The Socialist Republic of Viet Nam
An Introductory Economic Report

August 12, 1977
East Asia & Pacific Regional Office

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CURRENCY EQUIVALENTS

Currency Unit - Vietnamese Dong
(There are separate currencies for the northern and southern regions.)

Exchange rates prevailing in early 1977:

northern Dong (ND) = US$0.40 (US$0.25 with premium)
southern Dong (SD) = US$0.54 (US$0.43 with premium)

US$1 = ND 2.65 (ND 3.98 with premium)
US$1 = SD 1.85 (SD 2.31 with premium)

A premium of 25% applies to certain transactions for the southern Dong and a premium of 50% to the northern Dong.

Viet Nam has agreed with the IMF to a rate of SDR 0.469292 to SD 1. For official transactions between the regions ND 1 = SD 0.80.

Trade transactions with the USSR, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Mongolia, Poland, Romania, Albania and the People's Republic of China are settled at the rate of ruble 1 = ND 3.27. Agreed exchange rates are used for nontrade transactions.

FISCAL YEAR

January 1 - December 31

Note: The use of the $ sign refers to the US dollar. Capital letters are used for the "North" and the "South" when the reference is to the situation before the reunification of Viet Nam in July 1976. Lower case letters refer to the northern and southern parts of the country after that date.
This report is based on the findings of a mission which visited Viet Nam in January-February 1977. The mission consisted of: Edward K. Hawkins (Chief of Mission), Edwin R. Lim (Economist/Deputy Chief of Mission), Hans H. Thias (Economist), Andre Delon (Agricultural Economist, FAO); and Paul C. Moulin (Economist/Research Assistant). During its stay in Viet Nam, the mission traveled extensively, visiting the three principal cities of Hanoi, Hô Chi Minh City and Haiphong, the Mekong and Red River Deltas, and parts of the coastal areas and of the central highlands. Discussions were also held with the following ministries and government agencies: the State Bank and its associated banks, State Planning Commission, Ministries of Finance, Agriculture, Water Conservancy, Forestry, Marine Products, Electricity and Coal, Communication and Transportation, Light Industry, Foreign Trade, and Higher Education and Vocational Middle Schools.

A draft of this report was discussed with the Government during a second mission in July 1977.
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2. Population Characteristics

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COUNTRY DATA - VIET NAM

AREA POPULATION DENSITY
332,000 sq km 47.2 million (February enumeration 1976) 142 per sq km
Rate of growth 3.0% (UN estimate for 1977) 420 per sq km of
arable land

POPULATION CHARACTERISTICS

Crude birth rate (per 1,000) 31.6 (1974 estimate for the north)
41.0 (1975 estimate for the south)
Crude death rate (per 1,000) 6.3 (1974 estimate for the north)
11.0 (1975 estimate for the south)
Infant mortality rate 26.4 (1975 estimate for the north)
(per 1,000 live births) 11.0 (for the south)

HEALTH

Population per physician 3,802 (estimates are for the north for 1975)
Population per hospital bed 230

EDUCATION

Adult literacy rate 87% (1975)
Primary school enrollment; about 100% (1976 estimate for the north)

GNP PER CAPITA

1977 estimate; US$150

STATE BUDGET

1976 actual: D Million % of GNP /1

Total revenue 8,975 48
of which:
Domestic revenue 6,002 32
External grants &
credits 2,652 14
Others 320 2

/1 Vietnamese methodology, which excludes incomes generated in service sectors.
## BALANCE OF PAYMENTS

<table>
<thead>
<tr>
<th></th>
<th>1976 (US$ million)</th>
<th>1977 plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>288</td>
<td>446</td>
</tr>
<tr>
<td>Imports</td>
<td>794</td>
<td>1,045</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-506</td>
<td>-599</td>
</tr>
</tbody>
</table>

**Capital Inflows:**
- Socialist countries: 350
- Rest of the world: 156

**1977 plan:**
- Socialist countries: 200
- Rest of the world: 399

## RATE OF EXCHANGE

**Early 1977**

US$ 1.00 = northern Dong (ND) 2.65 (NS 3.98 with premium)
US$ 1.00 = southern Dong (SD) 1.85 (SD 2.31 with premium)

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/1 World Bank staff estimates.

/2 Including international organizations.
SUMMARY AND CONCLUSIONS

1. The Socialist Republic of Viet Nam was created in July 1976 by the union of the Democratic Republic of Viet Nam with the Republic of South Viet Nam. The two parts of the country, roughly of equal size, form what is, in terms of population, the fourth largest country in eastern Asia. The reunification also brings together all the Vietnamese people under a single independent government for the first time in this century. The country's location places it within easy transport and communication reach of all the other larger countries in the region. Its size and shape, combined with its varied topography, give Viet Nam a wide range of climatic conditions, and the long coastline provides excellent natural harbors and access to extensive marine resources. There are also substantial natural resources especially cultivable land, good soils, minerals, including coal and possibly oil and gas. Viet Nam also has hydroelectric potential and good timber resources. These natural assets combined with a literate and well organized population give the country a considerable development potential.

2. In the short run, however, the country has to cope with the aftermath of 30 years of almost continuous warfare. There is a need to reconcile the two parts of the country, which, although complementary in terms of natural resources and to some extent economic structure, have been moving in different directions both economically and politically for the last two decades. The northern part of the country consists of a centrally planned socialist economy, with collective ownership accounting for 90% of the means of production. Direct state ownership in the south currently affects only a relatively small part of the economy, mainly the industrial sector where it covers 70% of total industrial output, leaving the greater part of agriculture, trade and transport still in private hands. It is the stated intention of the Government to extend full socialization to the south following the pattern already established in the north; however, the differences between the two regions make it impossible to integrate the two economies immediately, and this is reflected in the continued existence of two separate currencies. The current situation and medium-term prospects for Viet Nam have to be assessed against the background of these continued differences in economic structure. The intention of the authorities is to integrate the two economies gradually over the period of the current five-year plan (1976-80). This plan covers the whole country and takes account of the differing situations, the comparative advantages, and natural and human resources of the different regions.

3. It is difficult to give a comprehensive picture of the economy and of the changes that are now under way because statistics are scarce and in many cases unobtainable. In addition, many of the usual quantitative indicators of economic performance cannot be applied to a situation where the two halves of the economy are still operating with different economic structures. For this reason, it is hazardous to compare figures for Viet Nam with those of other countries. However, the available information clearly
indicates that Viet Nam starts its postwar development from a very low level of income. The State Planning Commission estimates that the country’s national income amounted to \( D \, 16 \) billion in 1975, and increased in 1976 to about \( D \, 19 \) billion, or \( D \, 400 \) per capita. However, the Vietnamese figures exclude incomes generated by such sectors as transport, public administration, defense, etc., which are normally included in the national accounts prepared along the lines recommended by the United Nations. Converting to the United Nations methodology would increase this estimate by about 20%, giving a national per capita income of about \( D \, 500 \) in 1976. At the official exchange rate, adjusted for the premium added in most transactions, the equivalent per capita income would be in the range of \$150. It is also clear that the level of per capita income has not changed significantly during the past 15 years: official estimates for the national income per capita in northern Viet Nam in the early 1970s was about the same as the 1960 level, and the GDP per capita in southern Viet Nam is also believed to have remained roughly static since 1960. It would appear that at the time of reunification in 1976 the per capita income in the two halves of the economy was approximately the same.

4. The effects of almost 30 years of warfare and its aftermath are sufficient explanation of both the low levels of per capita incomes and their failure to grow over the last two decades. These measures of poverty should not be taken to indicate, however, that there has been widespread deprivation in Viet Nam. Although real incomes are low, and supplies of some commodities—including foodstuffs—scarce, the Government has been able to arrange distribution of the limited supplies to avoid starvation and widespread malnutrition. The difficulties were acute in some areas immediately following the end of the war in the south, which had become heavily dependent upon imported foodstuffs. Further difficulties arose from bad weather affecting harvests in both 1976 and 1977; nevertheless, it has been possible for the Government to arrange for the minimum needs of the population—food, housing, education, medical services—to be met, although at a level that is not considered satisfactory.

5. The northern and southern halves of the economy emerged from the war with different sets of problems. In the north, the impact of the war was considerable in terms of widespread physical destruction and damage, the full effects of which are still being evaluated. There was a substantial burden of reconstruction and rehabilitation to be undertaken immediately before longer term development objectives could be considered. The

/1 The rate used here and throughout the report is that for the northern Dong, unless otherwise stated.
effects of the war on the south were different in that there was much less physical destruction of assets and infrastructure. In many respects the urban infrastructure and the transport network developed possibly at a faster rate than might otherwise have been the case. The major damage in the south was to the agricultural sector. Not only were the means of production destroyed, but the large-scale involuntary movements of population resulted in the abandonment of cultivated land, falling production, and a rapid rise in the population of major cities. As a result, the economy became increasingly dependent upon imports financed with a very high level of aid. In addition a significant proportion of economic activity was supported by expenditures of foreign troops located in Viet Nam; after their departure there continued to be a large inflow of aid for military purposes. The inflow of capital ceased abruptly at the end of the war, and there is now an urgent need to increase domestic production, notably in the agricultural sector, to substitute for these imported supplies. At the same time, the population must be redeployed away from the urban areas where it is not possible to provide sufficient employment opportunities. The short-term problem in the south, therefore, is to increase output and employment and restore agricultural production on those lands affected by the war.

6. The distribution of the population is largely determined by geographical factors and the existence of natural resources, the greater part being concentrated in the two larger deltas of the Red River and the Mekong. In the former there is an agricultural system based on the irrigated production of rice, which has been developed over many centuries and now supports a dense population. The Mekong Delta area (which is twice as large) had not become so densely settled before development was interrupted by the long period of warfare which began in 1946. The Mekong Delta thus remains the chief area of agricultural potential in a country where the amount of cultivated land per capita is amongst the lowest in the world. Outside the delta and the three principal cities, Hanoi, Haiphong and Ho Chi Minh City, the population is thinly dispersed especially in the mountainous areas; these are mostly occupied by ethnic minorities, who account for about 10% of the total population. These higher lands have considerable forestry resources and could also be used to produce a wide range of commercial and food crops.

7. Agriculture – particularly the production of rice – is the most important economic activity in Viet Nam. The supply of rice, the basic food, is the Government’s foremost concern. The north was traditionally a food deficit area, despite its well developed water control systems, the prevalence of double cropping and high yields. The south, which became a net importer during the war, has considerable potential to expand output, yields and productivity and resume its former role as a rice exporting region. The food situation remains a major preoccupation of the authorities, with bad weather continuing to hamper efforts to expand output in both 1976 and early 1977. Top priority is now being given to increasing rice output, with the intention of achieving self-sufficiency by 1980, raising production from 14 million tons in 1976 to over 20 million tons in 1980. Although per capita consumption should rise to improve nutritional standards and the growth in population, at a rate of 2.5-3.0%, also increases the amount required over time, this self-sufficiency, though ambitious, is not impossible.
8. Apart from rice, the agricultural sector also produces a wide range of subsidiary food and commercial crops, such as corn, rubber, tea, coffee and jute. Rubber, previously an important export, suffered badly during the war and requires extensive rehabilitation and replanting. The same applies to the fisheries of Viet Nam which supply the second most important item of the diet and also contribute to exports. In the important forestry industry output was also much reduced by wartime disruption and damage, and it is difficult to expand quickly because of the shortages of equipment and transport facilities. Domestic demand is high for reconstruction purposes, thus competing with exports and industrial demand.

9. The Government's second major concern in the current situation is the need to create employment opportunities. The end of the war left 3 million people unemployed in the south; the number had been reduced to 1-1/2 million by early 1977. There is full employment in the north but additional jobs are required to permit demobilization of the armed forces. An additional consideration is the need to create jobs for the growth in the labor force, estimated at one million people a year.

10. The major effort to deal with the employment problem consists of the creation of New Economic Zones - agricultural settlements that are intended to effect the large-scale population redistribution. The majority of the settlers will come from the overcrowded cities in the south, reversing the artificial, rapid growth of Ho Chi Minh City that occurred during the war, but others will be resettled from the overpopulated areas of the Red River Delta in the north. New Economic Zones are fundamental to the country's development strategy in that they are intended both to solve the employment problem and increase agricultural output. In the south the New Economic Zones will create new state-owned and cooperative forms of agricultural enterprise and are an important step towards socializing the agricultural sector, in line with the evolution of the cooperatives that have become the predominant form of agricultural enterprise in the north.

11. Industrial development in Viet Nam has proceeded in different directions in the two regions. In the north the emphasis has been on heavy industry and mining, corresponding to the natural resource base and the priority given to heavy industry by the Government. In the south there was considerable industrialization, beginning at the lighter end of the scale in such areas as food processing, textiles and other consumer goods, much of it based on imported raw materials and financed by private investment from abroad. Since reunification the industrial sector in the south has been operating well below capacity because of the shortage of spare parts and raw materials from abroad. The complementary characteristics of industry in the north and south can be turned to advantage as the integration of the two economies proceeds. In the exploitation of minerals Viet Nam possesses valuable coal deposits, the output of which can be expanded to satisfy a growing home and export demand. The prospects for oil and gas discoveries are also promising, although the development of offshore fields will require the assistance of foreign capital, expertise and technology.
12. The transport, power and communications networks suffered badly during the war in the north. Apart from the reconstruction needs the various systems need expanding and modernizing to serve the rapid rate of growth projected for the economy over the plan period. In the south the road transport system and ports emerged from the war with relatively little damage and an increased capacity. Railways were less fortunate and the electric power transmission network was also disrupted, and the generating capacity run down. The Government's immediate postwar efforts included repairing wartime damage to the power and transport networks, and reopening the main rail link between north and south.

13. Currently the social sectors in Viet Nam - notably health and education - are in transition. In both cases the northern systems are being extended to the south, where the state of both health and education is inferior to that of the north. The level of literacy is already high in the north and there is a large supply of trained manpower which is the product of an already well developed education system.

14. In the health field the emphasis has been placed on disease prevention, and the provision of minimal health care to all the population. Epidemic diseases which had been endemic - malaria, tuberculosis, leprosy and trachoma - have been much reduced. Significant indicators of health conditions, notably infant mortality rates, are now lower in northern Viet Nam than in many other developing countries at comparable levels of per capita income. This correlates with significant features of the health sector. For example, the ratios of population per hospital bed and per physician are amongst the lowest in Asia.

15. One of the features of social sector policy in Viet Nam is the provision of the minimum basic needs of the population. Food, clothing, housing, medical services and education are allocated, or made available at low cost, to the population. Where supplies are scarce rationing is used, as for grains and textiles. Pricing policies are also employed to bring essential goods and services within reach of the whole population and to restrict non-essential consumption.

16. The management of an economy with two diverse parts, such as now exists in Viet Nam, presents special problems, so economic management has been a major concern of Government in recent years. The highly centralized direct planning employed in the wartime economy in the north is being modified to incorporate the following features: decentralization of planning and implementation, with plans based on contracts between independent economic entities rather than orders from higher to lower level authorities; greater flexibility for state enterprises and managers, who will be accountable for their performance; and increased use of economic policies and levers to promote growth and efficiency.

17. In the field of foreign economic relations, which is a state prerogative, the Government plans to widen the range of participation. Trade links are being established with countries outside the Socialist Bloc and a foreign investment code has been drawn up which will permit foreign investment in Viet Nam under well defined circumstances.
18. The framework for economic policy is set out in the five-year development plan adopted at the end of 1976 which covers the period 1976-80. It sets out the main objectives, in terms of a series of tasks, while the annual plan specifies the way in which these objectives are to be achieved in the short term. The thrust of the plan can be summarized in two general aims: to build the economic and social infrastructure for sustained and rapid long-term growth and to improve the material and cultural life of the working population. Some key quantitative targets are specified for the five-year period, but the plan does not spell out a detailed macroeconomic framework. Much of the plan is taken up with qualitative rather than quantitative questions. The changes in management and planning methods mentioned above, increasing the efficiency of government machinery, reorganizing production and redeploying the labor force are viewed as the major means to achieve the plan's objectives. The national income is projected to increase at the rate of 13-14% per year with state investment expenditures totaling D 30 billion, divided roughly equally between industry, agriculture and services. Agriculture is given a clear priority in the plan, with the resettlement of population in the New Economic Zones the most important program. Industrial development will be geared to serve agriculture, but will also be laying the foundation for the further expansion of heavy industry.

19. The investment program set out is ambitious and will require a major effort to mobilize both domestic and external resources. In 1976 and 1977 state investment is estimated to be 19% of national income (using UN methodology). Foreign inflows are expected to finance about 45% of these investment expenditures. To achieve the total investment envisaged in the plan, the annual investment expenditures will need to average D 7.4 billion over the next three years, at a rate of growth of 19% over the years 1977-80. If the national income grows at the rate projected in the plan the share of investment will rise to 27%. A significant proportion of this investment will need to be financed through external assistance, but the saving rate will still need to increase from its present level of 9% of the national income to about 16%, implying a marginal saving rate of about 26%.

20. The achievement of the plan's targets will depend significantly on the ability of the Government to mobilize domestic resources. This is largely a function of the public finances, which, after a period of transition, are now being developed to provide a unified system covering both north and south. The budget is the financial expression of the plan and the main instrument for implementing the distribution of the national production between consumption and investment and the shares going to private and public consumption.

21. Total revenues depend largely on taxation which is linked directly to the form of enterprise and these are also changing in Viet Nam. In agriculture cooperatives are the predominant form, almost universal in the north but still to be introduced in the south where private ownership is still the rule, although state farms and "mutual aid teams" (the first stage of cooperatives) are being introduced. In the north industry is organized in state enterprises while southern Viet Nam has a mixed pattern comprising five different kinds of enterprises: (a) state owned, (b) state-private partnership, with state management, (c) cooperatives, (d) private companies or partnerships, (e) individually owned enterprises.
Contributions from state enterprises are by far the largest source of revenues accounting for 80% of projected domestic revenues in 1977. These contributions are based on a complex process closely linked to the pricing and distribution system. This process allows the state to set different rates of taxes on the final prices of different goods and services, while giving an incentive to managers of state enterprises to keep costs of production down and fulfill the plan targets assigned to them. Taxes on agriculture are a much less important source of domestic revenues, although there are also requirements to deliver quotas of output to the state at fixed prices. The other important source of budget revenues is foreign aid and credits, which accounted for 30% of the total in 1976 but are expected to decline in relative importance to 20% in 1977.

On the expenditure side about 40% of the total went for investment in 1976 and the balance for recurrent expenditures. In 1977 total state investment is expected to increase by 17%, but the portion financed through the state budget will fall to 34% of total expenditures. This arises from the transfer of responsibility for financing about 30% of state investments to the banking system; previously its role was limited largely to the financing of working capital requirements.

The banking system of Viet Nam was reorganized in June 1977, so that it will now consist of the State Bank, which exercises all monetary functions, and a group of specialized banks under its supervision. These are banks for Foreign Trade, Agriculture, Industry, and Internal Trade, and a Socialist Savings Fund to mobilize private savings. The new responsibility for financing state investments will be carried out by the appropriate institution in the group. The State Bank, through the Foreign Trade Bank, is also responsible for all foreign borrowing and manages the country’s foreign exchange reserves.

While the Government has been successful in mobilizing domestic resources in the past it will need to continue to develop new sources of revenue if the plan investment targets are to be achieved. With a revenue system tied directly to the level of output, maintaining the rate of growth of the output of goods and services is thus of paramount importance. This will also require resources from abroad, however, so the question of the availability of external finance is quite crucial. Imports are needed to expand output, because the present structure of the economy is such that certain essential inputs - fuels, raw materials, capital goods and spare parts - cannot be produced locally. Also, in the immediate future the same applies to cereals (to supplement domestic output) and possibly other consumer goods as well. The imports required certainly cannot be financed by export earnings in the immediate future; capital inflows from abroad will thus be needed to finance the deficit and would, at the same time, cover the balance of the investment program of the plan not covered by domestic revenues.

The plan does not set out a projection for the balance of payments situation up to 1980. It lays great stress on achieving a greater degree of self-reliance and gives high priority to expanding exports and economizing on imports. The present situation starts from a severe shortage of foreign
exchange, in which, in 1976, exports covered only 40% of the value of imports. The plan sets as a target that exports should cover 80% of the value of imports by 1980. This implies a substantial reduction in the deficit on current account and, if achieved, would mean a fall in the net transfer of resources from abroad.

27. The availability of imports is likely to be the key factor in the achievement of the targets for investment and the rate of growth of national income. A larger net transfer of resources from abroad, equal to the deficit on current account, will make it easier to maintain the level of imports, provided that the deficit can be financed on terms that the country can afford. If such finance is available, with a significant proportion on concessionary terms, the economy may be able to move more quickly to a level and structure of output which can be maintained with smaller net inflows from abroad in the future.

28. The plan does not set out detailed targets for imports and exports. For illustrative purposes here a possible pattern of exports and imports has been worked out. It has been derived from estimates of the possible rate of growth of exports and of the country's import requirements. It is intended only to show the possible orders of magnitude likely to be involved in the remaining three years of the plan, in circumstances where there would be a relatively large net transfer of resources from abroad.

29. In this illustrative projection imports, which were $794 million in 1976, would increase to about $1 billion in 1977 and reach $1.8 billion by 1980. Exports, which were about $300 million in 1976, would grow to $750 million by 1980. The deficit on current account would then be $1 billion in 1980, or about double the 1976 figure.

30. It is difficult to predict how such deficits might be financed. Little is known about the intentions of the socialist countries with regard to aid or credits to Viet Nam over the next three years. Meanwhile it is still too early to quantify the prospects of capital inflows from the rest of the world. Viet Nam is still working out such arrangements with the principal countries concerned, and there are many questions still to be resolved. The pattern for 1976 and expected for 1977 is that the estimated $1.1 billion deficit for the two years will be financed about equally by capital inflows from the socialist countries and from the rest of the world.

31. Much of this assistance will need to be on concessional terms. Viet Nam's capacity to borrow on commercial terms will be limited, and while it has few debts, its foreign exchange reserves are largely depleted, and it has little leeway to curb imports without drastic effects upon output and incomes. Substantial assistance from the outside world will be required, both from the socialist countries, from other parts of the world, and the multilateral agencies. Concessional aid from the latter is likely to be limited by total size of the funds available. While Viet Nam could hope to receive a share of such funds appropriate to its size of population and low levels of per capita income, the need for assistance is such that bilateral aid from
nonsocialist countries will become increasingly important. The country can also hope to make prudent use of commercial borrowings as its external relationships develop in a broader international context.

32. The form in which assistance is made available will also be important. The amount of external resources required exceeds the probable need for imports of capital goods. Consideration should be given, therefore, to the financing of supplies of intermediate goods, raw materials, spare parts and food in ways that will provide quick disbursing assistance. On the Government's part there will be a need to review import priorities carefully, to ensure that adequate supplies of imports are available to maintain the rate of growth of output, especially production for export. This means giving a lower priority to projects with a lengthy construction period and with little contribution to output in the short run.

