is not only compatible with the preservation of essential principles of democracy but also indispensable for an efficient utilization and allocation of the limited economic resources. Viet-Nam cannot afford to adopt the 'laissez-faire' policy, neither can she rely on the 'invisible hand'.

A development program, to be effective in the long-run, must be based on realistic assessments of the economic and political conditions of the country. It must provide the opportunity for the full and active participation of the people in the developmental efforts. And this cannot be realized without an agrarian reform program which should not only improve the agricultural production but also encourage rich landlords, with their capital and managerial ability to engage themselves

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in industrial activities. Perhaps, the establishment of the strategic hamlets is a very long step towards the realization of the government program for a social revolution which is a precondition for a successful industrial revolution.

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## APPENDIX 1

Chronicle of Viet-Nam's Main Events

- 2879-258 B.C. Dynasty of Hong-Bang. 18 successive emperors
- 258-207 B.C. The Thuc dynasty.
- 207-111 B.C. The Trieu dynasty.
- 111 B.C.-39 A.D. The first Chinese domination.  
The two Trung sisters, the Joans of Arc of Viet-Nam defeated the Chinese army and reigned over the country for two years. The Vietnamese people have always considered them as a symbol of the struggle against foreign domination.
- 43-544 A.D. The second Chinese domination.
- 248 During this period Miss Trieu-Au, 23 years old, raised an army against the oppression of the Chinese administration. After six months of hard fighting, she committed suicide to avoid capture.
- 544-602 The Anterior Ly dynasty.
- 602-909 The third Chinese domination.
- 791 During this period, Phung-Hung gathered Vietnamese patriots to fight against Chinese oppressors; unfortunately defeated and killed. The Vietnamese later built a monument in his commemoration and name him Bo-Cai-Dai-Vuong (the father of all great kings).
- 909-923 The Khuc dynasty.
- 939-944 The Ngo dynasty. Ngo-Quyen, a marine expert, raised an army, proclaimed himself king, ousted the Chinese and recovered the independence of Viet-Nam.
- 945-967 Civil war between 12 feudal sects.

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- 968- 980 The Dinh dynasty. Dinh-tien-Hoang defeated the other 11 sects and unified the country. He was assassinated in 979. His successor was too young and was dethroned.
- 981-1009 The Anterior Le dynasty. Le-Hoan was crowned to replace the young king Dinh. In 983, king Le issued the first national currency in copper.
- 1010-1225 The posterior Ly dynasty. The capital of Viet-Nam was moved from Hoa-Lu to Thang-Long (or Hanoi of today).
- 1069 The conquest of Chiem-Thanh (kingdom of Champa) and the establishment of the two provinces of Quang-Binh and Quang-Tri (Centre of Viet-Nam today).
- 1073 War between Viet-Nam and China.
- 1084 The delimitation of the Chinese-Vietnamese boundaries.
- 1225-1400 The Tran dynasty.
- 1284 Thoat-Hoan, a mongolian commander led a larger troop against Viet-Nam. King Tran-Nhan-Ton gathered all aged scholars and patriots at the palace Dien-Hong to seek advices. They all agreed to fight until death rather than to live in peace without independence of the country. The mongolian army was defeated. This was a famous historic conference.
- 1287 Thoat-Hoan made war again and was once again defeated over the Bach-Dang river by the Vietnamese troop under the command of Prince and Generalism Tran-Hung-Dao.
- 1306 The annexation of Thua-Thien province (Centre Viet-Nam).
- 1400-1407 The enthronement of Ho-Quy-Ly began the Ho dynasty.
- 1402 The conquest of Chiem-Thanh and the establishment of the two provinces Quang-Nam and Quang-Ngai.

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- 1406 War between Viet-Nam and China.
- 1407-1427 The fourth Chinese domination.
- 1418-1427 The Le-Loi revolt. Le-Loi, the hero of Lamson, organized the guerilla against the Chinese. Chinese general Wang Tong surrendered at Chi-Lang in 1427.
- 1428-1527 Le-Loi became emperor Le-Thai-To. The posterior Le dynasty.
- 1470 The annexation of the Province of Binh-Dinh.
- 1527-1592 Dynasty of Mac. Mac-Dang-Dung dethroned king Le then proclaimed himself king.
- 1532-1788 The renaissance of the Le dynasty.
- 1611 The annexation of the Province of Phu-Yen by Nguyen-Hoang.
- 1615 Christianity was brought to Viet-Nam by the Jesuits.
- 1620 The country was partitioned into North and South with the Gianh river (North of the 17th parallel) as a demarcation line: the Nguyen occupied the South, and the Trinh occupied the North, with king Le as their nominal leader.
- 1627-1672 Civil war between Trinh and Nguyen families.
- 1687 The Capital was transferred to Hue, City of Centre V-N.
- 1692 The annexation of the Province of Khanh-Hoa, Phan-Rang and Binh-Thuan by the Nguyen.
- 1698-1754 The establishment of six provinces in the Southern part of the country.
- 1771 Nguyen-Nhac revolted against the Nguyen at Qui-Nhon.
- 1788-1802 The Tay-Son dynasty.
- 1789 Nguyen-Hue, the young brother of Nguyen-Nhac, installed himself on the throne and called

