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

The growth of trade between the USSR and the capitalist countries provides sound evidence that all the states which desire to develop their economic relations with the Soviet Union on the basis of equality and of mutual advantage will always meet with the full understanding of their Soviet trading partners.

Economic Rehabilitation

United States Aid to Vietnam

by Professor Karel Holbik, Boston/Mass.

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

Vietnam's Deficiencies and Needs

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

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

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

US Economic Assistance

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

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

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

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

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

Political and Military Considerations

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Trade Deficit</th>
<th>American Economic Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>34</td>
<td>305</td>
<td>171</td>
<td>210</td>
</tr>
<tr>
<td>1958</td>
<td>55</td>
<td>232</td>
<td>177</td>
<td>187</td>
</tr>
<tr>
<td>1960</td>
<td>64</td>
<td>239</td>
<td>155</td>
<td>179</td>
</tr>
<tr>
<td>1965</td>
<td>35</td>
<td>370</td>
<td>335</td>
<td>308</td>
</tr>
</tbody>
</table>

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

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

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

Shortcomings of the Aid Programs

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

While counterpart financing has a mechanical appeal, the fund's operations since the 1954 Geneva Agreement demonstrate two substantial shortcomings of the American aid program: most of the resources provided to the Vietnamese government in order to meet its fiscal requirements have been used for military purposes; and the greater proportion of merchandise imports has been used for the maintenance of living standards rather than for the development of the economy. For example, during the five years from 1955 to 1959, the aid program (excluding considerable debate, this too passed. Much of the so-called economic aid money went for military allied projects such as highways, repair facilities, transportation, water supply and communications. 6

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