

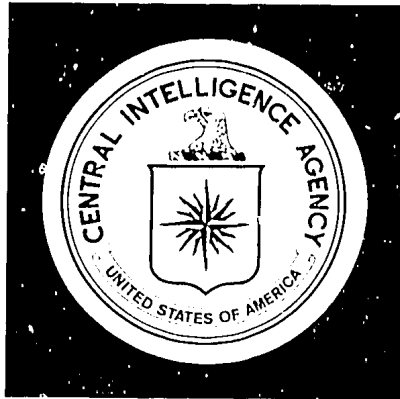
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

South Vietnam's Exports: Recent Developments and Prospects

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March 1973

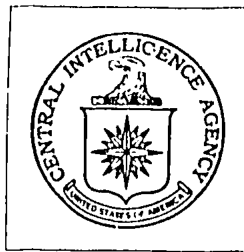
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South Vietnam's Exports: Recent Developments and Prospects

South Vietnam's merchandise exports, depressed by the war and equal to only a small fraction of imports, nearly doubled in 1972, reaching about US \$23 million. Dominated in earlier times by rice and natural rubber, exports from South Vietnam had peaked in 1960 at about \$84 million. As security in the countryside began to deteriorate in 1965, exports fell to only \$12 million by 1968. Despite economic recovery during 1969-71, exports stagnated at this level because of a consistently overvalued piaster.

The resurgence of exports during 1972 was largely the result of government measures conceived to stimulate export industries and included the long-overdue devaluation of the piaster and an export subsidy program. The most striking aspect of the increased level of exports in 1972 was the emergence of product lines that in the past had not been significant on the export list. In particular, shrimp and forestry products emerged as major exports along with rubber, although the relative importance of rubber diminished.

Despite military and political uncertainty surrounding the cease-fire agreement, most indicators point to further expansion of exports during 1973. If the stimulus of recent government measures is sustained, South Vietnam could export as much as \$50 million -- largely in shrimp and logs -- during 1973, and, as a result of events already in train, exports will probably not fall below \$25 million under any but the worst military conditions.

Over the longer term, world demand trends for fish and forestry products appear favorable for continued growth of their export by South Vietnam. Exports of these commodities could increase to significant proportions, while only accounting for a fractional share of total world demand. Other agricultural commodities -- such as fresh fruits and vegetables -- could also account for a substantial increase in South Vietnam's exports.

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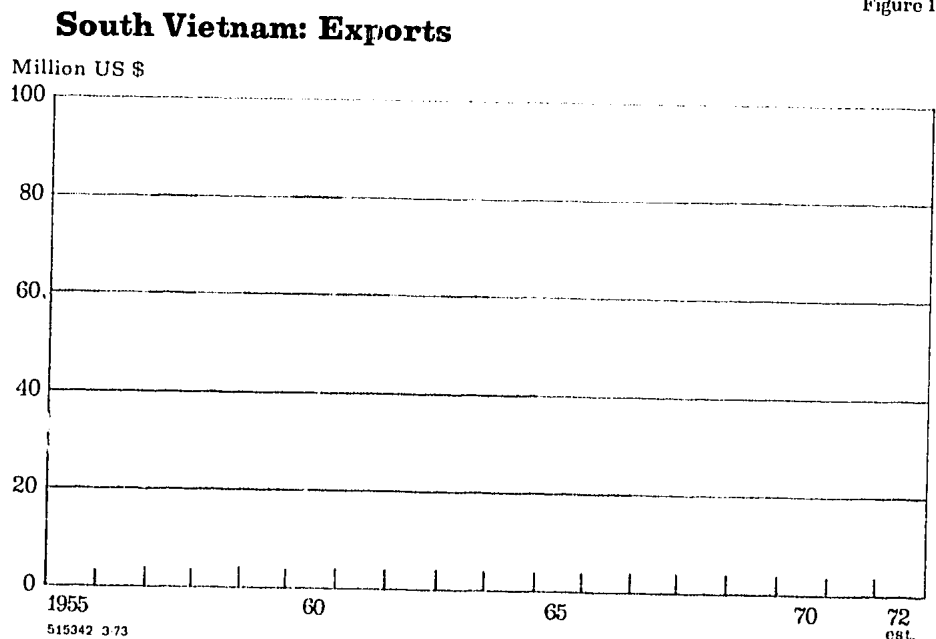
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CONFIDENTIAL**DISCUSSION****Past Trends in Commodity Exports**