33. Viet Nam has demonstrated a capacity to organize its limited resources for investment, despite the low level of per capita income - at around $150 per head. Its medium-term prospects depend upon the continuation of that ability to make the best use of its resources. The prospects for rapid economic growth look good. Although cultivable land per capita is limited, half of it is still unexploited and offers the prospect of increased agricultural production. Climatic conditions in the country allow the successful cultivation of a wide range of industrial and food crops, and the long coastline provides an excellent opportunity for fishery development for both domestic consumption and export. Reserves of coal and other minerals are already proven in the north and the possibilities of oil and gas reserves, both onshore and offshore, are good. Most important, the country possesses a literate, organized and disciplined labor force with a significant proportion of skilled manpower.

34. The realization of these prospects will depend mainly on two main factors. One is the successful evolution of an efficient management and planning system to promote rapid economic growth and also to facilitate the integration of the two halves of the economy. The second factor is the availability of financial and technical support from abroad. The first factor is within the control of the Vietnamese people to achieve; the second requires the assistance of the international community.
1. **INTRODUCTION**

**Historical Background**

1.01 This report gives some account of the present economic situation of the Socialist Republic of Viet Nam which was established in July 1976 when the former Democratic Republic of Viet Nam merged with the Republic of South Viet Nam. Hanoi became the capital of the reunited country.

1.02 The Vietnamese are a people with a long history who have occupied their present land for over 4,000 years. An independent Vietnamese state was established in 939 A.D. and apart from a brief interlude in the fifteenth century, it remained an independent, though not always united state, until the late nineteenth century when the country came under French rule.

1.03 The modern history of Viet Nam begins after the second world war, when the independence of the Democratic Republic of Viet Nam was declared on September 2, 1945. A period of warfare with the French followed until 1954, when an international conference held in Geneva provided for a temporary division of Viet Nam into two parts, while recognizing its independence and unity. Elections were to be held in July 1956, to decide the country's final status, but they did not take place. Instead a *de facto* division of Viet Nam into two states occurred, with the establishment of the Republic of Viet Nam in the southern part of the country in 1956.

1.04 During the two decades of war that followed the two economies evolved in quite different directions. In the north a centrally planned socialist state was created, while in the south the economy developed along capitalist lines. Since both states were preoccupied with war activities neither was able to give full attention to economic development; both had to rely on aid and assistance from abroad to conduct the war, though allowing for wartime destruction, there was probably little or no net capital formation.

1.05 The economic situation in the south became critical after the collapse of the Republic of Viet Nam in April 1975. The economy had been receiving a very high level of foreign economic support, estimated at around 17-20% of GDP, and this ceased abruptly at a time when many economic activities were interrupted and there was a substantial outflow of refugees from the country. In addition, economic activity was also maintained at a high level because of large expenditures arising from the presence of foreign troops. After their departure, there continued to be a large inflow of aid for military purposes. In the second half of 1975 and throughout 1976 the worst possibilities of famine and hardship were avoided despite the bad harvest because of supplies from the north and outside assistance, including that from the United Nations.
1.06 In the second half of 1976, a national assembly was elected by both parts of the country. The National Assembly met towards the end of 1976, as did the fourth congress of the ruling Workers' Party (now renamed the Vietnamese Communist Party) and approved a five-year development plan for the whole country. This plan establishes a framework for the reconstruction and longer term development of the reunited economy.

Physical Setting

1.07 The Socialist Republic of Viet Nam has a surface area of 332,000 square kilometers and stretches in the shape of the letter S for more than 1,600 kilometers, between latitudes 8° and 23° north, forming the eastern edge of the Southeast Asian peninsula. It is bounded on the north by China and on the west by Laos and Campuchea. In the east and the south, Viet Nam has a coastline on the South China Sea and the Gulf of Thailand which is more than 3,000 kilometers in length. The country is divided into three distinctive geographic areas: the plains, the highlands, and the seacoast.

1.08 A string of plains extends through the length of Viet Nam. The dominant plain in the north is the Red River Delta, stretching for more than 200 kilometers from the Gulf of Tonkin northwestwards to the mountain ranges. The delta is fertile and is intensively cultivated and is the center of agricultural and economic activities in the northern part of Viet Nam. It has an average population density of about 600 persons per square kilometer. South of the Gulf of Tonkin the delta merges with the coastal plain, which is segmented where the Annamitic Cordillera reach the sea. The soil is very fertile here, and this is the main rice growing area of central Viet Nam.

1.09 South of the Annamitic Cordillera the highlands gradually descend into the enormous system of deltas formed by the Mekong River and the smaller Vam Co, Sai Gon and Dong Nai Rivers. The Mekong Delta is the most important area for agricultural production in Viet Nam. The Vietnamese part of the delta is over 65,000 square kilometers in area and nowhere more than 3-1/2 meters above sea level.

1.10 The highlands of northern and northwestern Viet Nam are the southern end of the high plateaus of eastern Tibet and Yunnan Province in China. Most of the country's considerable mineral wealth (iron, zinc, tin, wolfram, manganese and apatite ores) lies in these northern mountains. The immense deposits of anthracite that extend to the coast add to this wealth, though the high limestone content of the mountains makes them subject to erosion by the sea.
1.11 In northwestern Viet Nam the mountain ranges continue southwards as the Annamitic Cordillera and gradually become very narrow and rugged as they reach central Viet Nam, making communications between the northern and the southern parts of the country very difficult. Further south they widen into a high plain covering an area of more than 50,000 square kilometers; in these sparsely populated highlands, coffee, tea and rubber flourish, benefiting from its rich red soil. Further south again the highlands start sloping gently into the low plains area of the Mekong Delta.

1.12 The seacoast is impressive in its length in proportion to the narrowness of the country and adds another dimension to the diversity of the country. The sea, very rich in fish, furnishes an important part of the daily diet, as well as one of its basic ingredients, "nuoc mam" or fish sauce, which is used for food seasoning. At Halong Bay, in the northwestern corner of the Gulf of Tonkin, the erosion of the coast unfolds an immense panorama of reefs, rocks and outcrops which are carved into grottos and inlets, making it a unique and impressive coastline. South of Halong Bay the coast becomes an almost uninterrupted chain of sandy beaches and elaborate systems of lagoons with many excellent natural harbors.

1.13 The climate in Viet Nam is varied: in the north the winds of central Asia and the Yellow Sea sweep across the country, while in the south the monsoons from the Pacific and Indian Oceans dictate the climate. In the north the climate is similar to that of southern China, being characterized by extreme differences between summer and winter temperatures and by sudden changes in temperature. There are two seasons: winter, which lasts from November to April, with the average temperature around 16° Celsius and frequent light drizzle from February onwards; and summer, from May to October, a season of great heat, heavy rain and typhoons.

1.14 In the south, the climate is a regular monsoon type, characterized by constant temperatures (between 25° and 30° Celsius), distinct monsoons and a regular rainy season. The year has three seasons: the first corresponds to the summer monsoon (May to October) and is very wet; the second corresponds to the beginning of the winter monsoon (November to February), a dry and relatively cool period; and the third, covering the end of the winter monsoon (February to April) is a dry, hot and unpleasant period, when the close atmosphere rarely breaks into cooling rain. The climate of central Viet Nam is a transition between those of the northern and the southern parts of the country: in general it is cooler than in the southern part and the dry and rainy seasons are not as pronounced.

Population Distribution and Growth

1.15 In February 1976, the Government carried out a general enumeration of the population to prepare for national elections. The count revealed a population of 47.2 million, a somewhat higher figure than had been expected in the light of previous separate censuses and surveys for the northern and southern parts of the country.1

1 For more details, see Annex 2.
1.16 The southern provinces have a population of 24.2 million, and the northern provinces, of almost 23.0 million. About 10% of the population belongs to some 60 non-Viet ethnic groups, their main areas of settlement being the more remote mountainous regions.

1.17 The determinants of population growth can only be given as approximations, owing to the absence of reliable data for the southern part of the country. In the northern provinces the crude birth rate was estimated at 31.6 per 1,000 in 1974, and the crude death rate at 6.3 per 1,000, resulting in an annual population growth of slightly more than 2.5%, down from the intercensus (1960-74) average of 2.9%. In the southern provinces, the apparent crude birth rate was 41 per 1,000 and the crude death rate, 11 per 1,000 (as estimated in 1975), giving an annual population growth of 3.0%. However, these estimates were based largely on urban records, which were likely to be misrepresentative because of the influx of rural refugees.

1.18 The immediate prospects are for a high rate of population growth, of between 2.5 and 3.0% p.a. The Government’s expectation is that there will be a reduction in the rate of growth to slightly over 2% p.a. by 1980, at the end of the five-year plan. This is an optimistic goal, the attainment of which depends to a large extent upon a reduction in the high fertility in the southern provinces.

1.19 The United Nations have produced a short-term projection for Viet Nam which assumes that the rate of population growth will be 3.0% in 1977, falling to 2.7% in 1980 and 2.4% in 1982. This would give a total population of 48.6 million in 1977 rising to 52.8 million in 1980. The high rate of growth in the earlier years is predicated on the possibility that fertility will rise temporarily as a result of a postwar "baby boom." While this is a distinct possibility, the economic dislocation in the south, the prospects of substantial population redistribution and the increased support for family planning programs nationwide could have a countervailing effect upon fertility. Given the short period involved the likely impact upon the total population by 1980 will be small. A fall of 1% per year in the annual growth rate from an assumed level of 2.8% in 1977 would still result in a population of slightly more than 52 million in 1980.
2. THE CURRENT SITUATION

2.01 At a time when considerable changes are under way in Viet Nam it is difficult to give a comprehensive picture of the structure of the economy. Statistics are scarce and statistical services limited and in the process of being reorganized. In addition, it is difficult to reconcile and combine data from the north and the south collected on different bases, and structural changes being implemented in the south are not yet adequately reflected in statistics. There are few macroeconomic figures and differences between methodology and concepts used in Viet Nam and those used in other countries make it difficult to interpret Vietnamese data. The socialist pricing system also makes difficult the use of conventional quantitative analytical techniques. For example, the low prices of agricultural products relative to the rest of the economy result in the agricultural sector accounting for only 40% of national income while employing more than 70% of the labor force; comparison of quantitative indices such as investment ratio and capital/output ratio with other developing countries is also not possible because of differences in the pricing of investment goods. Reflecting the lack of quantitative information, the following picture of the situation in the main sectors of the economy is incomplete in some important respects, but does provide a descriptive framework that is believed to be broadly correct.

Income and Consumption

2.02 While reliable estimates of per capita income and consumption are not possible, available evidence clearly indicates a low level of income in the country. The State Planning Commission estimates that the country’s national income amounted to only D 16,000 million/l in 1975 but increased by 18% in 1976, amounting then to about D 19,000 million, or an equivalent of D 400 per capita. These estimates are based on Vietnamese methodology, which excludes income generated by service sectors such as passenger transport, public administration, defense, and health and education, which are included in the standard United Nations’ national accounting methodology. Converting to the UN methodology will probably increase these estimates by about 20%, resulting in an estimated national income of D 23,000 million, or about D 500 per capita in 1976. At the official exchange rate of D 2.69/l per dollar this is equivalent to about $180; including the 50% premium added to the official exchange rate in most transactions, the equivalent per capita income would be about $120. The most realistic estimate is likely to be within this range, at about $150 per capita. It must be emphasized, however, that because foreign trade and exchange are severely restricted in Viet Nam, conversion of income estimates to foreign currency is even less meaningful for Viet Nam than for most other countries.

2.03 There seems little doubt, however, that the level of per capita income in Viet Nam has remained constant during the past 15 years; official estimates indicate that national income per capita in northern Viet Nam in the early 1970s was only about the level attained in 1960, while GDP per

1 The reference here and throughout the report is to the northern Dong, unless otherwise stated.
capita in southern Viet Nam has also remained at about $140 since 1960. The latter estimate would indicate further that, at the time of reunification in 1976, per capita income in the separate halves of the economy was probably roughly the same.

2.04 Income in northern Viet Nam is apparently fairly evenly distributed. In the state sector, which accounts for about half of GNP, monthly wages and salaries range from D 50 to over D 200; unskilled manual workers in factories or mines receive D 60-70 while skilled workers receive about D 100, and highly qualified engineers could receive as much as D 200. Most families have more than one income earner and the monthly income for an average family appears to be of the order of D 150.

2.05 Apart from wages, prices and rationing are used to influence the level and structure of personal consumption. Education, medicines and health services are generally free. Housing, albeit at a very low standard of about 18 sq meters (excluding kitchen and bathroom) per average family, is provided to all workers in the state sector at a cost of 1% of salary. Transport to and from work is provided free. Food rationing in early 1977 included 16 kg of rice (more for manual workers) per adult per month at D 0.40 per kg, 0.5 to 1.0 kg of sugar at D 2 per kg, and 1.0 kg of meat at D 4.5 per kg. An average family of, say, two adult earners and four children, with a total monthly income of D 150 will therefore spend only about D 50 per month in meeting their basic needs of health, education, housing and a minimum diet, leaving D 100 for discretionary consumption or saving.

2.06 Discretionary consumption is, however, very much restricted, since the high price and scarcity of consumer goods outside the ration system effectively reduce the already low level of personal consumption implied by the wage scale. Food items on the free market, when available, cost two to three times the ration prices. Industrial consumer goods are particularly scarce; for example, the annual cloth ration currently amounts to only 5 meters per adult.

2.07 The bulk of the population outside the state sector are in cooperatives, mostly agricultural cooperatives. Although their personal income could vary more than in the state sector, a floor income does exist, with the Government providing assistance in times of natural disaster. A ceiling is fixed, to some extent, by the agricultural tax system and the requirement to sell a large proportion of production to the Government at a predetermined price. There is usually a lag, however, between increased production and an increase in taxes and sales to Government, so that cooperatives enjoying increased production would, at least temporarily, retain most of the incremental income. Average personal income in the cooperatives probably varies significantly among the different geographical areas. Cooperatives close to Hanoi apparently enjoy a considerably higher standard of living than urban workers; average family incomes seem to be about D 200 per month, housing standards are significantly better, and personal consumption is supplemented by the family's private agricultural activities.

2.08 Before the end of the war in 1975, the population in the South enjoyed a relatively high level of consumption. Incomes were supported by a large foreign assistance program and military expenditures. Now that the
major source of foreign capital inflow has disappeared, personal consumption on the whole must have fallen significantly. However, there is no visible evidence of widespread hunger or hardship in southern Viet Nam; indeed the general impression is that normal economic activities in both rural and urban areas are continuing, and personal consumption appears higher than in the north, although this may reflect more past consumption levels and the using up of assets and inventories than present incomes.

2.09 Immediately following the end of the war in 1975, pay discriminations in the south between the sexes were eliminated and important modifications to the government employees' pay scale introduced. By early 1977, revision of the state sector wage scale in the south was largely completed, the major change being to introduce the existing scales from the north; ranges were reduced and the relative wages of technical and manual workers increased. In the course of the year, the Government expects to complete the reorganization of the state sector in the south so that conditions of employment will be roughly the same as in the north.

PRODUCTIVE SECTORS

Agriculture

2.10 Agriculture is by far the most important economic sector in Viet Nam; it is estimated that about 70% of the total population earns its income from agriculture, which contributes about 40% to the national income. In addition, it is the main source of raw materials for the processing industries, and a major contributor to exports. Three decades of almost continuous warfare seriously damaged the agricultural sector through the destruction and neglect of irrigation and drainage infrastructure, the loss of draft animals, destruction of equipment, defoliation of vast areas of forests, and above all, by the displacement of population and the abandonment of agricultural land.

2.11 While the country's geography and natural conditions favor agriculture, there are many constraints to the expansion of production. Potential arable land amounts to 9-10 million ha, but only 5.6 million ha are cultivated at present; with double cropping the total cropped area is about 7.2 million ha or only 0.15 ha per capita, which is among the lowest in the world.

2.12 The main agricultural areas are the two large deltas: the Red River Delta in the north (1.5 million ha), and the Mekong River Delta in the south (about 6.5 million ha). Of lesser importance are the coastal regions, including a series of separate plains, where the major crop is rice. In the midlands and some parts of the mountainous areas, a few soils of volcanic origin are suitable for industrial crops.

2.13 The agricultural pattern and selection of crops are primarily influenced by the climate, which is itself determined by the monsoons. Regional variations conditioned by latitude and the Annamite mountain range permit the

/1 However, these figures are subject to the caveat given in para. 2.01.
cultivation of a variety of tropical and even temperate crops. For planning 
purposes, the country has been divided into seven zones corresponding to the 
natural conditions, the comparative advantages in growing particular crops 
and the economic potentialities of each zone.

2.14 Rice is by far the most important crop, grown on about 5.3 million 
ha, of which about 4.0 million ha are cropped during the rainy season and 
1.3 million ha during the dry season. The total area under rice represents 
about 75% of total cropped land. Total production in 1976 was estimated at 
12.6 million tons of paddy, and its value accounted for about 60% of total 
agricultural output. The total area planted to other food crops (maize, 
sweet potatoes, cassava, etc.) was estimated at 0.9 million ha in 1976 and 
its production at 1.7 million tons paddy equivalent./1

### Distribution of Cropped Area
(Million ha)

<table>
<thead>
<tr>
<th></th>
<th>1976 (Actual)</th>
<th>1977 (Planned)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivable area</td>
<td>5.60</td>
<td>5.80</td>
</tr>
<tr>
<td>Cropped area</td>
<td>7.20</td>
<td>8.20</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paddy</td>
<td>5.40</td>
<td>5.80</td>
</tr>
<tr>
<td>Subsidiary food crops</td>
<td>0.90</td>
<td>1.20</td>
</tr>
<tr>
<td>Animal feed crops</td>
<td>0.15</td>
<td>0.23</td>
</tr>
<tr>
<td>Vegetables</td>
<td>0.16</td>
<td>0.19</td>
</tr>
<tr>
<td>Fruit trees</td>
<td>0.13</td>
<td>0.16</td>
</tr>
<tr>
<td>Industrial crops</td>
<td>0.46</td>
<td>0.66</td>
</tr>
</tbody>
</table>


2.15 Up until 1970 traditional agriculture in northern Viet Nam consisted 
mainly of the growing of two rice crops: a rainy season crop (or tenth lunar 
month rice crop) grown from July to November, and a dry season crop (or fifth 
lunar month rice crop) grown from December to June. Following the introduction 
of new rice varieties with a shorter growing period, a new cropping pattern 
is gradually being developed that includes one rainy season crop and two 
distinct dry season crops, i.e. the spring crop and the winter crop. The 
rainy season crop occupies the major part of the planting area (from 1.3 to 
1.5 million ha, of which over 1 million ha is in the Red River Delta). Under

/1 Food crop production is calculated on the basis of 1 kg paddy for 
0.7 kg of maize, or 2.3 kg of potatoes, or 2.3 kg of cassava roots, 
or 0.5 kg of beans.
normal climatic conditions the yield is about 3 ton/ha of paddy; however, because of uneven rainfall distribution and frequent typhoons causing flooding and waterlogging, the average yield is estimated at only 2.5 ton/ha.

2.16 The dry season crop begins with the spring rice, which is grown from mid-February to June on almost all fertile soils with a controlled water supply, whereas fifth month rice is now planted only in acid and aluminous low-lying fields. It is estimated that spring rice is grown on about 80% of the area under rice during the dry season and produces about 85% of rice output. The following table compares dry season production of spring rice and fifth month rice.

<table>
<thead>
<tr>
<th></th>
<th>Fifth month</th>
<th>Spring rice</th>
<th>Production</th>
<th>Fifth month</th>
<th>Spring rice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>81</td>
<td>19</td>
<td>74</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>42</td>
<td>58</td>
<td>30</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>35</td>
<td>65</td>
<td>28</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>1976 /a</td>
<td>20</td>
<td>80</td>
<td>15</td>
<td>85</td>
<td></td>
</tr>
</tbody>
</table>

/a Ministry of Agriculture estimates.

Source: *Vietnamese Studies* - Agronomical data, Volume 38.

2.17 The increasing use of varieties with a shorter growth period during the rainy season, together with the substitution of spring rice (3-4 months' growth) for fifth month rice (5-6 months' growth) allows for the cultivation of winter crops from December to February. These winter crops include maize, beans, potatoes, vegetables (cauliflower, cabbage, onions, etc.), and a green manure, azolla.

2.18 The total area under rice in the south is estimated to be 2.7 million ha, of which 2.1 million are in the Mekong Delta, considered to be the rice granary of Viet Nam, and 0.6 million ha are in the coastal plains. As in the north, the rainy season crop is the most important (2.4 million ha) and its production is dependent on rainfall distribution and flooding. However, with the development of small low-lift pumps and varieties with a short growth period, yields are becoming more stable and average 2.5 ton/ha. Double cropping is practiced on about 300,000 ha, of which 250,000 ha are in the Mekong Delta. The further expansion of double cropping is limited by salinity problems in the coastal areas of the Mekong Delta and a lack of irrigation facilities.

2.19 Paddy production in 1976 was estimated at 12.6 million tons. As drying and storage facilities are generally inadequate (especially in the south), it is estimated that about 10% of the total paddy production is
accounted for by losses, industrial purposes (alcohol) and seed requirements, thus reducing the amount available for human consumption to about 11.3 million tons. Assuming a low milling yield of 60% (due to obsolete equipment and great number of paddy varieties) this would correspond to about 6.8 million tons of milled rice or 134 kg per capita. With average consumption estimated at 160-180 kg per capita and total rice demand at 7-8 million tons, the deficit in 1976 amounted to 1-2 million tons. Part of the deficit was covered by subsidiary food crops and the rest by imports, which were estimated at 1 million tons in 1976. Because of adverse weather conditions, rice production in many parts of the country in 1977 has fallen short of the plan target, and food grain imports of this order of magnitude may again be necessary.

2.20 With a population growth rate of almost 3% p.a., about 1.3 million additional people will have to be fed every year; this means an additional requirement of about 210,000-230,000 tons of rice or, after adding corresponding amounts for losses, seed requirements, industrial usage and low milling yield, about 380,000-430,000 tons of paddy. By 1980 this additional need will amount to about 1.6 million tons of paddy and require an increase of about 13% over the present production level, without any allowance for the need to increase per capita consumption.

2.21 Agriculture in Viet Nam is still fundamentally labor intensive and is likely to remain so for the immediate future. However, increases in production, especially for rice and other food crops, will be dependent as much upon the use of specialized inputs as upon deploying the large increases in the labor force that will come with the expected growth in population. The most important inputs are seeds, notably the improved varieties of rice, fertilizers and machinery.

2.22 High-yielding varieties of rice were introduced in 1968 in the North and in the South. They now account for about 40% of the planted area in the north and about 30% in the south. Further expansion has been limited by problems connected with maintaining the quality of seed.

2.23 Fertilizers are widely used but total consumption is not known. There are large deposits of apatite in Viet Nam which are used to manufacture phosphate, but there is a shortage of nitrogen fertilizer. There are plans to construct a nitrogenous fertilizer plant with 240,000 tons per year capacity at Ha Bac with Chinese assistance. The Lam Thao superphosphate plant (built with Russian assistance) is being expanded to a capacity of 100,000 tons per year. Some small plants in the south should produce about 300,000 tons per year.