- himself Quang-Trung. After the enthronement, he mobilized an army of more than one hundred thousand men, and he himself led the army toward the capital of the North, Thang-Long, then occupied by the Chinese who defeated the Trinh. Quang-Trung gave a New-Year party to his troop ahead of time and promised that the army would celebrate the New Year inside the city on the third day of the new year. His prediction came true, when on the second day of the year, the Vietnamese army defeated the Chinese by a glorious victory at the height of Dong-Da. Most historians compare Nguyen-Hue to Napoléon Bonaparte. He died in 1792.
- 1802-1945 The Nguyen dynasty. Enthronement of emperor Gia-Long and the reunification of the country by Gia-Long.
- 1847 French warships fire at Danang and provoked the hostility between France and Viet-Nam.
- 1859 The French began their conquest at Giadinh, South Viet-Nam.
- 1862 The concession of three provinces of Eastern South Viet-Nam to France.
- 1867 The French conquered the three Western provinces of the South. Phan-Tanh-Gian, the government delegate, committed suicide to protest against the illegal action of the French colonialists. South Viet-Nam became a French colony.
- 1873 Francis Garnier and his troop invaded Hanoi. Government delegate Nguyen-Tri-Phuong committed suicide.
- 1884 Treaty of Patenotre and the establishment of the French protectorate over North and Central Viet-Nam. Ton-that Thuyet attacked the French Governor's palace in Hue.
- 1893-1895 The struggle against French colonialists led by the scholar Phan-dinh-Phung.
- 1890-1913 Guerilla against French colonialists conducted by Hoang-Hoa-Tham.

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- 1916 Emperor Duy-Tan and mandarin Tran-cao-Van led a group of scholars and mandarins to prepare a revolt aimed at taking the royal capital Hue. The conspiracy was known to the French. Duy Tan was deported to the Island of Reunion in the Indian Ocean. Tran-cao-Van and his colleagues were executed or imprisoned.
- 1925 The establishment of the "Papal Delegate" of the Roman Catholic Church at Hue.
- 1930 The rebellion of Yen-Bai. Leader Nguyen-thai-Hoc and his twenty-three colleagues were guillotined by French.
- Mar. 9, 1945 The Japanese coup took control of Viet-Nam from French.
- Aug. 19, 1945 Revolution led by the Viet-Minh (or Vietnamese communists), and the establishment of the Democratic Republic of Viet-Nam having Ho-chi-Minh as president. Emperor Bao-Dai abdicated on August 22, 1945.
- Mar. 6, 1946 Ho-chi-Minh signed an agreement to let French troops land and stay in North Viet-Nam.
- Dec. 19, 1946 War broke out between France and Viet-Nam and lasted for eight years.
- Mar. 8, 1949 The Elysee accord was signed whereby France recognized the independence of Viet-Nam within the French Union. Bao-Dai declared himself Chief of State.
- May 17, 1954 Desaster of Dien-Bien-Phu. French defeated by Viet-Minh.
- Jul. 7, 1954 The formation of the new government under the premiership of the patriot Ngo-dinh-Diem.
- Jul. 20, 1954 The Geneva Treaty and the resulting partition of Viet-Nam into North and South with the 17th parallel as the demarcation line. More than 800,000 Northerners immigrated to the South within a period of nine months. This stream of war refugees in such a short time was the greatest of this kind in the history of mankind.

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- 1955 The conquest of the three military sects of Binh-Xuyen Cao-Dai and Hoa-Hao, and the unification of the forces in the South.
- Oct. 23, 1955 Referendum: Bao-Dai was defeated, Ngo-dinh-Diem was elected as head of State.
- Oct. 26, 1955 Ngo-dinh-Diem declared the establishment of the Republic of Viet-Nam.
- Mar. 4, 1956 General election to select members of the Constitutional Assembly.
- Oct. 26, 1956 The publication of the Constitution of the Republic of Viet-Nam.
- Apr. 9, 1961 President Ngo-dinh-Diem was reelected for a second term.

APPENDIX II

Declaration of the President of the Republic of  
Viet-Nam on the National Policy  
of Investments in Viet-Nam

The following principles will govern Viet-Nam's  
policy for economic development:

Within the country: free enterprise in the frame-  
work of a plan in which the role of the State will be  
essentially to orient, coordinate and assist private enter-  
prise.