1. The economy of South Vietnam historically has not depended heavily on exports as a stimulus to output or a source of foreign exchange. Commodity exports expressed as a share of national output have remained especially low, accounting for less than 3% of GNP in any year since 1962. More important, they have never covered more than about one-third of imports since independence was achieved in 1954. The escalation of the war in 1965 led to a further deterioration of the export sector. This -- coupled with government policy unfavorable to export development and a consistently overvalued piaster -- resulted in a steady decline in exports through 1969 and ensuing stagnation until the past year.

Composition of Exports in the Post-Independence Era

2. The value of South Vietnam's exports between 1955 and the beginning of large-scale hostilities in 1965 (see Figure 1) fluctuated considerably mainly because of the vagaries of domestic agricultural

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production and world market prices. Two major commodities -- rice and natural rubber -- traditionally accounted for about 85% of total exports. Rice exports rose from a value of \$8 million in 1955 to an annual level of \$35.7 million in 1963, dropped sharply in 1964 to \$5.4 million, and ceased completely by 1965 (see the Table). Export earnings from natural rubber during the same period peaked at a level of \$48.8 million in 1957 and after 1961 began a steady decline through 1965, attributable largely to the decline in the world price levels for rubber.

3. Other commodity exports from South Vietnam were negligible until the most recent times. Fish products, feathers, and tea -- though ranking among the "leading" exports -- accounted for only a small fraction of the total. Other commodities on the export list throughout the years included cinnamon, fresh fruits and vegetables, vegetable oils, kapok, duck eggs, sand, wood products, and scrap iron.

Geographic Patterns of Exports

4. The basic geographic pattern of South Vietnam's exports was established in this early period and remained largely unchanged until very recent times.¹ France was the major purchaser of South Vietnam's commodity exports, accounting for roughly 35% annually. France's historic ties and economic interests, particularly in the rubber industry, explained its consistently high share. Other principal recipients of South Vietnam's exports included West Germany (rubber and feathers), the United Kingdom (rubber), and Japan (rice, in the early 1960s). Other markets in Asia included Singapore, Hong Kong, Taiwan, and South Korea, none of which ever received more than 13% of total exports. Exports to the United States were relatively insignificant -- less than \$2 million annually throughout most of the 1960s -- and consisted primarily of feathers, cinnamon, and rubber.

Effects of the War on Export Trends

5. The step-up of the war, beginning in 1965, soon caused a major drop in exports. Deterioration of security in the countryside reduced rice output and interfered with rice marketing, leading to a complete cessation of rice exports in 1965. Natural rubber production, which dropped 13% during 1965, continued to decline through 1969. As world prices for rubber declined, foreign exchange earnings from this commodity fell even further, from \$26 million in 1965 to about \$9 million in 1970. Wartime disruption precluded development of other agricultural products for export. A modest recovery of rubber output in 1970 and 1971 as security conditions improved

