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19. Basic economic development is also inhibited by the GVN's preoccupation with South Vietnam's problems of internal security and military preparedness. It continues to regard programs for long-range economic growth as of lower priority than the building of defense strength. Moreover, for political reasons, it is reluctant to take any measures which might reduce the country's relatively high standard of living. Consequently, the GVN devotes only a small part of available resources to long-range economic development. Diem is hopeful, however, that resources for development will be provided from external sources, principally the US and the Japanese reparations settlement. There is little prospect for private foreign investment, primarily because of the unsettled security situation, uncertainty regarding GVN economic policy, and other factors creating an unattractive economic climate.

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20. Another aspect of the economic situation has political as well as economic ramifications. A considerable amount of US aid is in the form of grants of dollars which are used to import commodities. This practice has tended to inhibit the development of local consumer goods industries, although steps are now being taken to encourage domestic industries. It has supported a standard of living higher than the country could maintain on its own resources. A significant cutback in the standard of living would probably create serious political problems for the government. The present slow pace of economic development holds little promise that the gap between the present living standard and the capacity of the economy will be closed in the foreseeable future.

21. Nevertheless, South Vietnam is making some economic progress. The heavily damaged transportation network is being repaired. After an initial period of frustration and delay, considerable progress is being made in a modest agrarian reform program. In addition, almost 100,000 persons from crowded urban and coastal areas have been relocated on land development projects in the Mekong delta area and in the sparsely populated central highlands. The economic viability of these last mentioned projects has not yet been

proved. The resettlement of refugees from the north is about completed. Rice production is approaching 1939 levels, but increased domestic consumption has kept rice exports far below prewar levels. Rubber has surpassed 1939 levels and has replaced rice as the nation's major export.

22. Some constructive long-range measures are being taken. The GVN is attempting to increase internal revenues by strengthening its tax system and is trying to restrict domestic consumption and total imports to about present amounts. If the main part of the defense burden is carried by the US, it is probable that over the next few years the steps taken and planned by the GVN will enable domestic production to expand and thus reduce the balance of payments deficit on goods and services, which was about \$190 million in 1958. The planned development of manufacturing would make possible over the next five years the lowering of import requirements by about \$25 million a year. In the same period the trade gap should narrow by another \$30 to \$40 million if land development and rice productivity programs produce the planned results. Even if these results are achieved, however, South Vietnam will still have large foreign trade and internal budget deficits and continue to depend upon US aid.

D. South Vietnam's Foreign Relations

23. South Vietnam's foreign policy is based upon fear of and rigid opposition to communism, and upon a conscious dependence on the US as its major source of assistance and protection and as its principal international sponsor. The GVN leaders desire to maintain and to assert their nation's independence, which they believe to be endangered most directly by the activities and military strength of North Vietnam. They are also concerned over what they consider the weakness and pro-Chinese Communist orientation of Cambodia, and the machinations of the French.

24. DRV: In responding to persistent DRV bids to "regularize" relations, GVN policy is to impose conditions it is sure will be unacceptable. By this means the GVN seeks to improve its propaganda position, while main-

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