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/1 Viet Nam has requested FAO assistance to establish a pilot unit for seed control and processing.
2.24 Mechanization will be increasingly important in the future but so far has only focused on irrigation schemes and the limited use of tractors. The extension of pumping capacity for the primary irrigation canals together with drainage infrastructure will be largely dependent upon the further development of the electric power network in rural areas. The use of smaller pumps for secondary and tertiary canals where labor is now employed for water control could be an important way to expand rice production in areas where it is possible to increase the number of crops per year.

2.25 The tractor fleet, including hand tractors, is estimated at 29,000 vehicles, of which 8,000 are in the north and 21,000 in the south; however, one third of the total are idle for lack of spare parts and fuel. The total area ploughed by tractors is estimated at 800,000 ha (11% of total cropped area); 350,000 ha are in the north, where the Government operates tractor and machine stations that rent equipment to cooperatives. In the south tractors are mainly run by private operators. The greater part of the ploughing is, however, still done by water buffaloes which number about 2.2 million. In some regions, particularly in the south, there is still a shortage of draft animals, which, together with the shortage of tractors, limits the creation of New Economic Zones (see para. 2.34) and agricultural expansion in areas of low population density.

2.26 Viet Nam’s climatic and soil conditions are suitable for the growing of many industrial crops among which rubber, tea, coffee, fruit trees, sugarcane, tobacco and jute are the most important. The war seriously affected Viet Nam’s rubber industry, once the major source of foreign exchange. Many plantations, all concentrated in the south of the country, were destroyed (about 40,000 ha) and processing plants damaged while others were abandoned, and for many years replanting efforts were almost paralyzed. Following the return of peace and the nationalization of foreign estates in 1975, the Government initiated a rehabilitation program; rubber production recovered rapidly and 1976 output was estimated at 30,000 tons. In addition, replanting of the areas which had been uprooted on each side of the roads during the war has been undertaken. With the gradual reorganization of the rubber industry, a better supply of inputs and the resettlement of displaced persons in the rubber estates, rubber production can expand rapidly during the next few years.

2.27 The total area under tea is about 40,000 ha, and (according to the Ministry of Agriculture) annual production is about 15,000 tons (dried tea). Due to leaf rust (Hemileia) and stem borer, arabica coffee was almost abandoned and has been replaced by robusta coffee and chari coffee which are resistant to both parasites. Production is of the order of 5,000-6,000 tons per year.

2.28 The area planted to fruit trees is increasing steadily. In 1976 it was estimated at 130,000 ha, of which 55,000 ha are planted to bananas and 25,000 ha to pineapples, but citrus fruits are also important. Fruit is mainly grown for export for which the prospects are promising.

2.29 Sugarcane is grown on about 25,000 ha with an annual production at about 75,000 tons; 35,000 tons come from seven large or medium-sized sugar factories, now working at about 50% capacity, and 40,000 tons from some 1,300 small village plants. Due to the lack of foreign exchange, imports were limited to
70,000-100,000 tons in 1976, so that sugar consumption is now only 3.7 kg per capita per year. Production needs to be increased to meet the population's requirements, estimated at 7-8 kg per capita p.a., or twice the present supply. Large areas in the country are suitable for sugarcane cultivation once irrigation facilities are developed.

2.30 The area under jute is estimated at 15,000 ha and annual output at about 40,000 tons. There is only one factory, with a capacity of 3,000 tons p.a., producing jute bags, the balance being produced by small village shops. Because of heavy parasite attacks, cotton production has not been successful so far. There are plans to expand production under irrigated conditions.

2.31 Estimates of the animal population of Viet Nam are given in the table below. Most farmers and cooperatives raise buffaloes as draft animals for ploughing and cattle are used for farm transportation. Many buffaloes and cattle were killed during the war and shortages of draft power are reported in some districts of the country. Most farmers have 1 or 2 pigs and a dozen or so poultry. In addition, a few state farms and some cooperatives are involved in pig breeding and fattening operations.

<table>
<thead>
<tr>
<th>Animal Population</th>
<th>Pigs</th>
<th>Buffaloes</th>
<th>Cattle</th>
<th>Poultry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976 (Actual)</td>
<td>9.3</td>
<td>2.23</td>
<td>1.52</td>
<td>88.50</td>
</tr>
<tr>
<td>1977 (Planned)</td>
<td>10.8</td>
<td>2.34</td>
<td>1.61</td>
<td>104.40</td>
</tr>
</tbody>
</table>

Sources: 1977 State Plan and State Bank.

2.32 Taking into account the existing animal stocks and on the basis of a conservative estimate of cull rates and average carcass weights, meat production is tentatively estimated at 310,000 tons, or an average meat consumption of about 6 kg per capita p.a.
Estimates of Meat Production

<table>
<thead>
<tr>
<th></th>
<th>Number (million head)</th>
<th>Cull rate (%)</th>
<th>Unit weight (carcass kg)</th>
<th>Production (tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cattle</td>
<td>1.5</td>
<td>10</td>
<td>100</td>
<td>15,000</td>
</tr>
<tr>
<td>Buffaloes</td>
<td>2.2</td>
<td>8</td>
<td>150</td>
<td>26,400</td>
</tr>
<tr>
<td>Pigs</td>
<td>9.3</td>
<td>60</td>
<td>40</td>
<td>223,200</td>
</tr>
<tr>
<td>Poultry</td>
<td>88.5</td>
<td>100</td>
<td>0.5</td>
<td>44,250</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>308,850</strong></td>
</tr>
</tbody>
</table>

2.33 Animal feed availability is one of the main constraints on livestock development. Cattle and buffaloes normally graze on common land, including road sides and field dykes in rice growing areas. They are also fed stems after the harvest and rice straw at the end of the dry season. Hogs and poultry are mainly fed on rice bran and, to a lesser extent, maize. Another constraint is the veterinary services available; a number of diseases are still causing substantial losses and calf and piglet mortality is reported to be high.

New Economic Zones

2.34 The most important development concerning the agricultural sector is the Government's decision to create "New Economic Zones" (NEZs). These are settlement schemes whose main objectives are to resettle and provide work for some of the 7-8 million persons displaced during the war, and to restore and develop the agricultural production of the regions devastated by the war. The majority of the settlers are to come from Ho Chi Minh City where the population had increased to more than 4 million by 1975. The living conditions of the displaced persons were precarious since neither the urban structures nor the employment opportunities were such as to make it possible to absorb that number in the city itself. In 1975, the number of unemployed in the south was estimated at 3 million, half of whom were in Ho Chi Minh City.

2.35 Resettlement committees set up in Ho Chi Minh City and other main towns are responsible for providing information and compiling lists of those interested in moving to the zones. The General Department for NEZs, including among others representatives of the Ministries of Agriculture and of Water Conservancy, is responsible for the selection and demarcation of the areas, on the basis of detailed soil maps and of hydrological studies. The zones are large enough (about 5,000 ha) to permit the establishment of viable economic units which in future will use irrigation and mechanization. The zones will be one of the means to develop collective farming in the south, through the establishment of state farms (especially for tree crops) and of mutual aid groups and cooperatives for food crops.
2.36 According to the Government's plan, each zone will consist of several villages, usually built along the roads, each for about 1,000 families, or 5,000 persons. Before the arrival of the settlers, clearing of the land, construction of access roads, demarcation of plots, digging of wells and construction on each lot of a temporary simple thatched house, will be undertaken by teams of volunteers, skilled workers and soldiers.

2.37 While the greater part of the land will be cultivated on a communal basis, each family will receive one lot of 1,000 sq m, comprising 250 sq m for the house and living space, 250 sq m for a vegetable garden and 500 sq m for an orchard and planting food crops. In addition, a number of hand tools, medicines and free food (a ration of about 16 kg per person per month) will be provided to each family. The free distribution of food is planned in principle for six months, or until the first crop is harvested. During the initial period, the settlers will complete the construction of the family house and participate in the construction of community buildings, including a dispensary, a school, a storehouse with rice supplies for one month, a market place and bus station. At the zone's center additional social infrastructure, such as a hospital, is planned.

2.38 Administrative services for the settlers will be provided by a village committee consisting of five persons, appointed by the Government, responsible for resettlement and day-to-day administration until the settlers are able to take over. Technical support will be provided by the Ministry of Agriculture and training courses for farmers will be organized.

2.39 In 1976, 1.4 million people were resettled, of whom 1 million returned to their home villages and 400,000 settled on some 235,000 ha reclaimed during the year. About 50% of the resettled persons came from Ho Chi Minh City, the population of which is now estimated at 3.4 million. In 1977, the Government plans to resettle about 1 million persons from Ho Chi Minh City, most of them within easy reach of the metropolitan area.

**Forestry**

2.40 Viet Nam's forests represent one of the country's major natural resources with about 5 million ha being used for forestry operations at present. The total area under forest and bush cover is 21 million ha, of which 10 million ha are in the south (50% of the total area) and 11 million in the north (about 70% of its total area); about 2 million ha were destroyed during the war. Forests are essential for soil and water conservation and are also a source of building materials, a large number of secondary products (lacquer, tanning, resins, etc.), and, potentially, industrial products that so far have largely been imported (paper in particular).

2.41 Of the 5 million ha of forest land in the south, about 4.3 million ha is deciduous dry forest, 0.12 coniferous and 0.6 mangroves. The mangrove areas in the river estuaries are used principally for making charcoal and tanin barks, while the hinterland mangroves can be used for piles.
2.42 The Ministry of Forestry estimated timber extraction at 1.6 million cu m in 1976. In the absence of any accurate national forest inventory it is difficult to estimate forest potential; however, logging operations in large areas of dense forest would generally yield less than 30 cu m of marketable timber per ha. In the pine forests, timber production would be about 50 cu m per ha. In the north, wood exports are mainly in the form of handicrafts, including furniture, and in the south, largely in the form of timber (16 million cu m in 1974); however, in 1975/76 all output was used locally for the reconstruction program. Building materials for the reconstruction of houses and the repair of infrastructure (bridges and railroads) were badly needed, at a time when logging operations were hampered by the lack of equipment and the shortage of spare parts and fuel.

2.43 There are few modern forest industries. Some 300-400 brickkilns produce charcoal in the mangrove areas and there are a number of furniture manufacturing centers, especially in Ho Chi Minh City. A 50,000 ton p.a. capacity pulp and paper factory is under construction in the north at Bai Bang, with financial and technical assistance from Sweden. The factory, whose total cost is estimated at $160 million, will use bamboos and hardwoods as raw materials; when in operation it will help meet part of Viet Nam’s paper requirements, estimated at 5 kg per capita p.a.

**Fisheries**

2.44 Fish is, after rice, the most important staple food in Viet Nam and the estimated annual production of 800,000 tons makes a substantial contribution to the country's food economy and especially to its animal protein supply. Sea fishing of some 50 species is carried out by about 250,000 fishermen. There are about 90,000 fishing boats, of which 60,000 are motorized. The mechanization of small fishing boats has gained considerable impetus, especially in the south. Many fishermen lost their boats, nets and fishing gear during the war and about 20,000 boats are inoperative because of lack of spare parts and fuel. Small wooden-hulled boats predominate but the fishing fleet includes some trawlers; in the north sailing junks are most commonly used, which limits fishing to some 20-30 km offshore. Fishing trips for small boats last about 1-3 days but for bigger, motorized boats range from 5-10 days.

2.45 The total catch of sea fish amounted to about 620,000 tons in 1976. The greater potential is in the south of the country, where the South China Sea coast, the mouth of the Mekong River and the Gulf of Thailand are the main fishing areas. Viet Nam has few fishing ports with adequate shore facilities; landing places are widely scattered and fish collection centers are far from the two main points of consumption, Ho Chi Minh City and Hanoi. The main fishing centers are Haiphong and Guang Ninh in the north and Thuan Hai, Kien Giang, Minh Hai, Quang Nam-Da Nang, and Phu Khanh in the south.

2.46 In the north, some fishermen are grouped into about 350 cooperatives, each operating about 20 boats with 100-150 fishermen; a few state enterprises operate trawlers. In the south, individuals or small companies own the majority of fishing boats. It is estimated that 10% of total production is caught by the state enterprises and 90% by cooperatives and private fishermen. Of the total output, 40% is for direct human consumption, 30% for
processing and fishmeal, and 30% for exports, mainly frozen shrimp and fish fillets. Freezing plants and processing facilities are limited and the total freezing capacity is only about 250 tons a day; a number of freezing plants are idle because of lack of spare parts, and many of them need modernization.

2.47 About 100,000 fishermen and fish farmers are engaged in inland fisheries whose production is estimated at 170,000 tons per year. The principal fresh and brackish water fisheries are located on the plains of the Mekong and Bassac Rivers. Fish farming is widely practiced, the main species being carp, catfish (Pangasius), snakehead (Ophiocephalus) and tilapias. The average yield is 2-3 tons per ha p.a.

Industry

2.48 Viet Nam has already developed a substantial industrial sector and despite the long period of partition, industrial structures in the northern and southern regions of the country are, to some extent, complementary, owing to differences in resource endowment.

2.49 During the colonial period some very selective attempts were made at industrialization, particularly in the north near Hanoi and Haiphong, but these did not make systematic use of the country's resources. The industries concerned were: textiles and apparel (Hanoi, Nam Dinh), transportation equipment, i.e. shipbuilding and railway repair facilities (Haiphong and Hanoi), nonmetallic mineral products (cement, glassware, ceramics at Hanoi), and paper (Viet Tri). Few of these installations survived the first period of warfare (1942-54) intact.

2.50 After partition the remaining industrial establishments in the North were transferred into state ownership and management, a process which was essentially completed by 1960. Subsequent industrialization efforts emphasized capital goods (or Group A) industries.

<table>
<thead>
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<tbody>
<tr>
<td>Total index</td>
<td>Group A (Capital goods)</td>
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<tr>
<td></td>
<td>Index</td>
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<tr>
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<td>1965-68</td>
<td>554</td>
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<tr>
<td>1969-71</td>
<td>689</td>
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</tbody>
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North Viet Nam: Value of Industrial Production, by Major Segments, 1955-70
(Selected Years, 1960 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total industry</th>
<th>Group A</th>
<th>Group B</th>
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<tr>
<td>1955</td>
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<tr>
<td>1970</td>
<td>201</td>
<td>249</td>
<td>176</td>
</tr>
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</table>

2.51 During this period, the share of modern industry rose from 20% to almost 75%, and that of the handicraft segment dropped correspondingly. Important new industries included an iron and steel complex at Thai Nguyen, a chemical plant at Viet Tri, and machinery plants and textile factories in Hanoi, which developed into the main industrial center in the North. The old industries were also rehabilitated, expanded and diversified, making better use of domestic raw materials, increasing in particular the amounts of coal, iron, chromite, and phosphate (apatite) being mined.

2.52 A peculiar feature of industrialization was the parallel development of "central" and "regional" industries. The first group is of national importance and is therefore managed directly by the relevant ministries (e.g. of Heavy Industries, Light Industries, Machinery and Metallurgy, etc.) while regional industries are managed by the provincial governments. Regional industries are usually smaller and more labor intensive with handicraft shops constituting a significant share of their output.

2.53 The war slowed industrial growth from 1965-70, and its resumption in the North in 1972 led again to a setback in industrial production. During this period, most industries were evacuated from city areas and dispersed throughout the countryside. Expansion of industrial output resumed in 1973 and by 1975 manufacturing output exceeded the 1965 level.

2.54 Industrial development in the southern part of the country was comparatively slow during the first decade following partition mainly because of the uncertain political situation and the lack of minerals and energy sources. The industries established were mainly in the branches of food processing, pulp and paper, nonmetallic mineral products, and textiles, although some plants were assembling motorcycles, radios, sewing machines and batteries. Most industrial establishments were located in the Ho Chi Minh City area, with Danang being developed as a secondary center.

\[\text{The exceptions were iron/steel and cement production where such relocation was obviously impracticable, and mining, where it was impossible.}\]
The next ten years 1964-75 saw a considerable expansion and diversification of the southern industrial base, with industrial activity peaking in 1971 and declining thereafter till the end of the war. Between 1967 and mid-1973, a total of 50 major industrial projects was initiated, extending beyond the traditional light industry branches, but it is not known to what extent these projects have been executed or their scope and content changed. Industry remained concentrated in the Ho Chi Minh City area, despite the designation of new industrial locations, which accounts for the minimal war damage sustained by factories in the southern part of the country.

At the end of the war, industries in the southern and northern parts of the country faced different sets of difficulties: in the south, wartime destruction had not been very extensive but the supply of imported raw materials and spare parts for many factories was disrupted. Some industries that could use local materials (e.g., food processing) were able to resume operations quickly, but even they faced temporary supply problems because the logistics of producing and delivering raw materials had not yet been solved. The heterogeneity of equipment, brought about by the previous policy of buying the most up-to-date installations from different producer countries, complicated the task of adequate maintenance, repair and replacement. These problems have not yet been overcome and have caused average utilization of industrial capacities to remain low, at around 50%.

The situation in the north was somewhat different. Following the end of the air war in 1973, industry had undergone a period of intensive reconstruction which was essentially completed by the end of 1975, with the important exceptions of the Gia Lam (Hanoi) railroad workshops, the Bach Dang (Haiphong) shipyard, the Viet Tri chemical combine, the Haiphong cement plant and the Nam Dinh textile mill, all large, capital-intensive installations. Nonetheless, the authorities perceived a number of serious problems, perhaps the most serious being the unsatisfactory levels of production and a deterioration in the quality of output. Underutilization of capacity was also reported, although for somewhat different reasons than in the south. The most prominent example was the construction industry, where on average only 50-60% of the 9,000 or so items of equipment were in use for about 40-50% of the possible machine time (resulting in an overall use factor of less than 30%). The reasons for this shortfall, which had serious repercussions for other branches of the economy, were manyfold: the prevalence of old equipment meant a higher frequency of breakdowns, a problem that was often compounded by inadequate protection of equipment against the weather and insufficiency of maintenance tools and materials. On a more general level, the lack of adequate standards and guidelines on equipment use and imbalances in the input mix (e.g. manual and mechanized steps in the production process) also militated against better utilization of existing equipment.

On balance, however, the longer term potential of the country's industrial sector appears to be considerable: there is a diversified resource base, the existence of a small network of modern and efficient plants and the availability of a large pool of competent industrial workers.
2.59 For the immediate and medium-term future, the Government's development objectives for industry are as follows: in the north,

(a) the continued reconstruction and modernization of establishments;

(b) an accelerated exploitation of domestic raw materials;

(c) a dovetailing of industrial capacities with those in southern Viet Nam.

For the south, the following objectives have been set:

(a) development of regional industries with a high degree of autonomy in the rural areas, in particular in the New Economic Zones;

(b) substitution of domestic for foreign raw materials and the development of a domestic capability to supply spare parts and accessories for the existing machinery (in the north about half of the industrial machinery and equipment is of domestic origin);

(c) better integration of successive stages of production;

(d) reorientation of production lines towards the needs of the production sectors, in particular agriculture, and restriction of consumer goods production to essentials;

(e) development of new markets for Vietnamese products in foreign countries.

Transport

2.60 The present transport pattern has been shaped by the country's topography as well as by its recent history. Its narrow and elongated shape has limited all north-south traffic to a narrow coastal corridor and the sea-lanes. The existence of two large deltas has, however, made it possible for most of the population to be reached through a network of navigable inland waterways. Only in recent times has highway traffic become an important alternative transport mode in the lowland areas.

2.61 Railroads. The country has about 2,500 km of railroads; of these, about 1,400 km are in the northern part of the country and 1,100 km in the south./1 The network presently consists of the following lines:

/1 i.e., the southern portion of the Trans-Viet Nam line from Hanoi to Ho Chi Minh City. The other lines (mainly spurs such as the Dalat-Phan Rang connection) have not yet resumed operation.
Hanoi - Ho Chi Minh City (1,730 km NG /1)
Hanoi - Lao Cat (300 km NG)
Hanoi - Dong Dang (170 km SG /1)
Hanoi - Thai Nguyen-Kep (170 km SG)
Hanoi - Haiphong (105 km NG/SG)

2.62 Owing to the high vulnerability of railroads to aerial attacks and acts of sabotage, wartime destruction was extensive. More than 400 bridges were destroyed, including over 50 major ones (i.e. with a length of 100 m or more). Similarly, most stations, warehouses, railyards and other facilities in the northern part of the country were either completely destroyed or made inoperable, and losses in locomotives, rolling stock and equipment were also considerable. The second effect of the war on the railroad system was indirect; since it interrupted the normal process of maintenance and modernization, much of the tractive and rolling stock is out of date and tracks and roadbed are often inadequate.

2.63 The third major handicap of the railroads is the mix of standard (1,435 mm) and narrow (1,000 mm) gauges, requiring duplication of locomotives and rolling stock and reloading for southbound freight originating at points beyond Hanoi.

2.64 The Government is addressing these problems through a comprehensive program under which they are phased according to their urgency. The first reconstruction effort reopened most of the country's railway lines and finally, in 1976, effected repair and operation of the entire length of the Trans-Viet Nam railroad for the first time in nearly 40 years. Since much of the repair work, particularly on bridges, had to be done in a provisional manner, the next stage will be the successive improvement of tracks (replacing the light 24 kg/m rails presently in use in many places, strengthening the roadbeds, etc.) to permit loads beyond the present level of 13 tons and higher train speeds than the present average of 30 km/hr and thus to increase line capacity. This would be accompanied by a modernization of tractive and rolling stock and of equipment. Finally, in a process extending well into the 1980s, the system will gradually be changed to standard gauge.

2.65 Over the longer run, the Government expects the railroad system to resume its former prominent role. Its performance in 1976 - 6 million tons (700 million ton/km) of freight and 30 million passengers (1,400 million pass/km) - indicates its importance to long-distance transport of bulk products (e.g. lumber, coal, minerals) and passenger traffic in the northern part of the country. By 1985 the Government foresees a network of 3,000 km and a stock of over 500 locomotives, 1,200 passenger cars and 12,000 freight cars which would imply at least a quintupling of the 1976 transport volume, i.e. annual growth rates in the order of 20%.

2.66 Highways. The war has brought about a major change in Viet Nam's transportation system through the development of a sizeable network of highways, which were the only viable alternative to the more vulnerable traditional transport modes of railroads and waterways.

/1 NG = narrow gauge (1,000 mm), SG = standard gauge (1,435 mm).
2.67 In the North the main emphasis was on the construction of secondary roads, whereas in the South major arterial highways had precedence over local roads. By the end of the war, the two networks totaled 45,000 km and 21,000 km, respectively. While the relative importance of the highways will diminish with the rehabilitation and improvement of railroads and inland waterways, they will still continue to encourage regional freight and passenger traffic, contribute greatly to the establishment of the New Economic Zones, and play an important role in the integration of the national economy once bottlenecks in the central provinces have been removed.