1. Figure 2 compares geographic distribution of South Vietnam's exports in 1963 and 1970, by major commodity.

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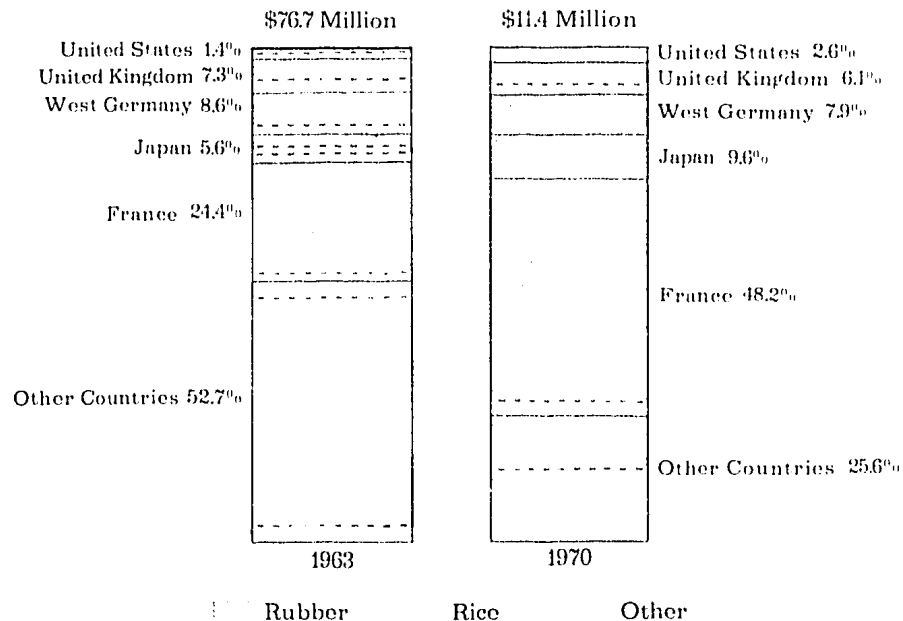
Composition of South Vietnamese Exports, by Major Category^a

	<i>Rice</i>		<i>Rubber</i>		<i>Fish Products</i>		<i>Feathers</i>		<i>Tea</i>		<i>Other</i>		<i>Total</i>	
	<i>Million US \$</i>	<i>Per- cent</i>	<i>Million US \$</i>	<i>Per- cent</i>	<i>Million US \$</i>	<i>Per- cent</i>	<i>Million US \$</i>	<i>Per- cent</i>	<i>Million US \$</i>	<i>Per- cent</i>	<i>Million US \$</i>	<i>Per- cent</i>	<i>Million US \$</i>	<i>Per- cent</i>
1955	8.0	11.6	40.1	58.1	0.2	0.3	1.4	2.0	0.1	0.1	19.2	27.8	69.0	100.0
1958	13.5	24.5	35.6	64.5	0.2	0.4	0.5	0.9	0.4	0.7	5.0	9.1	55.2	100.0
1960	27.2	32.2	48.0	56.9	0.2	0.2	0.6	0.7	1.0	1.2	7.4	8.8	84.4	100.0
1962	8.8	15.5	37.9	67.0	0.5	0.9	0.9	1.6	1.9	3.4	6.6	11.7	56.6	100.0
1963	35.7	46.5	33.5	43.7	0.6	0.8	0.7	0.9	1.9	2.5	4.3	5.6	76.7	100.0
1965	...	...	26.0	73.2	0.9	2.5	0.9	2.5	2.1	5.9	5.6	15.8	35.5	100.0
1966	...	...	22.0	79.7	1.0	3.6	0.8	2.9	2.1	7.6	1.7	6.2	27.6	100.0
1967	...	...	13.3	81.1	0.6	3.7	0.5	3.0	1.0	6.1	1.0	6.1	16.4	100.0
1968	...	...	9.7	82.9	0.1	0.9	0.3	2.6	0.7	6.0	0.9	7.7	11.7	100.0
1969	...	...	9.4	83.9	0.1	0.9	0.2	1.8	0.1	0.9	1.4	12.5	11.2	100.0
1970	...	...	8.9	78.1	0.1	0.9	0.3	2.6	0.1	0.9	2.0	17.5	11.4	100.0
1971	...	...	9.4	76.4	0.5	4.1	0.4	3.3	...	...	2.0	16.3	12.3	100.0

a. Because of rounding, components may not add to the totals shown.

Figure 2

**South Vietnam: Exports, by Country
of Destination and Major Commodity**



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was not accompanied by proportionate increases in foreign exchange earnings because of declines in the world market price.

6. Other product exports – such as fish, forestry products, tea, feathers, and cinnamon – were also adversely affected by the erosion of security in the countryside. Abandonment of productive agricultural land, curfews and off-limits areas imposed on the fishing industry, government restrictions and enemy taxation of logging operations, and general disruption of distribution facilities all served to depress exports further. By 1969, total exports had fallen to a historical low of only \$11.2 million, reflecting in part the large-scale and broadly scattered economic disruptions brought about by the 1968 Tet military offensive.