In relations with foreign countries: Viet-Nam  
desires to cooperate and increase exchanges with friendly  
countries.

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Viet-Nam appeals to domestic as well as foreign  
capital. Incentives will be extended to new investments  
considered by the Government as promoting the modernization  
of the national economy and the improvement of the living  
standard of the population:

1. Domestic Capital: investments in piastres
2. Association of Domestic and Foreign Capital: in the  
form of foreign currency, machinery, equipment, trademarks,  
etc.
3. Foreign Capital: in the form of foreign currency,  
etc.

The enterprises created by the above categories of capital may be of a mixed nature.

The Government may, according to circumstances, reserve to itself a participation of more than 51 per cent in enterprises which are of vital importance for its economy and security as, for instance, in the fields of transportation and power, etc.

According to circumstances, the participation of Vietnamese capital in the creation of new enterprises may be required.

Incentives: The incentives which will be granted to new investments are as follows:

1. Guaranty against nationalization and expropriation without due compensation.
2. Exemption for three years from Real Estate Tax on all construction necessary to new investments.
3. Exemption from the Registration Fee for incorporation.
4. Exemption from Land Taxes in respect to lands on which new agricultural investments have been made and this until such year as the new investment will have yielded its first crop.
5. Exemption from land taxes for mining enterprises through the first year of operation.

6. Exemption from tax on industrial, commercial and agricultural income as follows:

- 100% for the first year of effective operation
- 25% for the second and third years of operation
- 25% on reinvested profits

7. Exemption from customs duties for equipment imported directly without request of foreign exchange from Viet-Nam.

Should the foreign exchange be granted by Viet-Nam, customs duties are to be reduced by 50 per cent of the minimum tariff. There will also be a similar reduction of the "general internal tax of 6 per cent".

8. Reduction in the rate of customs duties for parts to be assembled in Viet-Nam, based on ad hoc decisions.

9. Authorization to foreign technicians to repatriate family savings, bonuses, etc., in accordance with prevailing regulations.

10. Where the investment relates to goods which may be exported, there will be an export subsidy. This subsidy may be the equivalent of the tax levied on imported raw materials or parts imported for assembly.

11. Repatriation of industrial and commercial profits are authorized in the framework of the regulations in effect. Specific privileges, however, may be allowed

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according to the economic importance for Viet-Nam of the new investments or the nature of the foreign currency invested.

12. The withdrawal of capital constituted of foreign currency will be authorized five years after the initiation of operation by the enterprise created by the new investment at the annual rate of 20 per cent of the initial investment.

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The policy outlined above will not be rigid. As the case may be, other incentives may be granted.

## THE AGRICULTURAL INDUSTRY

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## APPENDIX III

Paddy Production and Consumption, by Provinces  
before the Second World War<sup>a</sup>

Province	Total area (km <sup>2</sup> ) <sup>c</sup>	Area under rice (km <sup>2</sup> )	Average yield met.t. (km <sup>2</sup> )	Total yield 1000 met.t.	Estimated local consumption and seed distillation & fodder (1000 met.tons) <sup>b</sup>	Estimated surplus yield 1000 met.t.
Rach-Gia	6,199	3,200	108	345	90	255
Chau doc	2,630	1,313	113	148	65	83
Long Xuyen	2,573	1,475	136	200	66	134
Sadec	1,353	902	160	144	62	82
Can tho	2,191	1,811	178	322	104	218
My tho	2,263	1,602	154	246	102	144
Tan an	3,687	749	142	106	38	68
Ha tien	1,723	61	82	5	7	-2
Soc trang	2,329	1,952	148	288	58	230
Vinh long	1,087	921	167	154	51	103
Cho lon	1,235	926	150	139	66	73
Bac lieu	7,211	2,704	110	297	75	222
Tra vinh	1,987	1,605	148	238	68	170
Ben tre	1,501	1,041	144	150	82	68
Go cong	584	462	145	67	29	38
Gia dinh	1,228	590	100	59	86	-27
Tay ninh	4,801	440	120	53	55	-2
Thu dau mot	4,723	266	86	23	20	3
Bien hoa	11,045	422	88	39	48	-9
Baria	2,215	136	74	10	16	-6
Total	63,180				1,188	-118
Saigon					118	
					<u>1,306</u>	

<sup>a</sup> Calculated from: Secrétariat d'Etat à l'Economie Nationale, Institut National de la Statistique, Annuaire Statistique du Viet-Nam, Saigon, 1951-1952, III, p. 21.

<sup>b</sup> Based on a rough population estimate for the various provinces in 1937.

<sup>c</sup> Square Kilometer.