2.68 Inland Waterways and Coastal Shipping. The existence of two large deltas has historically favored waterbound traffic. The networks of inland waterways encompass 6,000 km (Red River Delta) and 4,800 km (Mekong Delta) of navigable rivers and canals. Since these waterways are subject to silting, continuous maintenance work is essential. The destruction of dredging equipment and the difficulties of carrying out adequate maintenance during wartime led to a gradual deterioration of both systems until many segments ceased to be navigable. Rehabilitation of the waterways is given high priority since they carry not only an important share of the country’s traffic but also play a key role in drainage and irrigation.

2.69 Temporary silting and the destruction of vessels and port facilities are also affecting coastal and ocean shipping. The concentration of most shipping in the northern part of the country on one harbor (Haiphong) is severely overtaxing its facilities. The remaining ports of Hon Gai and Cam Pha are mainly export stations for coal, whereas Vinh has to support local industries and serve as the main transit port for Laos. However, Danang will now take over some of the transit trade to Laos.

2.70 The Government gives top priority to the expansion of Haiphong harbor, including the building of Chua Ve port and the expansion of Vat Cach port. The use of additional lighters is also expected to help reduce turnover time at Haiphong.

2.71 In the southern part of the country the situation is markedly better since Ho Chi Minh City has adequate port facilities. Likewise the Danang-Hue industrial area is adequately served by the port of Danang, which following dredging is now able to handle ships of up to 4,000 tons. Good port facilities also exist at Cam Ranh, Nha Trang and Qui Nhon which all have direct highway and railroad connections with Ho Chi Minh City and could serve as back-up facilities for the city and as outlets for the central highlands provinces.

2.72 Air Traffic. The southern provinces have a dense network of over 100 airfields, mostly former military installations, which seems far in excess of likely future requirements. By the end of 1976 seven airports and about 10,000 km of air corridors were in operation throughout the country and five more airports were being prepared for regular use. The future role of domestic air traffic would seem to be limited to a few specific tasks, e.g. long-distance passenger traffic, mail service, or transport of products with a high specific value.
2.73 The Government views the transport system as "a weak unbalanced link in the national economy ... still unable to properly satisfy the needs of production and construction and the people's traveling needs."/1 It emphasizes the need "to rearrange the transportation networks to suit the needs of economic construction;"/2 specifically mentioned are the needs to develop north-south traffic and transport between the coastal areas and the highlands. The Government's concept of a balanced transportation system implies the optimum utilization - through upgrading and complementary investment in facilities, vehicles and equipment - of the existing transport infrastructure.

2.74 One major factor that could affect the eventual structure of Viet Nam's transport system (as of its energy sector, its industry and indeed its entire economy) is the possible discovery of oil and natural gas deposits both on land and offshore. Major finds would certainly open up new perspectives for the country's transport system. This would strengthen the rationale for developing a coordinated system as the basis for present investment decisions in the transport sector.

Power

2.75 The country has two electricity generating and distribution systems: one covering the northern part of the country, and the other serving 14 southern provinces and Ho Chi Minh City. Together they produced about 3 billion kWh in 1976.

2.76 The two systems, separated by a gap of several hundred kilometers, reflect the available energy potential in the two regions, and their differences in industrial location and in function. In the northern part of the country, ample coal deposits and hydroelectric potential in numerous locations allowed the development of a mix of small hydroelectric schemes (more than 60 in 1964) that also serve as water conservation facilities and a few large thermal plants near the coal fields and major cities. In 1971 a large hydroelectric plant at Thac Ba was added to the grid. The system is able to serve rural as well as industrial areas and in particular provides power for irrigation and drainage.

2.77 Bombardments during the war required the dispersion of generating facilities and numerous small diesel generating units were established in rural areas. It was thus possible to keep electricity output in 1968 at about 65% of the 1964 level, and at more than 90% in 1972 during the second phase of the air war.

2.78 In the southern part of the country, the absence of fuels (except for one small coal field in the Danang area and some deposits of peat of low

/1 Guidelines, tasks and goals of the 1977 State Plan.

/2 ibid.

/3 There is also a small isolated grid in the Danang-Hue area.
calorific value) and the orientation of electricity consumption towards industrial and domestic usage led to a concentration of electricity production and consumption in the Ho Chi Minh City area. In 1973, 80% of the available capacity and almost 90% of actual generation was in the metropolitan area. The bulk was provided by the Thu Duc steam plant which accounted for 55% of total generation (installed capacity - 165 MW). This plant was supplemented by another medium-sized steam plant (33 MW), four gas turbine units (62 MW) and numerous diesel units (224 MW total). Total installed capacity in the provinces was 130 MW but owing to the absence of an adequate transmission and distribution system, these plants only served local needs.

2.79 The one major exception to the concentration of capacity in Ho Chi Minh City was the Da Nhim hydroelectric plant near Dalat, with an installed capacity of 160 MW. However, due to the destruction of the 230 KV transmission line that connected Da Nhim with the metropolitan area 250 km away, the Da Nhim capacity remained unused for most of the war.

2.80 The 1973 patterns of electricity consumption in the south showed a prevalence of domestic usage (60% in Ho Chi Minh City, 82% in the provinces). Industrial usage had some importance in the city (34%) but was insignificant (6%) in the countryside. By 1976, this pattern had already undergone significant changes, with industrial users accounting for 50% of consumption, and households for only 35%. Agriculture has always been an insignificant user, owing to the absence of adequate distribution lines.

2.81 The power sector is faced with the short run task of reconstructing and rehabilitating plants that were destroyed or damaged by the war; this includes finding an alternative economical use for the numerous diesel units that served as back-up capacity during the war. There are a number of expansion projects that will add considerably to the country's generating capacity, such as the expansion of the Uong Bi thermal plant near Haiphong and the second phase of Da Nhim which would increase that plant's capacity by 140 MW. At the same time, additional investment in distribution lines will be required to permit agriculture to absorb a greater share of national electricity production - planned to be about 650 million kWh or 13% of total output by 1980, of which 150 million kWh (7-8% of the regional output) will be in the south.

2.82 In the longer run there is still considerable scope for increasing the use of the country's hydroelectric resources. One major project alone, a plant on the Da River presently in the planning stage, would contribute 2.75 billion kWh to the annual output. The building of additional medium and small hydro plants would simultaneously strengthen water control, and support the mechanization of agriculture and the development of local industries.

/1 At the end of 1973, the southern distribution network comprised about 180 km of 66 KV lines, 1,900 km of 15-66 KV lines and 2,000 km of 220/380 V and 110/220 V lines. This compares to a network of more than 3,000 km of 35, 10 and 6 KV lines in the northern part of the country.
2.83 In the more distant future lies the task of integrating and standardizing the country's power generation and transmission network. This applies not only to the linking of the two regional systems, with their different calibration of transmission and distribution lines, but also to a greater degree of standardization within each region where the setting up of a local distribution system has sometimes resulted from local initiatives with insufficient regard to compatibility with other systems.

SERVICES SECTORS

Education and Human Resources

2.84 Education in Viet Nam is given a central role in reshaping the population's political and social attitudes and in fulfilling a supporting function in the industrialization process. It is in keeping with these broad objectives that the Government conceives of education as a permanent process starting in early infancy and continuing in various forms throughout an individual's life.

2.85 Education in the narrower sense of in-school instruction is essentially the responsibility of two ministries: the Ministry of Education for all general education up to senior secondary level (grades 11 or 12), and the Ministry of Higher Education and Vocational Middle Schools for specialized education including vocational, secondary and higher education.

2.86 At the base of the education system are creches and nursery schools for infants aged two months to three years whose mothers are working; these institutions are usually supported by a local cooperative or factory. The next level, kindergartens, for 3-5 year old children, presently comprises about 700,000 children and 23,000 teachers, and is more developed in the north (500,000 children and 20,000 teachers) than in the south. Geographic coverage is still very uneven, with provincial enrollment rates averaging 30-70% in the north. The Government plans eventually to extend kindergarten education to all children in this age group, to give them pre-primary schooling and enable their mothers to join the labor force.

2.87 Primary education extends over five years (ages six through ten), including one preparatory year. In 1976 the system consisted of 11,506 (6,708) schools with 7,875,000 (4,273,000) pupils and 211,000 (129,000) teachers. Enrollment figures were probably slightly larger than the size of the relevant age group which may be explained by the presence of overage pupils in the school system. Primary school teachers are trained through two-year courses (grades 11-12) in provincial schools following graduation from senior secondary schools. Their salaries are said to be equivalent to those of skilled workers in industry.

/1 Figures in brackets refer to subtotals for northern Viet Nam.

/2 Detailed data on the composition of the population by age are unavailable.

/3 The grade numbering system excludes the preparatory year preceding grade 1.
2.88 Junior secondary education lasts three years in the north (grades 5-7) and four years (grades 5-8) in the south; in 1978 the four-year cycle is to be introduced in the entire country. The system comprises 6,285 (5,047) schools with 2,662,000 (1,935,000) pupils and 88,900 (70,100) teachers. This corresponds to an enrollment rate in the order of 60-70%. In the northern part of the country the transition rate from primary to junior secondary education in 1976 approached 100%, so universal junior secondary enrollment for that part of the country could be achieved by 1980. Government plans for the expansion of this educational level focus on the south, so that by the end of the present Five-Year Plan, every village is to have a junior secondary school whose intake should approach 100% of primary school leavers. Teachers are trained in the same institutions as primary school teachers but by a three-year course; salary levels only differ slightly between the two groups.

2.89 Senior secondary education lasts three years (grades 8-10 in the north and 9-11 in the south). In 1976 the system consisted of 671 (429) schools with 532,000 (353,000) pupils and 23,700 (17,300) teachers. Enrollments correspond to 15-20% of the relevant age group. For the northern provinces, transition from junior to senior secondary schools, regulated by an entrance exam, averaged 30% in 1976, with considerable interprovincial differences. Government plans for this educational level appear to concentrate on the reduction of enrollment differentials between northern and southern Viet Nam, and between urban and rural areas, rather than on its general expansion. Senior secondary teachers are trained in specialized university-level institutions. Their pay scales are comparable to those for other professional and technical workers.

2.90 Except for the supervision of exams, all aspects related to the establishment and operation of senior secondary schools are directly controlled by the Ministry of Education, whereas the administration of the lower levels of education is delegated to subsidiary government levels (provinces, districts or community-level institutions, depending on the school level and the specific administrative task).

2.91 Apart from general education through senior secondary level, the Ministry of Education is also in charge of a variety of adult formal and nonformal education schemes. The principal aim of adult education is to make everybody literate, and once this has been achieved to provide continuous instruction in areas related to the Government's broad political and social objectives.

2.92 Since the end of the war almost 750,000 people (600,000 of them in the south) have participated in literacy training and related activities.\(^1\) The number of illiterate people in the south is estimated at 1.6 million people, or about 7% of the population.

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\(^1\) The Ministry has estimated that two hours daily of literacy training will be sufficient to make an adult literate within six months.
2.93 Adult education also includes more specific programs that focus on an individual's economic and occupational role, rather than on his political or social obligations. These courses are flexible and take the form of afternoon/evening classes or of day-release or block-release courses. Presently the system reaches about 940,000 adults, almost 50,000 of them full-time students who are mostly from peasant and worker families; they follow courses comparable to those in vocational middle schools, which offers them an opportunity for a more demanding occupation or qualifies them for higher education.

2.94 Vocational middle schools train skilled workers in two or three-year courses, depending on the previous education of the students. Recruitment is from three sources: junior secondary school graduates, senior secondary school graduates who fail to qualify for higher education, and adults with employment experience. The system consists of more than 200 schools with 78,000 students and 7,000 instructors. While the Ministry of Higher Education and Vocational Middle Schools is responsible for educational matters in the entire system, only two schools are under its direct management, the remainder being managed by other ministries (e.g. Ministry of Agriculture, Health, Transport, etc.) or by provincial governments.

2.95 Higher education programs usually last four or five years. Most institutions - with the exception of three comprehensive, three polytechnical and three preparatory (one-year) universities - are highly specialized, such as universities of civil engineering and architecture, of foreign languages, of economic management, etc. Only 14 of the 47 higher education institutions (with 35,000 out of 89,000 students) are directly administered by the Ministry of Higher Education and Vocational Middle Schools; the rest are affiliated with other ministries but in educational matters are still supervised by the Ministry of Higher Education and Vocational Middle Schools.

Health and Family Planning

2.96 Viet Nam's health care system has an impressive record both in comparison to the preindependence situation and in relation to other countries in the region. In 1939, the country's health situation was reflected in a crude death rate of 26 per thousand, an infant mortality rate of 300-400 per thousand, and a maternal mortality rate of 20 per thousand. By 1975, these figures had been lowered to 6.3, 26.4 and 0.6 per thousand, respectively, substantially below the levels of ten wealthier neighboring countries.

2.97 Four diseases - malaria, tuberculosis, leprosy and trachoma - had been endemic in colonial times, and the government concentrated its efforts on their containment and eventual eradication. It succeeded in reducing the incidence of malaria from 6% of the population in 1958 to 0.3% in 1964, the tuberculosis mortality rate from 4.5-5 per thousand to 0.3 per thousand, the number of leprosy cases from 2.1 per thousand to 0.8 per thousand, and trachoma incidence from an average of about 65% to a range of 10-40% between low and high incidence provinces.

/1 The description of the health care system and its performance refers mainly to the northern provinces. There is little information about the situation in the southern provinces, although health services there are now being developed to follow the pattern established in the north.
2.98 These successes were achieved by a health system that emphasized disease prevention and that provided for a division of labor among its various levels. At its base is a large network of primary health workers: first a force of "family health agents," family members in charge of basic health tasks such as maintaining sanitation standards, providing first aid, dispensing standard medicines from the family medicine chest, etc.; second, health posts are provided in cooperatives, factories and other work places staffed by one or two workers with one year's nursing training, supplemented later by half a year of refresher and upgrading courses. These nurses give first aid, treat minor ailments and provide health advice for their fellow workers. This informal network is supported by a four-tiered institutionalized health care system starting from an individual village, increasing in complexity at the district and provincial levels and culminating in highly specialized national institutions.

2.99 At the village level a network of health centers, at least one per community, is responsible for the basic health needs of the population: general health instruction, supervision of hygiene measures, participation in immunization programs and disease eradication efforts, maternal and child health care including family planning, first aid and short-term hospital care, drug distribution and guidance for primary health workers. Each center has a staff of 5-10 including one assistant physician, one practitioner of traditional medicine, and several nurses and midwives. It has about 10 beds for short-term in-patient treatment and maternity care, and a small pharmacy.

2.100 At the next administrative level, the district, there are medium-sized hospitals (with about 100 or 200 beds, depending on the population density), each with four standard in-patient stations (general medical, surgical, pediatric and gynecological/obstetrical), ancillary services (laboratories, x-ray facilities, etc.) and one out-patient department with a somewhat greater degree of specialization than the in-patient service. The staff of about 100 includes about 20 professionals, 40 nurses and midwives, and 40 nonmedical staff (for the larger hospitals, the total number roughly doubles, but the professional complement becomes relatively larger, and the nonmedical staff smaller). The health care network at the district level is complemented by specialized dispensaries for certain diseases as well as for family planning, hygiene and epidemiological stations, and a district pharmacy.

2.101 The size and degree of specialization of medical facilities increase further at the provincial level, but no essentially different services are added to the system. At the top of the health care pyramid are the national institutions: central hospitals, specialized clinics, research institutes, medical schools, and drug development and production facilities.

2.102 Each level serves as a monitoring and training agent and as a referral service for the level immediately below it. In practice this means that physicians, pharmacologists and specialized medical technicians are trained and deployed by the central health authorities, auxiliary physicians, nurses and midwives by the provinces, and other village health personnel by the districts, whereas the village health centers advise and support the primary health workers outside the center.
2.103 In terms of administration and finance, one can distinguish two subsystems: the community-level health service - comprising the village health centers and the outside primary health workers, which are the responsibility of individual villages, cooperatives and factories - and above it, the state health system operated by the Government.

2.104 In 1975 the community subsystem comprised 5,566 village health centers with more than 50,000 employees (about 9,000 assistant physicians, 27,000 nurses, 8,000 midwives and 6,000 assistant pharmacists and traditional medical practitioners. Beds in village health centers numbered 46,000, in addition to the 58,000 hospital beds in the government subsystem which operated 338 district-level hospitals, 40 provincial and 19 central hospitals, and more than 100 specialized institutions, which together employed a staff of 73,000 including almost 20,000 physicians and assistant physicians, and 17,000 nurses, midwives and technicians. This amounted to a density and uniformity of coverage of medical services not observed in any other developing country and probably not matched by more than a few industrialized countries.

2.105 In the field of family planning, efforts aim at reducing the average number of children per family to three and to lower the natural growth rate of the population to 2.5% by 1980, down from the present level of 2.7-2.8%/1. Guidance and persuasion by the basic health workers, emphasizing the need for and advantages of family planning and advocating late marriage, postponement of the first and proper spacing of subsequent pregnancies, appear to play a central role in the family planning activities. This grass-roots work is supplemented by professional medical advice and the distribution of contraceptives at the village health centers, with the guidance and logistical support of the district health agencies.

2.106 Despite these considerable achievements, the health care system was facing a difficult task at the end of the war: in the northern provinces, war damages had to be repaired, and equipment and supplies modernized and replenished. Owing to the disruption of some preventive health activities during the war and to large-scale population movements, some diseases (e.g. malaria) that had almost been eradicated were temporarily increasing. To reverse this trend and to continue the long-term eradication programs was a priority assignment for the health authorities.

2.107 In the southern provinces the problems were of a different order of magnitude altogether: the incidence of the most common diseases (malaria, tuberculosis, leprosy, trachoma) was much higher to start with, and had increased during the war. In addition, immunization against such diseases as smallpox, diphtheria or tetanus had been neglected, and the wartime conditions had facilitated the spread of venereal diseases. The programs against malaria and tuberculosis and the control of venereal diseases are now considered the most urgent tasks.

/1 The current estimate for the northern provinces is 2.5% p.a., and for the south, about 3% p.a. The latter figure is unsubstantiated.
Equally important, but realizable only in the longer run is the expansion of the medical services into a network paralleling that established in the northern provinces. At the end of the war, the south had only 2,500 physicians and about 25,000 hospital beds, with services concentrated in urban areas. A priority of the Government was thus to provide the countryside with an adequate basic health care system, and it began by establishing 150 district hospitals and 1,800 village health centers in the southern provinces in 1976. By the end of 1977, a total of more than 10,000 health centers and hospitals with almost 180,000 beds is to be attained for the entire country, most of the increase occurring in the southern provinces, with the aim of creating, eventually, an integrated and comprehensive health care system with uniform geographic coverage.
3. ECONOMIC PLANNING AND MANAGEMENT

3.01 Three elements of the Vietnamese economic system are fundamental to the country's ideology: (a) public ownership of the means of production, (b) an equitable distribution of national income among the population, and (c) central economic planning as the basic management tool. Within the framework of these basic elements, however, an extensive transformation of the country's economic system is clearly under way. This is true not only in the south, where an economy hitherto mainly based on private enterprise is being transformed into a socialist system, but also in the north, where the Government recognizes the inadequacy of the existing system to serve the needs of peacetime development and is in the process of implementing wide-ranging reforms of economic planning, management and organization.

Management and Administrative Framework

3.02 The supreme governing organ in Viet Nam is the National Assembly which comprises 492 deputies elected through universal suffrage for four-year terms. The Assembly's broad powers include amendment of the constitution, all legislative authority, adoption of the state plan and budget, all fiscal authority, and election of the President and Vice President of the Republic. The Assembly convenes twice a year for brief sessions and elects a Standing Committee to carry out its responsibility when it is not in session. The Assembly and its Standing Committee are assisted by a number of commissions responsible for legislation, budget and planning, national minorities, cultural and educational activities, public health and social welfare, and foreign affairs.

3.03 The President of the Republic appoints members of the Council of Ministers, the highest administrative body of the Government. The Council comprises the Prime Minister, six Deputy Prime Ministers, heads of the 23 ministries and heads of various state organizations with ministerial rank. It coordinates and directs the activities of the ministries and the various state organizations at central government level, as well as activities of the administrative committees at local government level.

3.04 Each ministry is headed by a minister assisted by several vice ministers. Responsibilities of the ministries are defined along narrow functional lines; for example, there are about 14 economic ministries dealing with subsectors such as grains and food products, marine products, forestry, water conservation, light industries, machinery and metallurgy, electricity and coal, and construction. The larger ministries tend to be fairly self-sufficient with their own colleges, training institutions, and health, social and cultural facilities for their staff. There are also a number of Commissions under the Council of Ministers, including the State Planning Commission headed by a Deputy Prime Minister, the State Bank headed by a Director General with ministerial rank, the Central Agriculture Commission, and Commissions on price, national minorities, science and technology and government inspectorate.
3.05 Directly under the Prime Minister's office are a number of general
departments; the more important of these, such as oil and natural gas, and
scientific and agricultural research, are headed by ministers while others,
including the geological and survey department, the census and statistical
office, and the physical culture and sports department, are headed by officials
below ministerial level. Committees under the Prime Minister's office are
also formed when necessary to supervise implementation of projects involving
different ministries; the most important of these, the Da River Hydroelectric
Project Committee, is currently headed by a minister.

3.06 The country is divided for local administrative purposes into
35 provinces and 3 municipalities that have the status of a province (Hanoi,
Haiphong and Ho Chi Minh City). Each province is further divided into districts,
of which there are about 500 in the country, each with an average population of
about 100,000. At both the provincial and district levels, the highest governing
authority is a People's Council composed of elected representatives, but the
actual conduct of local government functions is the responsibility of adminis-
trative committees appointed by the People's Council.

3.07 The central government, through the various ministries and general
departments, directly manages economic activities in sectors that require, for
technical and economic reasons, a high level of centralized and uniform manage-
ment. These currently include electric power, coal, railways, marine transport,
ports, telegraphs and banking. Agencies of these sectors in the provinces
are under the direct supervision of a central ministry or department and not
the provincial government.

3.08 Local administrative committees manage all economic activities closely
linked to the interests and life of the people - such as retail trade, food and
beverages, housing construction and activities supporting social and cultural
life - with only general supervision by the central government. Where sector-
wide management is also required, management is by specialized agencies estab-
lished by the local administrative committees but also supervised by the
ministry responsible for that sector. For example, in each province agricul-
tural activities are managed by a provincial agricultural committee that is in
turn supervised, especially on technical matters, by the Ministry of Agriculture
of the central government. This dual management system also applies to food
and light industries, construction, machinery, etc.

3.09 In recent years, as part of its effort to apply the principle of
"democratic centralism," the Government has been strengthening the administra-
tive capability and increasing the planning and management responsibility of
local governments. Most of these efforts so far have been directed at the pro-
vincial level, but the longer-term objective is to make the district the basic
management and planning level of the country.