7. Exports did not recover as rapidly as output from the low of the 1968 Tet offensive, and rose only \$1 million between 1969 and 1971. In no small measure, this lag was the product of an increasing overvaluation²

2. Although continuing rapid inflation in South Vietnam called for frequent adjustment of exchange rates, the GVN was slow to respond. Thus, during 1968-70 domestic prices rose 126%, but the export rate held steady at 118 piasters per US \$1 until October 1970.

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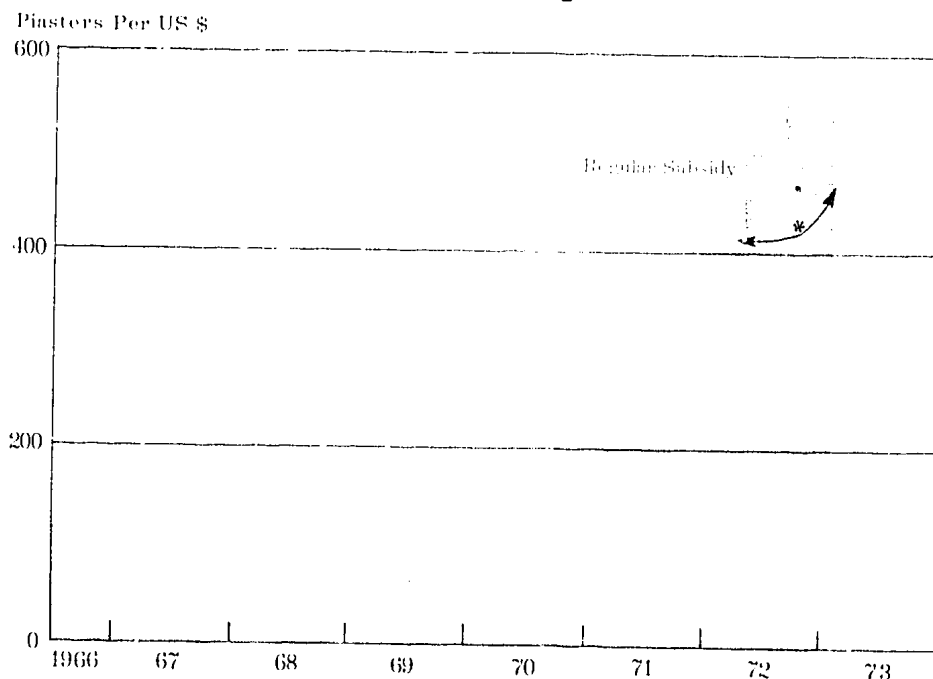
of the piaster at the official exchange rate and a lack of interest on the part of the government for measures that would stimulate exports. An additional cause was the fact that marketing of the lion's share of exports was in the hands of French rubber planters and the government had had only limited experience in this field.

Recent Government Policy Measures Affecting Exports

8. In the later part of 1970 the Government of Vietnam (GVN) moved from a single exchange rate to a multiple-rate structure. In general terms, existing low rates for essential imports were retained while rates for luxury goods imports and merchandise exports were raised greatly. The exchange rate for most merchandise exports was increased from 118 piasters per US \$1 to 275 piasters per US \$1 (see Figure 3). Successive devaluations

South Vietnam: Export Exchange Rates

Figure 3



* The basic export exchange rate changed during the designated period as follows: April 420, June 425, July 430, August 435, October 445, 9 December 455, 30 December 465, and January 1973, 475.

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during 1971 raised the rate to 410 piasters per US \$1 by the end of the year. During 1972 the rate was raised almost monthly by 10 to 20 piaster increments to 465 piasters per US \$1 on 30 December and 475 piasters per US \$1 on 26 January 1973.

9. As an additional stimulus to exporters, the GVN in May 1972 instituted an export subsidy program. Under this program, most exports were allowed a subsidy equaling the difference between 500 piasters and the official export exchange rate, which continued to be shifted up. In mid-September this subsidy was raised by a flat 50 piasters, bringing the effective rate to 550 piasters per US \$1. At the same time an additional 25-piaster subsidy for a period of no longer than one year was authorized to those exporting goods never before sold abroad. In January 1973 the general subsidy was again raised, this time to a flat 100 piasters above the official 475 rate. Thus the effective exchange rate for exports recently has been 575 piasters per US \$1, and exporters of new products are eligible to earn 600 piasters per US \$1. Other export stimuli introduced by the government include an increase from the earlier 3% to the present 10% in the share of hard currency sales that exporters can reclaim for their own use, continuation of unlimited credit at preferential interest rates, and elimination of taxes on certain commodity exports.

10. In addition to providing stronger export incentives, the government has taken steps to develop a coordinated export policy, encourage export-related private-sector growth, and streamline export procedures. Late in 1971 a National Export Development Council was formed as a joint public/private body to formulate and coordinate export planning and development. Composed of members from all relevant government ministries and representatives from the business community, the Council -- although not fully activated till the fall of 1972 -- appears to provide a suitable framework for export-policy formulation. Another measure is the proposed development of an export-processing zone to be located in a portion of the US base at Long Binh near Saigon. Although still in early stages of planning, the zone is expected to provide export industries with ample investment incentives and tax privileges.

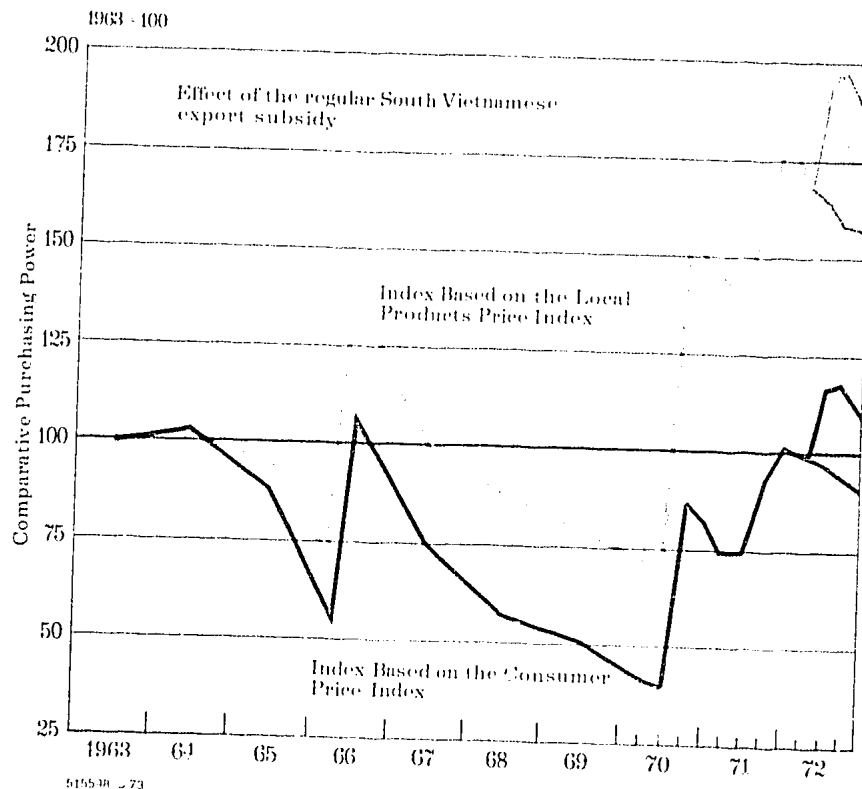
11. The overall effect of the 1971-72 measures on exports is fairly easy to explain, even though it is much more difficult to relate it to the exportability of particular products. In short, the successive devaluations of the piaster have made South Vietnam's products and services less expensive to foreign buyers than they have been at any point in modern times. Specifically, they have led to a comparative price improvement of somewhere between 10% and 90% over 1963, an outstanding export year for South Vietnam, and much greater improvement over the situation in

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1968 (see Figure 4³). Thus, South Vietnamese whose particular products have been priced too high for the world market in piaster terms have seen