Economic Organization and Planning

3.10 Central planning of the economy began in northern Viet Nam almost
as soon as the country gained its independence. The State Planning Commission
was established in 1955 as the "agency of the Government for planning economic
and cultural construction and organizing and guiding statistical work and
3.11 The war did not, however, interrupt the socialist transformation of the northern economy and the process was largely completed by 1970. By then the state and cooperative sectors each accounted for about 45% of the country's GNP and the private sector for less than 10%. As shown in the table below, the state sector, in which units of production were owned entirely by the state and managed by public officials, had a monopoly of external trade and financial services, and dominated industry and construction, while the cooperative sector accounted for more than 90% of agriculture. The private sector remained significant only in retail trade and, to a lesser extent, construction, transport and handicrafts.

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<th></th>
<th>State enterprises</th>
<th>Cooperatives</th>
<th>Private</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>2</td>
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<tr>
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<td>30</td>
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<td>33</td>
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<tr>
<td>External trade</td>
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3.12 From 1965 to 1973, the protracted war and widespread destruction allowed only very short-term planning. Comprehensive planning was largely limited to the state sector where planning and management were highly centralized and hierarchical. The annual plan included a large number of targets, mostly in physical terms, and covered all aspects of operations; it was legally binding on the state enterprises, which as a consequence had little independence or managerial responsibility. The cooperatives, on the other hand, enjoyed more flexibility in determining their production plan, although output targets for the major crops such as rice were included in the annual plan.
Cooperatives are the preponderant organizational unit in the rural sector: by the end of the 1960s, virtually the entire sector had been organized into about 8,000 socialist cooperatives of about 150 ha each. In these socialist cooperatives, the most advanced form of cooperative organization, all lands are owned by the cooperative, except for 5% set aside as private plots for the cooperative members, mainly for growing vegetables and fruit trees. Each member's share of the cooperative's net annual output is determined according to work points he accumulates during the year. Management is the responsibility of an administrative committee elected from the cooperative members each year. In its annual plan the Government, usually at the provincial or district level, establishes the cooperative's target level of output for its major products and the amount to be sold to the state at fixed prices. State agencies also sign contracts with the cooperative to supply agricultural inputs and to provide credits for the coming year. Within these broad limits, production, consumption and investment decisions are the responsibilities of the cooperative management.

Southern Viet Nam today is a mixed economy comprising five "elements": (a) state enterprise; (b) state-private partnership managed by the state; (c) cooperative; (d) private company or partnership; (e) private enterprise owned by an individual. The relative importance of these five elements varies according to sector and geographical area.

In industry, the Government has taken over the operations of all enterprises of the previous government, as well as of those whose owners have left the country. Where the majority of shareholders in an enterprise have left the country the Government now manages these as partnerships with the remaining stockholders. At the end of 1976, enterprises managed by the state accounted for about 70% of total industrial production in that year. The remaining enterprises operate under private ownership, but state inspectors supervise the operations of the larger enterprises, particularly their financial transactions. Some artisan and handicraft activities have also been organized into cooperatives.

In agriculture, the Government has taken over the operation of some large-scale plantations and a small number of cooperatives have been formed, but the bulk of the sector still consists of individual farmers working small plots. Fisheries are also dominated by private ownership, although some cooperatives have been formed. Most transport vehicles (trucks, buses, passenger cars, boats, ferries, etc.) are still privately owned, and most construction and assembly work, and some design work, are undertaken by private contractors. State enterprises have taken over a large proportion of wholesale trade, especially in food grains, fuels and other strategic materials, accounting for 40% of total merchandise trade in late 1976, but private companies and individuals continue to dominate retail trade, especially in the towns and cities. The Government, on the other hand, manages all financial and banking institutions and has a monopoly of external trade.

The Government extended central planning to southern Viet Nam as soon as political unification was achieved; both the Second Five-Year Development Plan (1976-80) and the 1977 Annual Plan cover the entire country and represent the first unified economic plans of Viet Nam. Planning in the southern provinces is, however, being applied with a considerable degree of pragmatism and flexibility, and its scope and method differ according to the nature of the various economic sectors.
3.18 In the state-operated sector direct planning is employed as in the north and each state enterprise is required to draw up an annual plan covering all production, technical and financial aspects of its operations. But these plans are less comprehensive than in the north, partly because production conditions have not yet been stabilized, but also because many of the southern enterprises are considered capable of the new type of independent management being introduced in the north. Planning efforts in the industrial sector are primarily devoted to maximizing the use of productive capacity and controlling the use of imported raw materials. The output of these state controlled enterprises is turned over to the Government, but since a large private sector remains, state enterprises in the south have greater freedom to subcontract production to private enterprises and to negotiate purchase of materials from private suppliers.

3.19 The cooperative sector is still small and mainly limited to agriculture and handicrafts. The role of the Government in this sector is primarily to coordinate investment, particularly efforts at water conservation, and to provide technical assistance and credits. Obligations of the cooperatives under the economic plan consist of the sale of their produce to the state and the payment of taxes.

3.20 Indirect planning methods are used in the private sector to induce the enterprises to operate according to the Government's guidelines and plans. Relations between the Government and private industry are mainly based on business contracts governing the supply of materials and the purchase of finished products. The total volume of materials to be supplied and products to be purchased from a particular industry as stipulated in these contracts and thereby constitute the economic plan for that industry. In agriculture, planning in many areas of the south is based on reciprocal economic contracts which allow farmers to purchase a given quantity of materials and consumer goods from the Government in return for a specific quantity of products sold to the state, and by state-financed investments in water conservation measures, seed development, crop protection, etc. Through the leverage that its monopoly of inputs such as fuels, oil, equipment and spare parts provides, the Government induces enterprises in the fisheries, transport and communication sectors to produce and provide services as its plan requires. The Government is also using wage, price, and credit policies to support planning in the southern economy.

3.21 Simultaneously, the Government is continuing to expand the socialist sector in the south. In agriculture, the first step toward collectivization is being taken by organizing mutual-aid work teams of private farmers to rehabilitate and improve irrigation and other infrastructure, and by joint ownership and use of mechanical equipment. The Government's objective is to organize most farmers into some form of cooperatives by 1980, but basic policy appears to be pragmatic and collectivization will proceed only as quickly as conditions permit. New agricultural projects, such as the New Economic Zones, are being organized as cooperatives or state farms, and projects in other sectors (fisheries, forestry, etc.) are being organized as state enterprises. In industry, new investment is being organized mainly as state enterprises, but existing privately-owned enterprises are permitted to remain in operation, and, if it serves the needs of the economy, to expand their productive capacity. In trade the Government's current efforts are directed at taking over the distribution of grains and other essential food products.
Planning and Management Reforms

3.22 The advantage of the centralized planning and management system as practiced in northern Viet Nam until recently is that it ensures production strictly according to plan, particularly in strategic sectors where detailed material balances are calculated. Aided by the strong popular commitment to the nation's priorities it allowed the effective mobilization of physical and human resources without extensive use of material incentives, a system that served the needs of the country well during the war. However, now that the Government has been able to turn its attention to longer-term development needs of the economy, the inadequacy of the present planning and management system in peacetime conditions has become obvious. Specifically, Vietnamese economists and economic planners have pointed out that the system does not adequately coordinate activities of the various sectors and geographical areas, does not adequately reflect the principles of "democratic centralism," makes little use of local initiative, and can lead to the development of small-scale and inefficient production units. Planning and management of the rural sector is particularly weak, and the management system for industry can lead to inefficiency, waste of materials, disregard of quality and consumer needs, and unproductive use of capital and equipment.

3.23 During the last few years, therefore, the Government has introduced, and to a significant extent implemented, wide-ranging reforms of the economic planning and management system. These reforms include coordination of sector and regional planning, reorganization of production units, and reform of management procedures and practices.

3.24 Sector and Regional Planning. Planning for each sector has always been the responsibility of individual ministries or general departments of the central government, while each province also prepared a provincial development plan. All these plans have hitherto focused mainly on those activities directly managed by the planning body; a sector plan prepared by a central ministry mainly concentrated on those activities it directly managed while a provincial plan concentrated on those activities managed by the province. Integrated planning of economic sectors was attempted only for those sectors entirely managed by the central government (i.e. electric power, railways, coal, etc.). Coordination of sectoral development was inadequate, and few attempts were made to plan regional development in an integrated and comprehensive manner.

3.25 Beginning in 1976, the Government has instructed each ministry or general department to prepare a plan incorporating all activities of the sector, whether managed by local authorities or by the ministry itself. These sector plans are to ensure that the national plans for production, consumption and investment in the sector are consistent, in particular that supply and demand (including imports and exports) of the major products are balanced; to plan the sector's technological research and development; to establish uniform management and regulatory policies for the sector; to organize the training of technicians and manual workers; and to ensure that skilled workers, equipment, capital and materials are efficiently allocated within the sector. Each sector plan is to be disaggregated by province and district to permit coordination with concurrent regional planning efforts.
Regional planning is a newer concept in Viet Nam. The main purpose is to plan the integrated development of a geographical area through balanced and coordinated development of the various economic activities, whether managed by central government agencies or local authorities, and in particular to ensure that development of physical and social infrastructure is adequate to support the planned development of production. A regional plan, for example, seeks to ensure that railway facilities are adequate to serve a planned mining project, that feeder roads are being built for the evacuation of additional agricultural output, and that housing is being provided for workers in an industrial plant being sited in the area. In addition, regional planning includes the allocation and employment of labor, supply and demand of building materials, and monetary income and expenditure of the population in the area; proposed changes in management and regulatory practices to suit the special conditions of the region; and protection of the area's environment and natural resources.

Regional planning was initiated in 1976 only at the provincial level, but the longer term objective is for every local government level to prepare an integrated development plan for the geographical area under its jurisdiction and, specifically, for the district to become the basic planning unit of regional development.

Reorganization of Production. During the war, most production units in northern Viet Nam became geographically scattered and characterized by small-scale production. Because of transport difficulties, specialization of production was not well developed and production units, especially agricultural cooperatives, became increasingly self-sufficient. To reverse these trends, the Government is attempting to agglomerate small industrial and agricultural units into larger units that would be more efficient and capable of independent management. Production planning is also being modified in the direction of greater specialization so that each producing unit could exploit its comparative advantage. Agricultural cooperatives, in particular, are being reorganized into township size units with 300-500 ha of farmland (compared to the present average of about 150 ha) to make better use of land, be better suited for mechanization, and form basic management units for the rural sector. Industrial enterprises are being organized either into larger units or into federations of enterprises that could take over some of the current functions of the central ministry such as the supply of materials.

Management Reforms. Until recently, management of most state enterprises in northern Viet Nam was patterned after the "administrative-supply system," whereby all raw materials, inputs and labor requirements were supplied by the state and the enterprises' managers were given very little flexibility in production decisions. Most enterprises covered their expenses from and paid all their receipts into the state budget and many functioned much like a department of the central ministry. Even in those enterprises that had moved to an independent cost-accounting system, the state budget covered all business losses and received most of the enterprises' profits. Each enterprise was given a larger number of plan targets to meet, of which the quantity of output was usually regarded as the most important.
3.30 Recognizing that the administrative system of management could be improved, the Government in the last few years has introduced wide-ranging reforms of management practice in state enterprises. The aims of these reforms are to make it easier to carry out the plan in a balanced and realistic fashion, ensure that the main policies and orientation of economic policy are carried out, and enhance the scientific and technical aspects of the plan. Some of the more important changes that have been, or are being implemented are as follows:

(a) **Applying the Economic Accounting System to all Enterprises.**
Under the economic accounting system, each enterprise is regarded as a legal entity with the right to take the initiative in production and business operations. Subject to certain quotas, specifications and standards set by the state, the enterprise has the right to utilize its own production capacity and to arrange the production and operation plan to meet the needs of consumers. Each enterprise is responsible for its income and expenditure; to the extent possible, income and cost calculations are made for all production units within the enterprise. The number of plan targets given to each enterprise as "legal norms" is reduced and physical output targets, in particular, are replaced by value of output targets which take account of quality. Each enterprise is under the personal leadership of a manager who is held accountable for its performance. While the economic accounting system has been applied in some enterprises in northern Viet Nam since 1957, it has not been widely used and the economic policy framework in the country did not permit the system to be fully effective. The Government intends to apply the economic accounting system to agricultural cooperatives as well as state enterprises within the five-year plan period (1976-80).

(b) **Use of profit as one of the main indicators of an enterprise's achievements and efficiency, as well as to measure its contribution to the national economy.** A state enterprise is now permitted to retain a proportion of its profits for its development fund (to finance increased productive capacity), social welfare fund (for social welfare expenditures on behalf of its employees), and bonus fund (to distribute to employees bonuses for good performance), the proportion of profits retained to be determined by the degree to which the enterprise achieves the plan's targets.

(c) **Reform of the price system** so that prices paid to each enterprise (producer's price) more accurately reflect production costs and quality, thereby encouraging enterprises to keep down costs, improve quality, and make efficient use of labor and raw materials.

(d) **Introduction of capital charges,** so as to charge state enterprises for capital assets previously provided by the state and supplying more capital as repayable loans and credits from the State Bank, rather than as grants from the state budget, in order to encourage greater efficiency in the use of capital equipment.
(e) Reform of the wage system to promote increased labor productivity and improve the division of labor. In particular, to make more extensive use of wages according to piece-work, and use of bonuses and fines as incentives for better individual and collective performance.

(f) Increasing use of negotiated economic contracts as the basis for relations between individual enterprises. Specifically, an enterprise is required to sign legally binding contracts for the purchase of materials it requires and the sale of its products, and arbitration councils are being established at all levels to ensure adherence to these contracts.

3.3.1 The management reforms now being implemented in Viet Nam will ultimately have wide ranging implications. The authorities are introducing changes with considerable caution and much preparation and "pilot projects" have been used to test out some of the proposed reforms. While some issues remain unresolved, the direction of change is apparent and the future planning and management system is likely to include the following features: increased planning from below, with substantial participation of basic units of production and lower level administrative units; economic plans to a large extent based on contracts between independent economic entities instead of administrative orders from higher level authorities to subordinate units (horizontal instead of vertical planning); state enterprises with increased responsibility for their production and investment decisions which are run by managers accountable for their performance; and use of economic policies and levers to promote growth and efficiency.
4.01 Since the political unification of northern and southern Viet Nam in July 1976 considerable progress has been made in integrating the financial systems of the two areas. Although practices still differ to a certain extent and two currencies remain in circulation, the country in 1977 has a unified budget, and a common banking and external trade system.

Budgetary Process

4.02 In Viet Nam the state budget, reflecting the overriding influence of the Government's direct participation in the economic and social life of the country, plays a much more important role in the economic process of the country than it does in most other developing countries. The budget is, in fact, the financial expression of the economic plan and the main instrument for determining the distribution of national product between consumption and investment, and the distribution of national income among the population. Before reunification, budget revenues in northern Viet Nam normally accounted for about half of the country's GNP; in 1977, even including the mixed economy of the south, expected revenue of the unified state budget represents about 35% of GNP, compared to less than 20% in most developing countries of comparable income levels. National income, according to Vietnamese methodology which excludes most service sectors, is estimated as D 18.8 billion in 1976 and D 21.4 billion in 1977; and according to conventional United Nations methodology as D 22.6 billion in 1976 and D 25.7 billion in 1977.

4.03 The Ministry of Finance, in consultation with the State Planning Commission, prepares the annual state budget. Review and approval are the responsibilities of the Standing Committee of the National Assembly, assisted by the Planning and Budget Commission. Following approval by the Standing Committee, the Council of Ministers is empowered to implement the budget. Preparation of the budget follows the same timetable as the annual plan, beginning in June and with final approval by the Government in October of the year preceding the budget (calendar) year. The state budget incorporates all local as well as the central government budget; there is no independent local public finance system, but provincial governments are responsible for revenues and expenditures in those sectors under their direct management, and they prepare provincial budgets which are incorporated into the state budget. In 1977 provincial budgets account for about 30% of planned expenditures of the state budget but for a considerably smaller proportion of revenues, because activities managed by the provincial governments, mainly agriculture and handicrafts, generate relatively little revenue. The share of provincial budgets in the state budget has steadily increased since 1960 and will probably continue to do so in the future as part of the Government's efforts to decentralize economic administration.
Sources of Revenue

4.04 By far the largest source of budget revenue is contributions from state enterprises. The contribution to the state budget from each state enterprise is determined by a complex process closely linked to the pricing and distribution system. The following describes the process as it is currently applied to state enterprises under the economic accounting system which (as explained in para. 3.30) will in the near future be extended to include all state enterprises.

4.05 The producer’s price of any product is the price received by the state enterprise, either from other enterprises or the state purchasing agencies. The Government determines this price by estimating the average cost of production (including cost of labor and materials, and depreciation allowances) and then adding a margin. Since the size of this margin usually varies according to the use of the product, it performs an important distributive function. The margin currently ranges from 5-10% for capital goods (e.g. irrigation pumps), to 20-30% for essential consumer goods (e.g. textiles), and 50-60% for nonessential consumer goods (e.g. cigarettes).

4.06 In any particular year, each state enterprise generates a surplus (or loss) calculated as the difference between its output, valued at the government-determined producer’s price, and the actual production costs incurred. Depending on the extent to which the enterprise fulfilled its assigned plan targets for the year, a proportion of the enterprise’s profits is retained for its development, social welfare and bonus funds. The rest goes to the state budget. The proportion of profit currently retained by state enterprises is quite small, averaging less than 10%, but is expected to rise in the future as part of the current management reforms.

4.07 Profits from state enterprises are expected to represent about 70% of total domestic revenue in 1977, somewhat less than in the previous year, while depreciation allowances are expected to account for another 10%. The only other important source of revenue in northern Viet Nam is a tax on agricultural cooperatives which normally averages about 7-8% (payable in kind by rice farmers) of estimated output, the latter calculated on the basis of past yields. Even in southern Viet Nam, where the state sector is still relatively small, state enterprises are already a major source of revenue; however, taxes remain an important instrument for mobilizing domestic resources. In the urban areas, the Government has retained most of the taxes imposed by the previous regime, including the income tax, license tax, super profits tax and special consumption tax, but has abolished the petroleum tax, amusement tax and a number of other minor taxes.
# State Budget

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<tr>
<td>Domestic revenue</td>
<td>6,002</td>
<td>7,150</td>
</tr>
<tr>
<td>External grants and credits</td>
<td>2,652</td>
<td>1,300</td>
</tr>
<tr>
<td>Others (nonrecurrent)</td>
<td>320</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>8,975</strong></td>
<td><strong>8,950</strong></td>
</tr>
<tr>
<td>Recurrent expenditure</td>
<td>5,645</td>
<td>5,950</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>3,630</td>
<td>3,000 /a</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td><strong>9,275</strong></td>
<td><strong>8,950</strong></td>
</tr>
</tbody>
</table>

## As Percentage of National Income

<table>
<thead>
<tr>
<th></th>
<th>Vietnamese Methodology</th>
<th>/b United Nations Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic revenue</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>External assistance</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>48</td>
<td>42</td>
</tr>
<tr>
<td>Recurrent expenditure</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>19</td>
<td>14/a</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td>49</td>
<td>42</td>
</tr>
</tbody>
</table>

/a Excludes D 1,200 million investment credits to be provided by State Bank (see text).

/b Vietnamese methodology excludes incomes by service activities, including public administration, defense, health, education and transport.

Source: Ministry of Finance.
4.08 In the rural sector, a progressive agricultural production tax is collected from all private farmers. The actual rate imposed is determined by the size of the farmer's annual production, area of land cultivated and family size, so that farmers with lower production or smaller cultivated area per member of the family would pay lower rates. The current rates range from 8-33% of annual production, with the average rate expected to be about 12%. "Annual production" is the estimated output that can be harvested under normal conditions, not actual output. To encourage double cropping farmers are taxed only on their main crop, but a tax will be imposed on second crops once double cropping has become an established practice. The tax is also waived for newly cultivated or recently reclaimed areas, and lower rates are applied in the mountainous areas where production conditions are particularly difficult.

4.09 In 1977, the Government plans to introduce substantial changes in the tax system in southern Viet Nam with the objective of achieving a uniform fiscal system in the north and south by the end of the year or early 1978. Because of this and because fiscal institutions in the south are not yet well organized and need to strengthen their collection efforts, taxes are not expected to be a major source of revenue and will probably only account for about 20% of total domestic revenue in 1977, with the agricultural tax representing more than half of total tax revenues.

4.10 Foreign aid and credits also represent important sources of budget support. In 1976, 30% of total budget revenue was derived from foreign sources, mainly in the form of assistance for economic rehabilitation, reconstruction and relief. In 1977, external revenues are expected to decline to D 1,800 million, representing only 20% of total revenues, because increased disbursements for development assistance projects are not expected to offset the fall in reconstruction and relief assistance. Since the Second Five-Year Plan has now been prepared, the Government expects this decline to be temporary and external assistance for development projects to increase substantially during the remaining years of the five-year plan.

4.11 An important feature of the state budget is that the state sector - which in effect means the industrial, construction and transport sectors - accounted for only about 45% of the GNP and 35% of national income in northern Viet Nam, but contributed about 80% of domestic budget revenues. This was achieved mainly by maintaining very high relative prices in these sectors, especially for industrial consumer goods, which allowed state enterprises to generate large surpluses. Consumers of industrial goods have clearly borne the heaviest fiscal burden in the country. Since the Government intends to make more consumer goods available to the population during the current plan period, the prospects for increased revenues from this source may be limited. The current reform of enterprise management which would permit state enterprises to retain larger proportions of their profits might also restrain the growth of budget revenues in the future, although the Government expects contributions from state enterprises to increase in the longer run as a result of improved management and increased efficiency. On the other hand, if the State Bank is able to mobilize increased resources outside the budgetary system to finance an increasing proportion of state investment, the demand on budget revenue may be correspondingly reduced. Budget revenues from the southern provinces could also increase rapidly as production revives and conditions stabilize.
Expenditure

4.12 Grant allocations from the state budget have hitherto accounted for about 70-80% of total investment expenditure in northern Viet Nam and investment credits provided by the State Bank, mostly to cooperatives, were very small by comparison. The Government has recently decided that more credits from the State Bank should be used to finance the investments of state enterprises as well as cooperatives. Accordingly, investment expenditure from the state budget is expected to decline from D 3,600 million in 1976 to D 3,000 million in 1977, while investment credits provided by the State Bank are expected to finance D 1,200 million of state investment in 1977. Therefore, while total state investment is expected to rise from D 3,600 million in 1976 to D 4,200 million in 1977, investment as a proportion of the total budget expenditure will fall from 40% to 34% while recurrent expenditure rises correspondingly.

4.13 Social-cultural expenditure, mostly on education and health, will account for 20% of budget expenditure in 1977. Public administration will account for about 10% while the remaining 30-35% will be for subsidies, defense and other expenditures. To improve the living conditions of the people, the Government plans, in the next few years, to increase substantially the percentage allocated to social-cultural expenditures and subsidies (mostly on food prices and social services) and reduce the allocations to general administration and defense. By 1980, the Government intends to increase subsidies and social welfare grants financed by the state budget by two and a half times over 1976; these indirect payments are expected, by then, to amount to 30-50% of the average wage of a worker or government official, and 15-20% of the average income of a farmer.