Figure 4

South Vietnam: Changes in the Purchasing Power of the Piaster



a dramatic improvement in competitiveness, and those who were able to sell at earlier, less favorable exchange rates can enjoy higher profits and afford to expand their enterprises without changing the foreign-exchange prices to overseas buyers. Indeed, there is some clear evidence that increased profits have stimulated investment in some export lines. The result has been

3. The indexes in Figure 4 (with the ratio for 1963 serving as the base) represent the quantity of goods that can be purchased in South Vietnam for the piaster equivalent of, for example, US \$100 compared with the quantity of goods purchased for US \$100 in the world market. By rising above the 1963 level in 1972, the two internal price indexes indicate that South Vietnam's competitive position is now superior to that of 1963. Because no single available price index is entirely satisfactory to represent the piaster price of South Vietnamese exports, the two indexes were constructed to bracket the "true" index.

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the considerable expansion of fishing and logging activities. Unfortunately, the absence of detailed data on operating costs in other activities makes it comparatively difficult to predict where similar expansion will arise next.

Emergence of New Export Lines

12. Despite the severe 1972 business recession and the North Vietnamese offensive last March, merchandise exports from South Vietnam last year nearly doubled to reach some \$23 million. The significance of this upsurge lies not only in the absolute gain but also in the new commodity composition. While traditional exports, in particular natural rubber, declined, there was a surge in exports that had been insignificant or nil. Based on preliminary payments data, 1972 exports were as follows:

	<i>Million US \$</i>	<i>Percent</i>
Total	22.7	100
Fish products	5.5	24
Forestry products	3.0	13
Natural rubber	7.2	32
Military scrap	2.5	11
Duck feathers	0.7	3
Other	3.8	17

13. Taken together, fish and forestry products -- which made up only 5% of the total in 1971 -- surpassed natural rubber in 1972. The increase in fish-product exports, to more than 4 times the previous peak (in 1966), began early in 1972 as boats and processing equipment purchased in 1971 became operational. Nearly all fish exports have been iced and frozen shrimp shipped from exporters in the southern Delta town of Rach Gia and in Saigon. Principal markets for the fast-growing shrimp industry include Singapore, Hong Kong, Thailand, and -- most important -- Japan, where roughly two-thirds of total shrimp exports have been shipped during the year.⁴ With capital investment in trawling boats and processing facilities continuing throughout the year, development of a strong shrimp-export industry is well under way.

14. In view of heightened military activity in log-producing areas and consequent government restrictions during much of the year, the emergence of forestry products as a leading export item is particularly notable. South

4. Many of those shipped to Thailand are packaged or processed for re-export to Japan.

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Vietnam's forestry industry has an ample resource base, but costs of extraction and transportation have been high because of the war. Exports of forestry products, insignificant through 1971, rose to \$1.3 million in the first half of 1972 and apparently increased rapidly in the remainder of the year. These exports are primarily pine logs for the Japanese market. Considerable quantities of crude logs produced in the Central Highlands have been shipped directly from the Camh Ranh area. There is some evidence that exports of hardwood logs have been contracted, and the totals for forestry export probably include small amounts of hardwoods. In November the government lifted some restrictions on the exploitation and transportation of logs in Military Region 3, which should help exports in 1973.

15. Rubber exports in 1972 fell by about 23%. During 1972, rubber output was well below 1971's 38,000 tons as a result of widespread damage to the trees (which had come through earlier campaigns relatively undamaged) and the destruction of the An Loc processing facility. Preliminary estimates of the damage inflicted during the 1972 offensive indicate that productive capacity has been reduced significantly, particularly in Binh Long Province, where nearly half of South Vietnam's rubber is produced.

16. Other commodities exported in 1972 include a variety of products, most of which have been exported in small quantities in the past. Of these, duck feathers continued to be a relatively large source of foreign exchange -- accounting for about three-quarters of a million dollars in 1972. Military scrap -- mostly scrap metal -- accounted for more than \$2 million, but this situation clearly is transitory, resulting from the war. Other exports include tea, cinnamon, fish sauce, rice paper, noodles, and ceramic handicrafts. Although complete details of total exports during 1972 are not yet available, preliminary reporting indicates that as many as twenty new products were added to South Vietnam's export list, presumably reflecting new market conditions that resulted from piaster devaluations.

Export Possibilities

17. With the cease-fire, the drawdown of US military assistance, and a continuing high level of imports, the rapid development of South Vietnam's export sector is crucial. This growth will not be limited by the absolute capacity of foreign markets because South Vietnamese exports are so small. The main constraints, rather, appear to be domestic ones -- the abilities to produce what can sell abroad, channel investment into export industries, control product quality, and develop effective marketing. Given South Vietnam's limited industrial base, the export outlook in the short run at least appears strongest for primary products, notably fish and forestry

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products. Rice and rubber -- the major exports of the past -- do not show very bright prospects for the near term. Other commodities -- most of them likely to be agricultural products -- could possibly emerge as major earners of foreign exchange, as did certain new lines in 1972.

Prospects for 1973

18. Political and military events surrounding the 1973 cease-fire agreement, which cannot now be predicted with any assurance, will undoubtedly affect the economy and the level of exports. Some exports, however, are less sensitive to security conditions and probably will continue to expand in any likely case. In particular, the fishing industry, as new boats and equipment recently purchased from the United States are brought into use, should be able to continue export expansion. Forestry product exports, on the other hand, will be more dependent on security conditions, although past experience indicates that accommodations with the Viet Cong in rural and forested areas can be arranged. The natural rubber industry, regardless of security conditions, will remain depressed during 1973 because of the extensive war damage to trees and processing facilities.

19. The specific outturn for South Vietnam's exports during 1973 is difficult to project, but there is little reason to expect a decline from the 1972 level of some \$23 million. If the expansion of exports experienced during 1972 can be sustained, exports could be expected to increase to as much as \$50 million. Information filed by exporters with the Ministry of Economy indicates that fish products and wood are to be shipped at fairly high levels in the early part of this year and suggests significant increases over 1972 levels. Furthermore, the recent upward adjustment of the export subsidy program should provide added stimulus to encourage investment in export-oriented industries.

Outlook for Specific Commodities

20. Certain identifiable patterns in world commodity demand and South Vietnamese production provide the basis for roughly estimating the course of export development both during 1973 and thereafter. These underlying patterns are discussed in the following commodity sections.

Rice

21. Although South Vietnam probably is capable of producing an exportable surplus of rice, it is unlikely to achieve substantial rice exports once again. The basic short-term problem is one of quality, for Vietnamese rice is generally unpopular in most rice-consuming nations. In addition, the qualities of rice in which South Vietnam might trade in the foreseeable

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future are ones for which exports must be supported by suppliers' credits, a condition South Vietnam is unlikely to meet.

22. If production of rice in South Vietnam exceeds domestic human consumption requirements in coming years, surpluses most likely will be utilized for livestock feed and industrial purposes rather than for export. The possibility exists, however, that at least a portion of domestic rice surpluses – particularly of industrial grades – can be channeled into export. A recent analysis of the Singapore market, for example, suggests that Vietnam could sell as much as \$4 million there annually.

Rubber

23. Natural rubber will probably continue to be one of South Vietnam's leading merchandise exports. The cessation of hostilities should enable rubber production and exports to increase substantially above the low 1972 level within a few years because South Vietnam's rubber marketing capability is well developed and South Vietnam has direct ties to rubber manufacturers abroad. Moreover, improved production techniques and more efficient plantation operations should allow for some increases in yields. Nonetheless, the future growth of rubber production will be seriously retarded by irreparable damage to rubber trees and the time required to bring abandoned areas back into production. Also, a high percentage of South Vietnam's rubber trees are old and must be replaced by new plantings, which require six to seven years to come into production.