Money and Banking

4.14 The scope for monetary and credit policies is fairly limited in Viet Nam. Monetary policy mainly ensures: (a) a balance between money supply and the demand for a circulating medium, and (b) a stable currency with fixed purchasing power. Credit is not widely used as an instrument of economic policy and investment is financed mainly by budget revenues allocated according to the economic plan. Credits for consumption purposes are limited to small amounts for construction of residential housing.

4.15 However, the situation is changing rapidly. As discussed earlier (paras 3.30 and 4.12), State Bank credits are being increasingly used to finance the investment expenditure of state enterprises; in 1977 the State Bank, in addition to its traditional role of financing investment in the cooperative and private sector, expects to provide about 30% of state investment expenditure, mostly at the provincial and district government levels. Credit terms will vary according to government priorities; interest rates will range from 2-8% with priority sectors such as agriculture and export industries enjoying the lowest rates and easier access to credits. Financial management and, in particular, monetary policies, will become increasingly important in the future as a result of the recent reforms because,
first, there seems to be an element of deficit financing in the increasing reliance on State Bank credits to finance state investment without clearly identified sources of funds. Second, state enterprises are being given much greater financial independence; and third, more extensive use of bonuses and other material incentives will inevitably expand the purchasing power of private individuals. In the south, strict financial management will be necessary to ensure an orderly restructuring of the economic system.

4.16 The State Bank and specialized banks under its supervision constitute the banking system of Viet Nam and has been reorganized under a government decree of June 1977. The State Bank is an autonomous government agency, headed by a Director General with ministerial rank. It has branches in every district, provincial capital and municipality and runs its own banking college, training institutes and printing facilities and provides housing and a wide range of other health and social services for its 40,000-odd employees.

4.17 The State Bank performs all functions normally associated with a central bank, including issuance of currency, and determination and execution of monetary and credit policies. It accepts deposits from cooperatives and state enterprises, paying interest ranging in the north from 3% on saving accounts to 5% on time deposits, and in the south at somewhat higher rates. After the annual economic plan has been prepared by the State Planning Commission, the State Bank and the Ministry of Finance are responsible for preparing the financial plan. The State Bank has special responsibility for preparing the financial plan for sectors outside the state budget (i.e. the cooperative and private sectors). In northern Viet Nam, for example, each agricultural cooperative has to submit its financial plans to the State Bank at the district level, and the State Bank has the final responsibility for preparing the financial plans of the agricultural sector. The State Bank, normally through the Bank for Foreign Trade, is also the sole agency of the Vietnamese Government authorized to borrow abroad.

4.18 Following the recent reorganization the State Bank will now supervise a banking system consisting of five specialised institutions. Four of these will be banks for Industry, Agriculture, Internal Trade and Foreign Trade, and the fifth will be a Socialist Savings Fund.

Bank for Foreign Trade. The Bank for Foreign Trade is responsible for all foreign exchange transactions arising from foreign trade, and manages foreign exchange reserves. Together with the Ministry of Foreign Trade, it prepares the country’s annual import and export plans. The Bank also manages foreign grants and credits on behalf of the State Bank. As part of the Government’s effort to promote exports, the Bank for Foreign Trade has been authorized to grant loans and credits to enterprises producing for export.

The Banks for Industry, Agriculture, and Internal Trade will provide long and short-term credit for enterprises and cooperatives. They will also control the salary funds and supervise the financial management of state enterprises in their respective sectors.
A Socialist Savings Fund has been established to accept deposits from the public. It is currently paying interest of up to 5% for time deposits and also paying dividends in the form of a lottery, awarding prizes in lieu of paying interest.

Although the money and banking system in Viet Nam has been unified, different currencies continue to circulate in southern and northern Viet Nam. In September 1975, the then Government of South Viet Nam replaced the currency of the previous regime - the Piastre - by a new currency denominated in the same units as the northern currency (one Dong = 10 Hao = 100 Xu). At that time comparison of prices in the north with the south indicated that, if the southern Dong were to have the same purchasing power as the northern Dong, one southern Dong should be exchanged for 300-330 Piastres. But the Government then decided it would be impossible to maintain a common currency in the two areas as long as the economic systems and particularly price formation differed significantly. The decision was therefore made to have two separate currencies whose purchasing power would converge over time. Inflationary pressure was expected to be stronger in the South because first, prices were to a larger extent still determined by market relations (while they were determined by the Government in the North), and second, excess demand existed because money incomes were not reduced relative to the reduced availability of goods and services. The purchasing power of the southern Dong was thus expected to fall relative to its northern counterpart. The southern Dong was therefore issued in September 1975 at the rate of one Dong to 500 Piastres, making the purchasing power of the southern Dong at the prevailing price level equivalent to one and a half times that of the northern Dong.

After political unification in 1976 the two currencies remain in circulation and are not fully convertible. Exchange of the currencies, as well as merchandise trade between the two areas is restricted to government agencies; for these transactions, the rate used in late 1976 was 1.25 northern Dong per southern Dong. The Government intends to adjust this rate periodically to reflect purchasing power parity. Since the price system will, in the near future, continue to differ in the southern and northern halves of the country, the dual currency system will need to be maintained and monetary and credit management pursued independently in the two areas.

Foreign Trade and Exchange

All Viet Nam's foreign merchandise trade is carried out by about twelve specialized companies under the Ministry of Foreign Trade, each company handling both import and export of one type of product (e.g. machinery and equipment, iron, steel and minerals, industrial consumer goods, foodstuffs, etc.). These companies deal directly with either state organizations in socialist countries or private companies in nonsocialist countries and handle all aspects of procurement and sales. Trade with all socialist countries is conducted through bilateral trade agreements. Profits and losses of state trading companies are transferred to or covered by the state budget. The
Ministry of Foreign Trade, in consultation with the Bank for Foreign Trade, is responsible for preparing the country's annual import and export plan on the basis of import requirements and export plans submitted by other ministries and general departments. Trade transactions omitted from the approved plan are not normally permitted, but in recent years the Bank for Foreign Trade has apparently been authorized to finance imports outside the plan if they were required to expand exports. All foreign exchange transactions arising from merchandise trade go through the Bank for Foreign Trade. All other transactions require prior authorization from and go through the State Bank.

4.22 Since external trade is the monopoly of the Government, the exchange rate of Vietnamese currencies serves mainly an accounting function. In October 1976, the IMF agreed to a representative exchange rate for the southern Dong of SD 2.13087 per SDR (or SDR 0.469292 per SD). Since then, the exchange rate between the southern Dong and 13 major currencies has been determined by the daily SDR transaction rates for these currencies and the representative SDR exchange rate for the southern Dong. As to the northern Dong, no representative SDR exchange rate has been proposed to the IMF and the Vietnamese authorities independently determine its exchange rate against the US dollar monthly on the basis of movements in domestic prices and costs, and judgements regarding the near-term movement of the US dollar. In early 1977, the exchange rate for the southern Dong was SD 1.85 per US dollar and for the northern Dong, ND 2.49 per US dollar. The resulting external cross rate of ND 1.35 to SD 1.00 therefore was not consistent with either the official transaction rate within the country of ND 1.25 per southern Dong (para. 4.20) or with their relative purchasing power (which would imply a rate of ND 1.50 per southern Dong, see para. 4.19). Since then the value of the northern Dong has appreciated in terms of the US dollar.

Foreign Investment

4.23 The Government has recently made known its intention to welcome foreign investment in Viet Nam and has prepared a foreign investment code which includes the following provisions:

- Three forms of foreign investment are to be permitted:
  - (i) investment in specialized production for export purposes;
  - (ii) joint ventures between a foreign investor and a Vietnamese state economic organization; and
  - (iii) production sharing partnerships with a Vietnamese state organization.

- The share of foreign capital permitted will range from a minimum of 30% to a maximum of 40% in joint venture enterprises and up to 100% in enterprises specializing in production for export.

/1 The code was promulgated by Government Decree No. 115/CP, of April 18, 1977.
(c) Protection by the Government of the foreign investor's capital and compensation in the original currency of investment in the event of nationalization.

(d) Right of the foreign investor to repatriate his share of net annual profits, after deduction of taxes and levies to establish a reserve fund of up to 25% of the capital invested, and to employ foreign technicians and personnel when qualified Vietnamese personnel are not available.

(e) Income tax to be paid by the foreign investor at the rate of 30% for investment in specialized production for export and 30-50% for other types of joint ventures.

(f) Incentives in the form of exemptions or reduction of income tax, import and export duties, to accelerate implementation of high priority projects, and also to encourage the reinvestment of capital in Viet Nam.

It is too early to say how effective the regulations for foreign investment will be in encouraging private capital flows into Viet Nam. However, they offer a framework for the participation of such capital which is unusual for a centrally planned socialist economy, and which can be flexibly applied to suit particular circumstances. The potential for such flexibility has been enhanced by the inclusion of a general article to the code which states that: "In specific cases . . . the Government of the Socialist Republic of Viet Nam may approve more advantageous terms in favor of the foreign party."
5. MEDIUM-TERM PROBLEMS AND PROSPECTS

5.01 In addition to the development problems faced by almost all low-income countries - low agricultural productivity, a small industrial base, shortage of capital and an unfavorable balance of payments - Viet Nam suffers today from the destruction and distortions caused by almost three decades of continuous warfare and the development of two completely different economic systems for more than 20 years. These consequences of the war and partition overwhelmingly dominate the current situation and will continue to be important determinants of the country's economic prospects for at least the coming decade.

Consequences of War and Partition

5.02 The overriding conclusion to be drawn from an examination of the current situation in Viet Nam is that in terms of the population's standard of living, the economic infrastructure and the level and pattern of production, the economy stands today roughly where it was in the mid-1960s. Average income in northern Viet Nam when the war ended in 1973 was only about the level attained in 1960. GDP per capita in southern Viet Nam in 1972 has also been estimated as practically unchanged since 1960, at about US$140. In the north, the average income, though low, is fairly evenly distributed. Basic needs of the population are met by a subsidized minimum diet and housing; education and medical services of a standard matched by few developing countries are provided free, while all other types of consumption are restricted by rationing and (on the free market) by high prices. In the South, the possibilities of famine and severe hardship, especially among the urban poor, immediately following the collapse of the former regime were successfully avoided with the help of supplies from the North and international relief efforts.

5.03 The northern and southern halves of the economy emerged from the war and the long period of partition with different sets of problems. In the north the impact of the war was considerable and the full effects of the widespread physical destruction and disruption are still being evaluated. The destruction and damage to the country's infrastructure were widespread and in some cases total. In the transport sector, for example, all the main bridges and railroad stations were put out of action. The main power stations and industrial centers were extensively damaged and 12 cities and 51 townships totally destroyed. Apart from the destruction and loss of life, it was necessary to relocate industry in small-scale, less efficient industrial units removed from the centers of population and consumption; rural communities became isolated from the urban and industrial centers and had to become largely self-sufficient. Such wartime exigencies did not permit the normal evolution of a productive structure geared to longer term development needs and raising the population’s standard of living. Instead, additional productive capacity, supplied to a significant degree through foreign assistance, was applied mainly to the pursuit of war, while maintenance and expansion of the economy’s productive capacity were postponed and the growing population’s standard of living remained at a low level. The necessity for highly centralized management and control during the war
impeded the development of a management system oriented towards planning and organizing the long-term growth of the economy under peacetime conditions.

5.04 Immediately upon the end of the war in 1973 in the north, the Government formulated a Three-Year (1973-75) Economic Reconstruction Plan aimed primarily at reconstruction of economic infrastructure and restoring production to the mid-1960 level. Although the primary objective of rehabilitation was in large part achieved by the end of the plan period, a massive backlog remains of investment requirements in economic infrastructure. The transport network, in particular, is a major bottleneck to development; in recent years, for instance, state enterprises have reportedly often needed to transport their equipment and material requirements from the suppliers. Clearance of goods from the port of Haiphong is much delayed and congestion is not yet evident in the road and railway system only because vehicles and rolling stock are in short supply. The Government already considers the material supply system to be a major constraint on growth: unless substantial planning and investment are undertaken immediately, the growing volume of both internal and external trade resulting from resumed economic activity, as well as increased specialization of production within the country, will quickly exacerbate the transport situation.

5.05 Industry has also undergone a period of intensive reconstruction from 1973-76, but substantial relocation and reorganization of production units are still required. This involves not only completing the relocation of industry dispersed during the war, but also the reorganization of both agricultural and industrial production from small, self-sufficient units towards larger, more efficient units that specialize according to their comparative advantages.

5.06 The effects of the war in the south were different. The physical destruction of assets and infrastructure was much less. In fact, as far as urban infrastructure and transport facilities are concerned, the south, aided by a large inflow of foreign assistance, may have on balance added to such infrastructure at a faster rate than it might otherwise have done. On the other hand, there was considerable destruction of agricultural assets and a large backlog of deferred maintenance of rural infrastructure has accumulated. For example, because of long neglected maintenance as well as physical destruction by the war, irrigation, drainage, flood control and salinity prevention systems serving about half a million hectares need rehabilitation and improvement. Huge areas of cultivated land abandoned during the war require substantial rehabilitation before they can be brought back into production. The agricultural export sector was also adversely affected, especially the rubber plantations which have suffered severely from destruction of trees and defoliation and now require considerable rehabilitation and replanting.

5.07 The greatest effect of the war in the south, however, was the disturbance to agricultural production resulting from widespread involuntary movements of population within the rural areas and to the main urban centers. Artificial urbanization took place as the populations of Saigon and other large towns grew while the level of commodity output per capita fell steadily. These migrants were fed, and to some extent, employed through foreign inflows that financed the vast increase in imports needed to compensate
for the decline in domestic production. An industrial structure developed but it produced mainly consumer and light capital goods on the basis of imported raw materials. The bias towards the urban areas was also reflected in the development of economic infrastructure, as the network of highways connecting urban centers expanded while rural roads were neglected, and the power system was oriented mainly to serve urban needs. The result was an economy enjoying a higher standard of living than could be sustained on the basis of domestic output and the country's normal ability to import, but with an unbalanced industrial structure and severe maldistribution of population. Immediately before the end of the war in 1975, 40% of the southern population were living in urban centers, with half the labor force engaged in the service sector, including a quarter in war-related and public administration activities.

5.08 The divergent development of the two halves of the economy since 1954 also poses a number of serious problems. Integration of economic infrastructure, especially the transport and power systems, will require substantial investment. It will take time and effort, in particular, to reconcile the differences in attitudes and habits that have been formed in more than two decades under vastly different economic and social systems. The Government recognizes that the restructuring of the southern economy into a socialist system is a difficult and complex job that cannot be completed in a short time. For some time, therefore, the present mixed economic system in the south will continue to exist.

5.09 While the differences between the northern and the southern economies present considerable management difficulties that may impede the development effort in the short term, a united economy clearly offers greater potential and much wider options for longer term development. Indeed unification could considerably facilitate the tasks of reconstruction and rehabilitation. In many respects, the two parts of the country face problems and difficulties that will be less intractable if tackled within the context of a larger, united economy. Despite the differences that still exist in the two parts of the economy, therefore, the Government is approaching the task of economic development in the context of a unified economy and, immediately following political unification in July 1976, began the preparation of a five-year development plan for the country as a whole.

Second Five-Year Development Plan (1976-80)

5.10 In Viet Nam, the five-year plan is the longer term framework that defines all the national economic objectives, while the annual plan specifies the way in which these objectives are to be approached or achieved in the short term. Although the current five-year plan nominally covers the period 1976 to 1980, it was only adopted by the National Assembly at the end of 1976, and
detailed investment programs are still being prepared. Meanwhile, investment is being undertaken under the framework of the 1977 Annual Plan, the first to be prepared for the reunified country.

5.11 The Party Congress in December 1976 defined the major political tasks of the country to be three concurrent revolutions - production relations revolution, ideological and cultural revolution, and scientific and technical revolution, of which the scientific and technical revolution is to be considered the most important. In addition to the immediate needs of reconstruction and rehabilitation, the general objectives of the plan are twofold: to build the economic and social infrastructure for sustained and rapid long-term growth and to improve the material and cultural life of the working population. Towards this end, the Government has defined seven "fundamental tasks" for the plan:/1

"(i) To concentrate fully the strength of the whole country and all sectors and echelons on achieving a rapid development of agriculture; to accelerate the growth of forestry and fishery, develop light industry and food industry, including handicrafts and the artisan industry, in order to meet the country’s needs for food, foodstuffs and other essential consumer goods; to improve the material and cultural life of the people; and to increase investment for longer term socialist industrialization;

(ii) To maximize the use of existing industrial capacities and build new establishments of heavy industry, especially engineering, for the purposes of serving, above all the needs of agriculture, forestry, fishery and light industry and paving the way to provide technical equipment during the next stage of development; to expand communications and transport; to increase capital construction capacities; to step up scientific and technical research and begin preparation of large-scale construction projects in all sectors that will be undertaken in future long-term plans;

(iii) To make full use of the social work force; to organize and manage the manpower and redistribute the manpower among various areas and sectors in order to achieve a marked increase in labor productivity; to begin the establishment of a modern industrial-agricultural economic structure; to combine centrally-run economy with locally-managed economy, gradually building each district into an agro-industrial economy; to integrate economic construction with national defense;

/1 Report on "The Guidelines, Tasks and Principal Objectives of the Second Five-Year State Plan" by Prime Minister Pham Van Dong to the Fourth Congress of the Viet Nam Workers’ Party, December 1976.
(iv) To achieve basic socialist transformation in the south and consolidate and perfect socialist production relations in the north; to improve distribution, pricing, and financial and banking services;

(v) Rapidly to increase export, especially of agricultural and light industrial products, and expand economic relations with foreign countries;

(vi) To accelerate the development of education, culture and health, carry out educational reform throughout the country, step up the training of cadres and workers and eradicate the social vestiges of war and neocolonialism; and

(vii) To carry out extensive reforms of economic organization and management in order to build a new system of economic management for the whole country."

5.12 During the plan period, the gross output of the economy is projected to increase by 14-16% per year while national income is expected to increase by 13-14% p.a. These results are to be achieved by state investment expenditures of D 30 billion comprising D 9 billion for agriculture, D 10.5 billion for industry and D 10.5 billion for transport and services. The plan also sets physical objectives for key sectors in terms of the volume of production to be reached. These are summarized in the table below, together with the current levels of production where known, and the targets for 1977:

<table>
<thead>
<tr>
<th></th>
<th>1976 (Actual)</th>
<th>1977 (Target)</th>
<th>1980 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>13.7 million tons</td>
<td>16 million tons</td>
<td>21 million tons</td>
</tr>
<tr>
<td>Sea fish</td>
<td>600,000 tons</td>
<td>700,000 tons</td>
<td>1 million tons</td>
</tr>
<tr>
<td>Hogs</td>
<td>9.3 million</td>
<td>10.8 million</td>
<td>16.5 million</td>
</tr>
<tr>
<td>Coal</td>
<td>4.7 million tons</td>
<td>6 million tons</td>
<td>10 million tons</td>
</tr>
<tr>
<td>Electric power</td>
<td>3 billion kWh</td>
<td>3.3 billion kWh</td>
<td>5 billion kWh</td>
</tr>
<tr>
<td>Cement</td>
<td>722,000 tons</td>
<td>816,000 tons</td>
<td>2 million tons</td>
</tr>
<tr>
<td>Chemical fertilizers</td>
<td>438,000 tons</td>
<td>560,000 tons</td>
<td>1.3 million tons</td>
</tr>
<tr>
<td>Steel</td>
<td>-</td>
<td>-</td>
<td>250,000-300,000 tons</td>
</tr>
<tr>
<td>Timber</td>
<td>1.6 million cu m</td>
<td>1.8 million cu m</td>
<td>3.5 million cu m</td>
</tr>
<tr>
<td>Cotton cloth</td>
<td>-</td>
<td>-</td>
<td>450 million m</td>
</tr>
<tr>
<td>Paper</td>
<td>-</td>
<td>-</td>
<td>130,000 tons</td>
</tr>
<tr>
<td>Sugar</td>
<td>-</td>
<td>-</td>
<td>220,000-250,000 tons</td>
</tr>
<tr>
<td>Land reclamation /a</td>
<td>149,000 ha</td>
<td>270,000 ha</td>
<td>1 million ha</td>
</tr>
<tr>
<td>Afforestation /a</td>
<td>95,700 ha</td>
<td>200,000 ha</td>
<td>1.2 million ha</td>
</tr>
<tr>
<td>Housing /a</td>
<td>-</td>
<td>-</td>
<td>14 million sq m</td>
</tr>
</tbody>
</table>

/a Targets are cumulative.
5.13 The 1977 Annual Plan sets out the detailed targets and implementation of the segment of the five-year plan applying to that year. Reflecting the scope for relatively large increases in output as the economy switches from wartime to peacetime conditions, the percentage growth projected in the 1977 Annual Plan is generally more ambitious than the projected increase for the plan period.

**1977 Annual Plan Growth Target**

<table>
<thead>
<tr>
<th>% increase over 1976</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross social product</td>
</tr>
<tr>
<td>National income</td>
</tr>
<tr>
<td>Gross agricultural output</td>
</tr>
<tr>
<td>Gross industrial output</td>
</tr>
<tr>
<td>Exports</td>
</tr>
<tr>
<td>Capital construction</td>
</tr>
<tr>
<td>Gross output of:</td>
</tr>
<tr>
<td>Energy</td>
</tr>
<tr>
<td>Metallurgy</td>
</tr>
<tr>
<td>Machine industries</td>
</tr>
<tr>
<td>Chemicals</td>
</tr>
<tr>
<td>Food</td>
</tr>
<tr>
<td>Textile, leather goods</td>
</tr>
</tbody>
</table>

**Volumes**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Paddy</td>
</tr>
<tr>
<td>Pork</td>
</tr>
<tr>
<td>Afforestation (area)</td>
</tr>
</tbody>
</table>

5.14 The clear priority of the Government’s development program is agricultural development, first of all to meet the population’s basic food requirements, and then to provide raw materials for industries and for export. The main objective is to be self-sufficient in food grains by the end of the plan period and the production of at least 21 million tons of grains by 1980 is regarded as the most important target of the plan.

5.15 Agricultural development will be based on intensive cultivation, improvement of crop varieties and expansion of cultivated area, with investment initially being concentrated on irrigation infrastructure. While industries are being expanded to provide the necessary tools and equipment, the Government’s efforts will concentrate on the mobilization of labor for the rehabilitation and construction of smaller scale irrigation facilities.
5.16 High priority is also given to the development of forestry, fisheries and consumer goods industries, both to improve the population's standard of living and for export. Industrial development is viewed during the plan period primarily as a means of supporting agricultural development and will be based to the extent possible on domestic raw materials. The main objectives in the north are the continued reconstruction and modernization of industrial installations; acceleration of the exploitation of domestic raw materials (including coal and other minerals); and development of industrial capacity to supply spare parts and intermediate goods needed by industries in the south. The main objectives in the south are the development of regional industries in rural areas, in particular, the New Economic Zones; the substitution of domestic for imported raw materials and the development of a domestic capability to supply spare parts and accessories for existing machinery; backward integration of production to increase the contribution of industry to the economy; and development of export-oriented industries. Special emphasis will be given during the plan period to exploration for oil and gas in both the north and south.

5.17 Development of infrastructure during the plan period is intended mainly to support agricultural and industrial activities. Special attention will be devoted to transport and communication links between the north and south, and between the coastal areas and the highlands, with priority given to development of coastal sea transport, railways, rural and mountain roads, and roads serving the New Economic Zones. In the power sector, the immediate tasks are the reconstruction and rehabilitation of plants destroyed or damaged during the war, expansion of generating capacity, and reorientation of generating and distribution capacities in the south towards the rural areas, especially for such uses as irrigation pumping. The first step will also be taken during the current plan period towards the longer term development of the country's substantial hydroelectric resources and the integration of the separate power systems of the different regions.

5.18 Expansion of educational and health facilities will be concentrated in the south where existing services are less developed. In addition, the Government plans to carry out extensive educational reforms throughout the country to combine education with social development, incorporate technical education into the general curriculum and develop work-study programs. Housing will be an important component of the Government's effort to improve the population's standard of living; large housing construction programs, in particular, are planned for cities and industrial areas in the northern provinces. On the other hand, the Government does not consider it possible to increase significantly per capita consumption of grain and foodstuffs during the plan period and Government efforts will concentrate on improving food processing and distribution. Similarly, per capita consumption of fabrics will not significantly increase and emphasis will be on improvement of quality and style.
5.19 During the plan period, the Government intends to expand economic relations with foreign countries, both socialist and nonsocialist. Priority will therefore be given to exports of agricultural, marine and forest products, minerals, and handicraft and light industrial products. Tourism will be developed and foreign investment, as a source of both capital and technology, will be encouraged.

5.20 To achieve these economic and social objectives, the Government has identified three major programs to be undertaken in the plan period:

(a) **Reorganization of Production and Redeployment of Labor Force Throughout the Country.** As discussed earlier (para. 3.28), a major government objective in the plan period is to reorganize agricultural and industrial production units into larger, more efficient and better specialized units. Furthermore, recognizing that the existing distribution of the country's labor force has been distorted by the war and does not adequately serve the needs of development, the Government regards the redeployment of the labor force towards the production of commodities as its most important and urgent task during the current five-year plan period. Because the numbers involved are so enormous — at least 2-3 million workers are already unemployed in the southern cities — industries cannot possibly provide the necessary employment opportunities in the short term. The immediate solution is a massive resettlement program in the rural areas; the core of this program is the establishment of New Economic Zones mostly in the southern half of the country but also to a lesser extent in the northern interior (see paras. 2.34-2.39). Although the main objective is the resettlement of the unemployed from the urban centers in the south, resettlement from overpopulated northern provinces to underpopulated areas is also an important part of the program. An organizational and administrative framework has already been established, and in 1976 more than one million people were resettled. The target is to resettle a further four million people in the remaining four years of the plan. As part of its redeployment of the labor force, the Government is increasing the participation of the armed forces in the country's development effort, especially in the construction of New Economic Zones and other large construction projects. For the longer term, the reorganization of production aims at combining agricultural and industrial development at the regional level, improving coordinated development of the central and local economy and deploying the labor force effectively throughout the country.

(b) **Improvement of Management Methods.** This program aims at continuing the planning and management reforms that have been initiated in the north during the last few years (see paras. 3.23-3.31). A more important role for the financial and banking system is also planned.
Increased Efficiency of the Government. The objective is to increase the efficiency of the administrative machinery and the cultural and economic management organizations. This includes the timely formulation of an economic plan for each sector in which production responsibility and direction of growth of each basic unit are clearly defined; revision of management regulations and procedures that have become obsolete, and adoption and application of new management techniques better suited to the current situation and conditions. Attention is also being given to improving public administrative capability, promoting government discipline and encouraging individual responsibility.

These general objectives, major tasks and programs of the Second Five-Year Development Plan set the framework for the country's medium-term economic and social development. Some of the quantitative targets are very ambitious and may be difficult to achieve, but whether these targets are realistic or not is less important than the plan's fundamental development objectives. These clearly aim at building a base for sustained and rapid longer term growth, as well as significantly improving the population's standard of living, but serious constraints to the economy's growth remain and will not be easy to overcome.

Planning and Management

The five-year plan indicates that the concurrent tasks of rehabilitating the economy, building the base for longer term development and integrating the northern and southern economies will place a heavy burden on the country's planning and managerial capability. The Government is therefore currently making a major effort to improve the country's managerial ability. The far-reaching reforms now under way in the north will, to a large extent, determine the country's future planning and management capability, but many important issues remain unresolved. In the south, the country has lost some of its higher level manpower and the effective supply of management and technical skills in the immediate future will depend largely on the success of the Government's effort to integrate those managers and technicians trained and brought up under a different social and economic system into the new society.

Viet Nam's economic prospects depend to a large extent on this current effort to develop an efficient planning and management system. The effective management and mobilization of labor, for instance, have been the hallmark of the Vietnamese approach to economic development and facilitated the speedy repair of wartime damage and the Government's effort to stimulate agricultural production. It is an obvious response to a situation in which unskilled labor is abundant and capital is scarce. Now that peace and reunification have been achieved the need for management and organizational skills has expanded, along with the development opportunities, and the tasks are in many respects more difficult. As Prime Minister Pham Van Dong warned in his report on the five-year plan cited above, "careful planning should be made to avoid massive mobilization of labor without adequately preparing the facilities and equipment, thus wasting labor, capital and land; utmost effort should be made to prevent current projects from interfering with the longer range economic development plan."
5.24 In particular, the establishment of the New Economic Zones which will eventually involve millions of families requires extensive planning, organization and managerial skills. As with any resettlement program of this magnitude in any country, inadequate planning and implementation could jeopardize the welfare of the settlers, endanger the future of the program in the eyes of the population, and lead to the uneconomical use of cultivable land. The present program is designed to meet the pressing need to get people onto the land and able to produce at least their basic food requirements as quickly as possible. While success depends mainly on the Government's organizational and managerial capability, external assistance could help the Government to carry out a longer range program. Such a program will enable larger numbers of settlers to achieve a higher level of income, but will require more capital than is currently available to the Government.

5.25 Planning in Viet Nam has hitherto been dominated by considerations of short-term consistency and balance; in the future more attention can be devoted to questions of longer run efficiency and optimum allocation of resources. While many of the economy's immediate needs are obvious and the authorities are anxious to get on with the urgent tasks without unnecessary delays, longer range planning is important to ensure that investments take advantage of the complimentarity of the northern and southern economies as well as the country's comparative advantage in an international context. The Mekong Delta, for instance, offers the immediate prospect of substantially increased rice production and, in the longer run, the potential—in terms of known cultivable areas and available varieties of rice—of producing 16 million tons of paddy per year (2 million hectares planted to two crops of high yielding varieties producing 4 tons per hectare per crop), roughly the expected consumption of the whole country in the early 1980s. In view of the current serious food shortage, the Government's current efforts to rehabilitate and improve water control facilities and to increase the area of cultivated land in the delta as quickly as possible seem eminently sensible. At the same time, studies could be initiated to determine, among other things: (a) whether increased diversion of fresh water upstream during the dry season for irrigation purposes will seriously aggravate the salinity intrusion problem; (b) whether there is potential for increased production of other crops, possibly without costly investment in water control facilities; and (c) what implications the vast rice-growing potential of the delta may have for the pattern of agricultural development in the rest of the country and for exports. Similarly, studies of market prospects both within Viet Nam and internationally are required for investment planning in the industrial sector. Since the Government has had little experience with international trade outside the Socialist Bloc, the planning and management of the Government's ambitious export program will be particularly challenging. Special management techniques may be necessary, for instance, for export-oriented industries to permit quick responses to changing market conditions. These are also areas where external assistance in the forms of modern equipment, market studies and engineering and management techniques could complement the Government's development efforts.
Investment and Resource Requirements

5.26 The ambitious investment program of the Government’s current five-year plan will require a considerable effort to mobilize both domestic and external resources. In 1976 and 1977, the first two years of the plan, state investment amounted to an average of slightly less than D 4,000 million, while investment by cooperatives and the private sector was probably in the order of D 700 million per year. Total investment in the economy was therefore about 19% of national income (estimated according to United Nations methodology, or 23% according to Vietnamese methodology). Although it is not possible to reconcile budget and balance of payments estimates of external capital inflows for the individual years, both estimates indicate that foreign capital amounted to an average of about D 2,100 million in the two years, thus accounting for about 45% of investment expenditure.

<table>
<thead>
<tr>
<th></th>
<th>Actual 1976</th>
<th>Plan 1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>State investment</td>
<td>3,630</td>
<td>4,200</td>
</tr>
<tr>
<td>Cooperatives and private /a</td>
<td>570</td>
<td>800</td>
</tr>
<tr>
<td><strong>Total investment</strong></td>
<td><strong>4,200</strong></td>
<td><strong>5,000</strong></td>
</tr>
<tr>
<td>Financed by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External assistance /b</td>
<td>2,062</td>
<td>2,117</td>
</tr>
<tr>
<td>National savings</td>
<td>2,138</td>
<td>2,883</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As % of National Income</th>
<th>Vietnamese Methodology /c</th>
<th>United Nations Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>State investment</td>
<td>19.3</td>
<td>19.6</td>
</tr>
<tr>
<td>Cooperatives and private</td>
<td>3.0</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total investment</strong></td>
<td><strong>22.2</strong></td>
<td><strong>23.3</strong></td>
</tr>
<tr>
<td>Financed by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External assistance</td>
<td>11.0</td>
<td>9.9</td>
</tr>
<tr>
<td>National savings</td>
<td>11.3</td>
<td>13.5</td>
</tr>
</tbody>
</table>

/a Provisional estimates.

/b Based on balance of payments data and are consistent with budget data only when averaged over the two years. Balance of payments data in US dollars are converted to Dong at the rate of US$1.00 = ND 3.98 and do not include commodity aid.

/c National income estimates excluding most services.

Sources: Data provided by the Ministry of Finance and the State Bank.
5.27 Total state investment expenditure of D 30,000 million is projected for the five years 1976 to 1980. To achieve this will require an average expenditure of D 7,400 million over the next three years, or an increase in state investment from the current level of D 4,200 million to almost D 9,000 million by 1980. A possible time profile of investment expenditure over the five-year period to meet the plan's target is given in the table below:

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>State investment</td>
<td>3.6</td>
<td>4.2</td>
<td>6.0</td>
<td>7.5</td>
<td>8.7  30.0</td>
</tr>
<tr>
<td>Others</td>
<td>0.6</td>
<td>0.8</td>
<td>1.0</td>
<td>1.2</td>
<td>1.4  5.0</td>
</tr>
<tr>
<td>Total investment</td>
<td>4.2</td>
<td>5.0</td>
<td>7.0</td>
<td>8.7</td>
<td>10.1 35.0</td>
</tr>
</tbody>
</table>

Financed by:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External assistance</td>
<td>2.1</td>
<td>2.9</td>
<td>3.9</td>
<td>5.1</td>
<td>5.8  20.0</td>
</tr>
<tr>
<td>National savings</td>
<td>2.1</td>
<td>2.9</td>
<td>3.9</td>
<td>5.1</td>
<td>5.8  20.0</td>
</tr>
</tbody>
</table>


5.28 The above projections imply that, to achieve the plan's investment target, the rate of investment would need to increase from the 1976 level of 19% of national income to 27% by 1980 (or from 22% to 33% according to Vietnamese methodology). The Government has thus set out upon an ambitious program and its achievement will, to a large extent, depend upon two factors, managerial and organizational abilities and the mobilization of domestic and external resources.

5.29. Since a significant proportion of investment will need to be financed through external assistance, the economy will need to develop a capacity to absorb an expanding volume of project assistance from abroad. The above projections suggest that about 40% of total investment during the plan period would need to be financed by external assistance. However, rational savings will still play the predominant role, rising in relative importance from 50% of the total in 1976 to an estimated 60% in 1980. The savings rate would need to rise from the current level of 9.5% to almost 16% of national income (or from 11% to 19% according to Vietnamese methodology), implying a marginal savings rate of about 25%.

5.30 Most of the current savings in the economy are generated in the northern provinces where the Government has in the past demonstrated its ability to restrict private consumption and mobilize resources for investment and a 16% savings rate by 1980 would not seem unrealistic. The southern economy, in the wartime conditions of the late 1960s and early 1970s, maintained an average consumption level significantly above its income. Its
ability to mobilize savings in the current peacetime conditions and under the transitional economic system remains to be demonstrated. In a socialist economy the level of saving and investment is, to a large extent, directly determined by the Government, but it still depends fundamentally upon the level and rate of growth of real incomes. Viet Nam is planning for a relatively high rate of growth of national income, 13-14% p.a. in real terms. With a population growth rate of around 2.5%, a marginal savings rate of 25% would allow per capita consumption to rise by about 8% p.a. To realize such an increase in consumption will require an appropriate mix of domestic output of consumer goods, plus imports. Personal consumption in the north is already very low and the Government has indicated that one of its aims is to increase it, thus leaving little scope for further increasing the average rate of savings. There is a similar need to maintain and even increase the level of public consumption.

5.31 The above points to the importance of improving domestic resource mobilization, especially in the southern provinces. In the period of transition foreseen in the plan much will depend upon maintaining the incomes and savings of enterprises still in private ownership. Appropriate public policies towards such enterprises in the fields of taxation, access to credit, and imported new materials and spare parts could do much to maintain a high rate of growth of output and thus permit higher savings in the south. For the same reasons, plus the need to create more employment, there is a strong case for using the maximum capacity of the industrial sector in the south. To do so will require, however, that the resultant output be absorbed; since a significant proportion of that output will consist of consumer goods, that implies that the overall management of the economy will be such as to permit the increase in consumption to take place.

5.32 There is a clear link between the need for a high rate of growth of incomes, in order to support a stronger effort in mobilizing domestic savings, and the need for substantial foreign assistance. As discussed in the following chapter, imports of capital goods, raw materials and intermediate products are complementary to domestic resources, and are required to permit the relatively high rates of growth set out in the five-year development plan. The achievement of these high rates of growth will be jeopardized if imports have to be cut back because of a continuing shortage of foreign exchange. The prospects for the balance of payments and capital inflows are discussed in the next chapter. It should be noted here that the impact of any shortfall in foreign exchange will depend upon the Government’s reactions in cutting imports. Such cuts would be bound to affect investment, but the effect upon output growth would then depend upon the nature of the cuts, and the extent to which it was possible to maintain supplies of inputs essential to current output. Investment projects with long gestation periods could be cut back with little impact upon the current rate of growth of output.
6. THE BALANCE OF PAYMENTS AND EXTERNAL CAPITAL INFLOWS

6.01 The economy of Viet Nam has emerged from the war with a structure which is vitally dependent upon foreign trade both to maintain the output of agriculture and industry and to carry out the investment programs of the plan. However, the shortage of foreign exchange is severe, with exports covering only 40% of the value of imports in 1976, with the balance covered by aid and capital from abroad. While the plan places great stress on self-reliance, it also gives high priority to expanding exports and economizing on imports. The extent to which the economy should attempt, in the longer run, to be self-sufficient is a question which cannot easily be answered in the present plan period; in the short run there are only limited possibilities for import substitution and the growth of output, including exports, requires that imports increase as well.

6.02 The five-year plan does not set out detailed projections for the balance of payments up to 1980. Presumably these will be filled in as each annual plan is prepared. It does set out as an objective that exports should cover 80% of the value of imports in 1980, which would imply a substantial improvement in the balance of payments situation over the next two to three years. This is an ambitious objective, which, if achieved, will mean a significant fall in the net transfer of resources from abroad. In the absence of a detailed balance of payments projection spelling out the path by which the above target would be reached the following discussion presents an alternative scenario in which the trade deficit would not show such a dramatic improvement. This alternative projection is presented for illustrative purposes, and has been derived from estimates of the possible rate of growth of exports and of the country's import requirements. It is intended to show the possible orders of magnitude likely to be involved in the remaining three years of the plan, in circumstances where there would be a relatively large net transfer of resources from abroad.

Import Requirements

6.03 The Government's ability to mobilize domestic resources has, in the past, been impressive and it is possible to be sanguine about future prospects. The problem of external resource mobilization may prove to be more difficult mainly because Viet Nam's current imports complement, rather than substitute for, domestic production and any reduction over the next 3-5 years would result in decreased domestic production and investment. Specifically, the bulk of Viet Nam's imports - two thirds in 1977 - consists of intermediate goods, including raw materials (31% of total planned imports in 1977), fuels (17%), spare parts (9%), and fertilizer and insecticides (8%) (see Table 1). In the longer run, there are obvious opportunities to reduce substantially the economy's reliance on these imported inputs, particularly as integration

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/1 The official figures for the balance of payments exclude certain imports financed under aid agreements, (see footnote /c to Table 3), but the amounts involved are not thought to be large enough to change the general order of magnitude of the situation discussed in this chapter.
of the two halves of the economy progresses, but for at least the next 3-5 years imports will need to expand in line with the rapidly rising level of economic activities.

6.04 Machinery and equipment are expected to account for about one fourth of imports in 1977. In view of the relatively small size of the domestic capital goods industries and the massive rehabilitation and reconstruction requirements, there is an obvious need to increase the volume of imported machinery and equipment to supplement limited domestic supply and to serve as a vehicle for the transfer of technology.

6.05 Perhaps less obvious but no less urgent in present circumstances is the need for a wide range of imports to achieve the Government's current development objectives. First, the Government is committed to improving the standard of living of the population; since the minimum needs of the population are already adequately met, this commitment can only be manifested to a large extent in increased availability of industrial consumer goods, e.g., clothing, shoes, bicycles, simple home appliances, clocks, radios, etc., and building materials for residential housing. Second, an adequate supply of such consumer goods is necessary to ensure the effectiveness of the new management system, which relies on material incentives more than hitherto. Third, improved availability of consumer goods is required to achieve the Government's objective of increased specialization in the country's production pattern. For example, if the seven agricultural zones are to specialize in the production of the crops for which they have a comparative advantage, the producers must receive assurances that increased production will result in higher real incomes. Experience elsewhere in Southeast Asia as well as in Viet Nam has amply demonstrated that rice farmers are reluctant to make the effort required to plant a second crop even if irrigated water is available, unless they are certain that their surplus production can be exchanged for a reasonable amount of consumer goods.

6.06 Furthermore, the current level of consumer goods imports is very low, the projected amount for 1977 (excluding food grains) being less than 10% of total imports. Even if the Government chooses to postpone any substantial increase in private consumption and continues to maintain consumer imports at the current low level, total imports must nevertheless rise rapidly in line with the planned increase in investment and domestic production. In the present circumstances of Viet Nam, it seems undesirable to continue giving highest priority to the import of machinery and equipment at the expense of intermediate goods. Underutilization of industrial capacity is evident in the north (para. 2.57) as well as in the south (para. 2.56) because of inadequate maintenance and shortage of spare parts and raw materials. Reduced imports of intermediate goods will undoubtedly exacerbate the problem; indeed, it would seem that, in the short and medium term, imports of maintenance equipment, spare parts and raw materials could yield much higher returns to the economy than imports of new plant and machinery. Similarly, reducing imports of consumer goods whenever foreign exchange is scarce could also result in a loss of incentives to industrial workers and farmers and lead to reduced production in the economy. For these reasons, it seems desirable to maintain a balanced import structure even if the supply of foreign exchange turns out to be less than expected.
6.07 Table 1.1 in Annex 1 brings together a set of projections for the years of the plan. The total projected imports of $1,830 million in 1980 are close to twice the plan's target for 1977, implying a very rapid rate of growth over the coming three years. However, it should be noted that the projected volume of imports in 1980 would still be substantially less than the total amount imported by the two separate economies of Viet Nam six years earlier ($1,700 million in 1974 prices), of the order of 30-35% less after taking into account past and projected inflation.

Export Prospects

6.08 The Government's export target during the current plan period is very ambitious; while the longer term prospects certainly seem very favorable, the prospects for immediate growth appear more limited and the rehabilitation and expansion of export production may require a much longer time than anticipated by the Government. Substantial rehabilitation of existing rubber plantations is required, for instance, before the past export volume can be attained; increased exploitation of the country's fishery, forestry and mineral resources for export requires substantial capital investment and a fairly lengthy gestation period. In addition, the import component of the major export projects, including rubber processing factories, freezing plants, timber processing and pulp and paper plants, and mining equipment, is very large and it would appear that these projects are likely to be net users of foreign exchange, at least until the early 1980s.

6.09 The Government's export target of $446 million in 1977 represents a 55% increase over the revised estimate for 1976 and more than double the highest level ever achieved by the two separate economies before unification. A further doubling of exports by 1980 would be a considerable achievement. A more cautious projection for the plan period is given in Table 1.2, Annex 1. It shows total exports increasing by 160% from the 1976 total to reach $750 million by 1980.

6.10 Table 1 shows the balance of payments for 1976, the forecast in the plan for 1977 and illustrative projections for 1978-80 on the basis of the above discussion of the prospects for exports and the imports required to support the Government's five-year development plan. Since service transactions are small they have been omitted, and the trade balance is thus also the current account deficit which indicates the financing requirements that will have to be covered by capital inflows. The cumulative deficit amounts to US$3.4 billion over the remaining four years of the plan. Such deficits, while large, would not be excessive for a country the size of Viet Nam (about $21 per capita in 1980) during a period of rehabilitation and rapid economic growth. There is also a strong presumption that the need for large capital inflows would be much less in the early 1980s in the next plan period. Given the new situation arising from the reunification of Viet Nam and its declared intention of opening up wider trade and economic relationships, it is difficult to forecast the prospects for financing deficits of this size. The following discussion spells out one possible pattern of financing, distinguishing between the two sources, the socialist countries and the rest of the world.
<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Trade Balance</th>
<th>Capital Inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>288</td>
<td>794</td>
<td>-506</td>
<td>Socialist countries: 350</td>
</tr>
<tr>
<td></td>
<td>446</td>
<td>1,045</td>
<td>-599</td>
<td>Rest of the world: 156</td>
</tr>
<tr>
<td>1977</td>
<td>530</td>
<td>1,300</td>
<td>-770</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>640</td>
<td>1,555</td>
<td>-915</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>750</td>
<td>1,830</td>
<td>-1,080</td>
<td></td>
</tr>
</tbody>
</table>

/a Some imports financed by grants and aid agreements are not included in the balance of payments account.
/b Includes food grain imports for 1977-79; see footnote /a to Table 1.1, Annex 1.
/c It is assumed that the financing needs arising from possible imports of rice in 1977-79 will be shared equally between the socialist countries and the rest of the world. This is not the same as assuming that the rice imports will be provided, either as aid or through credits, in that proportion by the two groups.


6.11 Viet Nam's trade deficits with the socialist countries have hitherto been financed largely by grants from the exporting countries, with relatively small amounts of long-term credit. Although an accurate valuation of assistance from socialist countries in terms of convertible currency is not possible, economic aid to northern Viet Nam in the decade before reunification has been estimated to be of the order of $350 million per year, of which about 80% was from the Soviet Union and the People's Republic of China. Aid was channeled primarily to the construction of economic infrastructure, particularly transport, communication and power, and basic industry. In 1977 Viet Nam's trade deficit with the socialist countries is expected to fall sharply from an estimated $350 million in 1976 to about $150 million./1 Even though the trade account does not include all transactions, this would seem to imply a decrease in net transfers from the socialist countries. Vietnamese authorities explained that this was due to the decline in disbursements for development projects while the current five-year plan was being prepared.

/1 Excluding additional financing requirements for grain imports; see footnote /a to Table 3.
Now that the plan has been launched, disbursements for socialist countries-assisted projects should rise sharply over the next few years, probably to some $500 million by 1980. Among the more important projects being financed with assistance from the socialist countries are the construction of a new bridge across the Red River near Hanoi (People's Republic of China); construction of a dam and hydroelectric facility on the Da River, a petroleum refinery, reconstruction and expansion of the port of Haiphong (Soviet Union); reconstruction of the city of Vinh (German Democratic Republic); and expansion of the Gia Lam railway factory in Hanoi (Poland).

6.12 Past economic assistance to Viet Nam from socialist countries was mainly for machinery and equipment imports associated with investment projects. In the early 1960s, for instance, 60-80% of socialist aid was used for the import of machinery and equipment and only 20-40% for fuel, raw materials and consumer goods. Assuming that the average ratio of 70% of aid for capital goods and 30% for intermediate and consumer goods remains valid today, the use of assistance from socialist countries over the remaining years of the current plan period is likely to be as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Machinery and equipment</th>
<th>Intermediate and consumer goods</th>
<th>Total assistance from socialist countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>235</td>
<td>90</td>
<td>325</td>
</tr>
<tr>
<td>1979</td>
<td>290</td>
<td>122</td>
<td>412</td>
</tr>
<tr>
<td>1980</td>
<td>350</td>
<td>130</td>
<td>500</td>
</tr>
</tbody>
</table>

6.13 In recent years, assistance from nonsocialist countries to northern Viet Nam and, after 1975, to reunified Viet Nam has also been expanding, the major sources being Sweden, France and Japan. Grants from the Swedish Government, amounting to over $200 million over the past three years, are financing the construction of a 50,000 ton pulp and paper mill near Hanoi, a pediatric hospital in Hanoi and a general hospital in the coal mining district of Uong Bi. Grants from the Japanese Government financed $45 million of imported construction materials and transport equipment in 1975 and 1976, while most other assistance was in the form of long-term credits. Substantial relief assistance was also provided by the United Nations Organization in 1975 and 1976.

6.14 Assistance will also be forthcoming from other countries, and Viet Nam can expect to draw further upon the resources of the IMF and to obtain loans and credits from the other multilateral agencies. It is too early to state what will be covered by such financing, but if the first priority of assistance is to meet the remaining import requirements for machinery and equipment, the use of external assistance in convertible currencies could be as follows:
6.15 These estimates should be taken with more than the usual caveat associated with this type of analysis. In the absence of sufficient detailed knowledge of the Government's development programs, the economy's propensity to import, the country's export potential, or the magnitude of assistance that is likely to be provided by the socialist countries, the estimates can only illustrate an order of magnitude of Viet Nam's needs. The following tentative conclusions might be drawn from such projections: first, in addition to assistance that is likely to be provided by the socialist countries, very substantial assistance will be desirable from multilateral agencies and nonsocialist countries to support the Government's reconstruction and development program; second, the magnitude of the assistance required would indicate that bilateral aid from nonsocialist countries will have to be increasingly important sources of assistance, especially since concessional aid from multilateral agencies is likely to be limited by the availability of funds; and third, because the amount of aid required exceeds the probable imports of capital goods, aid policy will need to be flexible during the reconstruction period and consideration should be given to the financing of intermediate and consumer imports through quick disbursing program assistance. Increased imports of noncapital goods are essential to the Government's efforts to revive production and promote efficiency. The limits to what Viet Nam can accomplish in the short run may then be set by the country's absorptive capacity, which has yet to be demonstrated. It would be prudent, in any event, to bear in mind the possibility that specific bottlenecks might arise, especially in the transport sector, which would make it impossible to carry out the proposed investment expenditures at the rate required. It will always be necessary to make a careful choice of priorities, particularly if cuts in imports have to be made. The priorities should then take account of the need to maintain the rate of growth of output, which would mean ensuring that adequate supplies of imported raw materials and intermediate goods are made available.

6.16 The final conclusion to be drawn from the above estimates is that there is a need to provide a significant proportion of the capital inflows on concessional terms. In many respects the case for such terms is more obvious than for other countries. It rests squarely on the fact that the country is still in a reconstruction phase, following a lengthy war, and needs a breathing space in which to reorient its economy to peacetime objectives. Moreover, Viet Nam's economy is not self-sufficient and it is not possible immediately to divert resources to the production of exports to the extent necessary to

<table>
<thead>
<tr>
<th></th>
<th>1978</th>
<th>1979</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>240</td>
<td>245</td>
<td>250</td>
</tr>
<tr>
<td>Intermediate and consumer goods</td>
<td>205</td>
<td>258</td>
<td>330</td>
</tr>
<tr>
<td><strong>Total assistance required in convertible currencies</strong></td>
<td>445</td>
<td>503</td>
<td>580</td>
</tr>
</tbody>
</table>
finance all the urgent import requirements. Assistance is needed to help cover the costs of basic import requirements for a period sufficiently long to permit the country to develop an increased capacity to export.

6.17 Furthermore, Viet Nam is a country that has demonstrated an ability to mobilize its limited resources for investment purposes, despite the low level of per capita income. These investment expenditures are to be carried out within the framework of a development plan which addresses the priority problems of the economy. Within those priorities it should be possible to make effective use of foreign inflows obtained on concessional terms.

6.18 Viet Nam’s international reserves are largely depleted. In the course of 1976, the Government used up its entire holding of foreign exchange reserves ($68 million), drew its gold tranche from the IMF ($18 million), and used $22 million out of its $23 million allocation of SDR. In early 1977 it also drew SDR 31 million ($35.8 million) under the compensatory financing facility. At the end of 1976, gross international reserves of the country amounted to only $117 million, comprising $28 million in gold (valued at $42.22 per ounce), $1 million in SDR, $7 million in blocked French francs, pending settlement of claims of the former French Indochinese Monetary Union, and $81 million in US dollar assets of the former Government of South Viet Nam, blocked by the US Government.

6.19 Disbursed and outstanding debt of the former Government of South Viet Nam amounted to about $200 million at the end of 1975, of which the major creditor countries are the United States ($96 million), Japan ($51 million) and the Federal Republic of Germany ($22 million). At the time of political unification in July 1976, Viet Nam had no outstanding debt to the socialist countries. External assistance from these countries had been provided mainly as grants, and the small amount of debt outstanding was written off at the time of unification. In late 1975 and 1976 the Government received about $100 million of commitments in convertible currencies of private bank credits. Although it starts from a modest debt situation it will need to keep debt service low until the balance of payments situation can be improved.
PRELIMINARY ESTIMATES OF VIET NAM’S EXPORTS AND IMPORTS
1976-80

1. The Government’s import plan for 1977 amounts to $945 million, 19% higher than the revised estimate for 1976. The allocations by end use are $320 million for machinery, equipment and spare parts, $540 million for raw materials, fuel and agricultural inputs and $85 million for consumer goods. Food grain imports, financed in the last two years mainly through commodity aid, have apparently not been included in these projections. Assuming that 500,000 tons of rice need to be imported in the year, an additional allocation of about $100 million will be required.

2. According to the State Planning Commission, import components of investment expenditure in Viet Nam range from 20% in agriculture to 40-50% in industry, power and railways. There is no reason to expect these ratios to be reduced in the near future. Since investment in the economy under the current plan is projected to double from 1977 to 1980, imports of machinery, equipment and spare parts will also need to double, from $320 million in 1977 to about $600 million by 1980. As the plan’s investment program appears to have been estimated in current price terms, no allowance has been added for expected inflation, but a higher rate of international inflation relative to domestic inflation could increase the ratio of imports to total expenditure and thereby lead to higher import requirements in current price terms.

3. Imports of raw materials, fuels, fertilizer and insecticides would normally grow at the same rate as the expansion of economic activities, especially agricultural and industrial production. The volume of agricultural and industrial output in 1977 is expected to increase by 16% and 20% respectively, but these rates of growth are not expected to be sustainable in the rest of the plan period and 10-15% seems more realistic. Including a 6-7% annual increase in price, import values of these intermediate goods seem likely to grow by about 20% per year, thereby increasing from $540 million in 1977 to $930 million by 1980.

4. Consumer goods are the one component of imports the volume of which could be determined according to government development priority. The Government obviously intends to restrict consumer imports - apart from food grains and other essential foodstuffs - as long as foreign exchange remains scarce. Although the Government aims to achieve sufficiency in rice by 1980 it is necessary to allow for imports of food grains in the intervening years. For the purposes of these calculations it is assumed that these will amount to 500,000 tons in 1977, falling to 300,000 tons in 1978, 150,000 tons in 1979 and being eliminated altogether in 1980. Applying prices per ton appropriate to the quality which is likely to be imported, ($200 in 1977, $170 in 1978 and 1979) gives the totals for food grain imports in Table 1.1 below. Including food grain imports (which the Government apparently did not include in its balance of payments plan) of about $100 million, consumer imports are likely to be about $185 million. The total could rise to at least $300 million by 1980, with imports of other consumer goods replacing food grains.
Table 1.1: COMPOSITION OF IMPORTS, 1976-80
($ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food grains</td>
<td>100</td>
<td>50</td>
<td>25</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Other consumer goods</td>
<td>85</td>
<td>150</td>
<td>225</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Intermediate goods:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td>540</td>
<td>650</td>
<td>780</td>
<td>930</td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>320</td>
<td>450</td>
<td>525</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Capital goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>794</td>
<td>1,045</td>
<td>1,300</td>
<td>1,555</td>
<td>1,830</td>
</tr>
</tbody>
</table>

/a Composition not available.


5. Table 1.2 gives a possible order of magnitude for the value of exports and their composition over the plan period. The most optimistic assumption of export earnings in 1980 would seem to be about $750 million.

Table 1.2: COMPOSITION OF EXPORTS, 1976-80
($ million)/a

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>100</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rubber</td>
<td></td>
<td></td>
<td>200</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Fishery products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood &amp; wood products</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufactures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handicrafts</td>
<td></td>
<td></td>
<td>{</td>
<td>{280</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>288</td>
<td>446</td>
<td>530</td>
<td>640</td>
<td>750</td>
</tr>
</tbody>
</table>

/a Composition of the total not available for 1976 and 1977.

6. The provinces north of Haiphong possess large reserves of coal. Provided a large expansion program can be implemented quickly, including the necessary expansion of the coal port, the country has the potential of exporting about 2 million tons by 1980, at a probable price of $50 per ton. Existing rubber estates in the south already have a potential output of about 30,000 tons but substantial rehabilitation is required and, in many instances, complete replanting may prove to be economically desirable. About 60,000 tons of rubber exports appear to be the maximum possible by 1980, at a projected price of about $1,200 per ton. Both the northern and southern economies possess considerable fishery potential and this is the Government's priority export sector. Including both fish farming and offshore fishing, the total catch by 1980 could be of the order of one million tons, of which about 10% would be exported. Half of the exports is assumed to be high value items such as shrimps and crabs for which there are large potential markets in neighboring Asian countries and total exports in 1980 could amount to $200 million. The country also possesses considerable forestry resources which are presently not exploited. Substantial exports of logs, sawn wood, plywood, pulp and pulp products will be possible in the future but, owing to the lack of exploitation facilities at present, export value of $100 million appears to be the maximum likely by 1980. Other exports, including light industrial products, handicrafts and processed agricultural products, are not likely significantly to exceed $250 million by 1980. Thus, total exports of $750 million appear to be the maximum feasible by 1980.
Present Population

1. A general enumeration of the population in February, 1976, which was carried out in preparation for the April elections, provided the first reliable, if highly aggregate, data on the country’s population. /1 

2. Prior to that date, the North had carried out two censuses (in 1960 and 1974), whereas population data in the South were based on estimates derived from surveys with limited geographic coverage; this procedure naturally implied a substantial margin of error. In the light of the 1976 enumeration results it appears that these estimates, apart from their incomplete coverage, have consistently underestimated the natural rate of population growth.

3. The 1974 census in the North showed a population of 23.8 million (51% females). The intercensus (1960-74) natural growth rate averaged 2.9% p.a., but had already dropped to 2.5-2.6% by the end of that period. This came about through a combination of a moderately high crude birth rate of 32 per 1,000 and a low crude death rate of 6 per 1,000.

4. The 1975 population estimate for the South was 19.7 million (50% females), with an assumed annual growth rate of only 1.8%; there can be little doubt that this rate was much too low. On the other hand, alternative population indicators that became available, largely through urban records, seem to have been influenced by the influx of rural refugees, so that their application to the entire region would lead to errors in the opposite direction. Those sources suggested a crude birth rate of 41 per 1,000, a crude death rate of 11 per 1,000, and an annual population growth rate of 3.0%.

5. The February 1976 count for the entire country gave a population of 47.15 million, 8% above the figure that was expected on the basis of information previously available; of this total, 23.0 million lived in the northern part of the country, and 24.20 million in the south (see Table 2.1). The large difference between the 1975 population estimate for the south and the actual 1976 figure is not surprising in the light of the uncertainties mentioned previously. However, there is also a discrepancy of about two million persons between the 1976 population for the North derived by extrapolation of the 1974 census figures, and the actual 1976 enumeration results. Part of this difference is explained by changes in administrative boundaries; in the course of an administrative concentration, the former northern province of Quang Binh was joined with the former southern provinces of Quang Tri and Thua Thien to form the new southern province of Binh Tri Thien. Assuming that this administrative transfer involved not more than one million persons, and that both the 1974 census and the 1976 enumeration were essentially accurate, it appears that there has been a postwar net population movement from the northern to the southern region in the order of at least one million persons.

/1 A summary of Viet Nam’s most recent population data is contained in a memorandum by the UN Population Division dated November 17, 1976 (Reference S0 322 Viet Nam), which forms the basis for this annex.
## Table 2.1: VIETNAM: POPULATION, LAND AREA AND POPULATION DENSITY BY PROVINCE, 1976

<table>
<thead>
<tr>
<th>Province</th>
<th>Population (1,000)</th>
<th>Area (sq km)</th>
<th>Population density (persons/sq km)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NORTHERN VIETNAM</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanoi</td>
<td>1,443.5</td>
<td>597</td>
<td>2,418</td>
</tr>
<tr>
<td>Hai-phong</td>
<td>1,190.9</td>
<td>1,515</td>
<td>786</td>
</tr>
<tr>
<td>Provinces:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lai Chau</td>
<td>265.6</td>
<td>17,408</td>
<td>15</td>
</tr>
<tr>
<td>Hoang-lien-son</td>
<td>677.2</td>
<td>14,125</td>
<td>48</td>
</tr>
<tr>
<td>Ha-tuyen</td>
<td>686.1</td>
<td>13,519</td>
<td>51</td>
</tr>
<tr>
<td>Bac-thai</td>
<td>752.9</td>
<td>8,615</td>
<td>87</td>
</tr>
<tr>
<td>Cao-lang</td>
<td>843.9</td>
<td>13,781</td>
<td>61</td>
</tr>
<tr>
<td>Son-la</td>
<td>410.1</td>
<td>14,656</td>
<td>28</td>
</tr>
<tr>
<td>Vinh-phu</td>
<td>1,579.5</td>
<td>5,187</td>
<td>305</td>
</tr>
<tr>
<td>Ha-bac</td>
<td>1,466.2</td>
<td>4,703</td>
<td>311</td>
</tr>
<tr>
<td>Quang-ninh</td>
<td>701.8</td>
<td>7,076</td>
<td>99</td>
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<tr>
<td>Ha-son-binh</td>
<td>2,041.6</td>
<td>6,860</td>
<td>298</td>
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<tr>
<td>Hai-hung</td>
<td>1,929.9</td>
<td>2,526</td>
<td>764</td>
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<tr>
<td>Thai-binh</td>
<td>1,416.2</td>
<td>1,344</td>
<td>1,054</td>
</tr>
<tr>
<td>Ha-nam-binh</td>
<td>2,574.6</td>
<td>3,522</td>
<td>731</td>
</tr>
<tr>
<td>Thanh-hoa</td>
<td>2,262.1</td>
<td>11,138</td>
<td>203</td>
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<tr>
<td>Nghe-tinh</td>
<td>2,704.6</td>
<td>22,380</td>
<td>121</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>22,946.7</td>
<td>148,957</td>
<td>154</td>
</tr>
<tr>
<td><strong>SOUTHERN VIETNAM</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>City:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Ho Chi Minh</td>
<td>3,460.5</td>
<td>1,815</td>
<td>1,876</td>
</tr>
<tr>
<td>Provinces:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Binh-tri-thien</td>
<td>1,751.8</td>
<td>19,018</td>
<td>92</td>
</tr>
<tr>
<td>Quang-nam - Da-nang</td>
<td>1,414.4</td>
<td>11,376</td>
<td>124</td>
</tr>
<tr>
<td>Gia-lai - Cong-tum</td>
<td>465.0</td>
<td>18,480</td>
<td>25</td>
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<tr>
<td>Nghia-binh</td>
<td>1,789.1</td>
<td>14,700</td>
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<tr>
<td>Dac-lac</td>
<td>372.7</td>
<td>18,300</td>
<td>20</td>
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<tr>
<td>Phu-khanh</td>
<td>1,066.2</td>
<td>9,620</td>
<td>111</td>
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<tr>
<td>Lam-dong</td>
<td>343.1</td>
<td>10,000</td>
<td>34</td>
</tr>
<tr>
<td>Thu-an-hai</td>
<td>836.9</td>
<td>11,000</td>
<td>76</td>
</tr>
<tr>
<td>Song-be</td>
<td>561.4</td>
<td>9,500</td>
<td>59</td>
</tr>
<tr>
<td>Dong-nai</td>
<td>1,260.3</td>
<td>12,130</td>
<td>104</td>
</tr>
<tr>
<td>Tay-ninh</td>
<td>625.9</td>
<td>4,100</td>
<td>153</td>
</tr>
<tr>
<td>Long An</td>
<td>828.8</td>
<td>5,100</td>
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<tr>
<td>Tien-giang</td>
<td>1,137.2</td>
<td>2,350</td>
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<tr>
<td>Ben-thre</td>
<td>932.0</td>
<td>2,400</td>
<td>388</td>
</tr>
<tr>
<td>Dong-thap</td>
<td>991.3</td>
<td>3,120</td>
<td>318</td>
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<tr>
<td>Cuu-long</td>
<td>1,319.1</td>
<td>4,200</td>
<td>314</td>
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<tr>
<td>An-giang</td>
<td>1,361.7</td>
<td>4,140</td>
<td>329</td>
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<tr>
<td>Hau-giang</td>
<td>1,870.4</td>
<td>5,100</td>
<td>366</td>
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<tr>
<td>Kien-giang</td>
<td>834.0</td>
<td>6,000</td>
<td>139</td>
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<tr>
<td>Minh-hai</td>
<td>981.1</td>
<td>8,000</td>
<td>123</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>24,203.2</td>
<td>108,449</td>
<td>134</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>47,149.9</td>
<td>329,406</td>
<td>143</td>
</tr>
</tbody>
</table>

6. The UN estimates for distribution by age for 1975 are given in Table 2.2. Because of the apparent underestimate of births during the war, they would seem to require some upward adjustments for the youngest age groups (and corresponding downward corrections for some of the older age brackets) for the South.

### Table 2.2: VIET NAM: ESTIMATED COMPOSITION OF POPULATION BY AGE GROUP, 1975 (%)

<table>
<thead>
<tr>
<th>Age (years)</th>
<th>North</th>
<th>South</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>16.5</td>
<td>15.7</td>
</tr>
<tr>
<td>5-9</td>
<td>12.7</td>
<td>12.7</td>
</tr>
<tr>
<td>10-19</td>
<td>22.8</td>
<td>23.2</td>
</tr>
<tr>
<td>20-29</td>
<td>12.3</td>
<td>12.5</td>
</tr>
<tr>
<td>30-39</td>
<td>12.9</td>
<td>13.0</td>
</tr>
<tr>
<td>40-49</td>
<td>9.8</td>
<td>9.9</td>
</tr>
<tr>
<td>50-59</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>60+</td>
<td>6.2</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Source: UN Population Division Document ESA/WP 60.

### Regional Population Data

7. The geographic distribution among the country's 35 provinces and 3 Special Cities (Hanoi, Haiphong, Ho Chi Minh City) is very uneven, in the north more so than in the south (see Map). This is evident from Table 2.3 which regroups the data in Table 2.1.

8. Statistics on the urban-rural distribution of the population are unavailable. The three Special Cities alone account for 13% of the 1976 population. The existence of numerous medium and minor provincial and local centers throughout the country would suggest an urban population share in the range of 20-25%.
Table 2.3: VIET NAM: RELATIVE CONCENTRATION OF POPULATION IN NORTH AND SOUTH, 1976 /a

| Provinces with population densities of | Northern Region | Southern Region | | --- | --- | --- | --- | | | No. of provinces | % of total | No. of provinces | % of total | | | land area | population | land area | population | | <25 persons/sq km | 1 | 12 | 1 | 1 | 10 | 2 | | <50 " " " | 3 | 29 | 9 | 3 | 26 | 6 | | <100 persons/sq km | 7 | 61 | 21 | 6 | 48 | 21 | | >100 " " " | 8 | 39 | 79 | 14 | 52 | 79 | | >250 persons/sq km | 6 | 16 | 71 | 6 | 12 | 37 | | >500 " " " | 3 | 5 | 31 | 0 | 0 | 0 | | Totals: | 15 | 100 | 100 | 20 | 100 | 100 |

/a Special Cities excluded.


9. The planned urban-rural and interprovincial population movements will relieve slightly the population pressures in the most densely populated provinces and markedly in Ho Chi Minh City but will not alter the basic pattern: two heavily populated river deltas, moderate population densities in the other coastal provinces, and scattered settlement in the mountainous provinces.

Population Trends

10. Given the scarcity of relevant data, population projections are of necessity formulated with a considerable margin of error. The Government hopes that by 1980 the annual population growth rate will have dropped to slightly over 2%. It appears that the main factor of uncertainty is the present level of fertility in the southern region (which presumably is higher than in the north), and the possibility of lowering it appreciably within a period of only three or four years. Assuming a 1976 baseline growth of 2.8% for the entire country and annual decreases of 0.1 percentage points would give a 1980 population estimate of 52.4 million persons. Following a more optimistic hypothesis of annual reductions of the population growth rate by 0.2 percentage points (leading to a 1980 rate of 2.2%) would result in an alternative 1980 population estimate of 52.0 million.