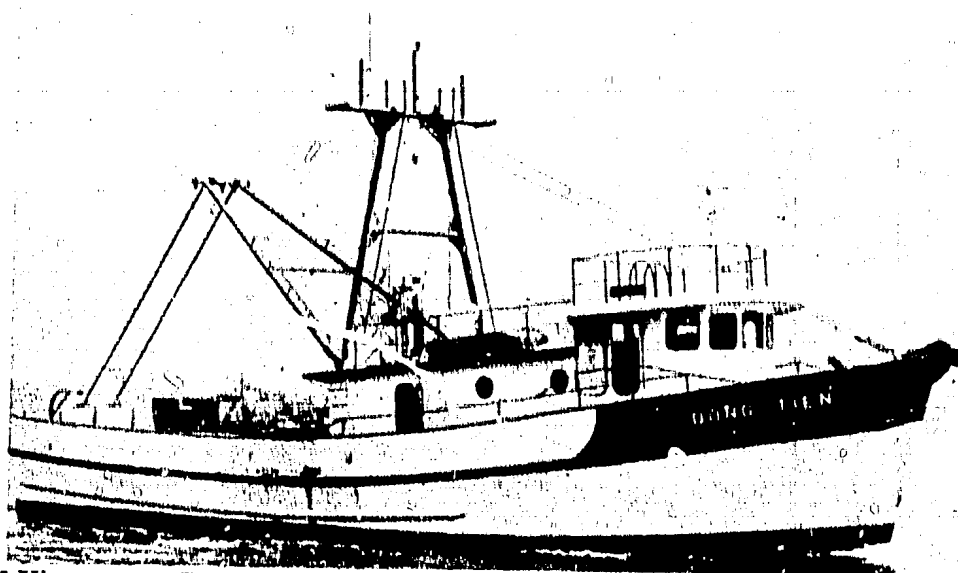
Fish and Fish Products

24. South Vietnam's growing fishing industry appears to offer considerable potential for future exports. Despite significant increases in fish production in recent years, South Vietnam's total fish catch has been far below potential. Endowed with a large coastline and an abundant supply of many different varieties of marine life, South Vietnam possesses large supplies of saltwater fish as well as high unit-value shellfish, including shrimp and crab. The impediments to the development of a fish-export industry have included wartime curfews and off-limits areas, the lack of investment in fishing boats and equipment, shortages of adequately trained labor, and a fragmented and poorly organized marketing structure. Most obstacles can be overcome – as they were during 1972 – with relatively low levels of capital inputs.

25. World demand for fish has been growing at a high rate, particularly in Asian markets. Total world imports of fish in 1970 amounted to more than \$3 billion, increasing at an average annual rate of growth of 8.6% since 1958. Growth of import demand for Asian countries has averaged

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A Vietnamese Shrimp Trawler Recently Purchased from the United States

about 12.2% during 1959-70. The Japanese share of total Asian fish imports increased from only 4% in 1958 to nearly 60% by 1970. This large national market has continued to grow, as evidenced in the following tabulation of Japanese fish imports⁵:

	<i>Million US \$</i>			
	1967	1970	1971	1972 (Nine Months)
Total	131.4	263.4	444.2	407.6
Fish	33.6	85.6	126.3	122.0
Shellfish	97.8	177.8	317.9	285.6

Roughly 35%-50% of total Japanese fish imports and about 30% of total shellfish imports have been supplied by countries in Asia, notably South Korea, the Philippines, Thailand, Malaysia, Taiwan, and Hong Kong. Dramatic increases in sales to the Japanese market have been experienced

5. Including both processed and unprocessed fish products. Shellfish include all crustacean and molluscan categories.

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by several Asian countries. For example, South Korean exports of fish and shellfish to Japan rose from an annual level of \$16 million in 1967 to \$44 million in 1971 and \$48 million for the first nine months of 1972. Japan thus represents a sizable market for Vietnam's fish exports, and -- as evidenced by the recent surge in South Vietnamese shrimp sales -- there appears to be no significant barrier precluding entry, assuming competitive prices and reasonable quality.

Forestry Products

26. South Vietnam possesses vast largely unexploited timber resources, which are estimated to cover 6 million to 12 million hectares. Lack of favorable security conditions has been the salient factor precluding export development. Difficulties in transporting timber, recurring government restrictions on logging operations, uncertainty of deliveries, and lack of qualitative standards are among the problems facing the industry. The best near-term prospects, rather, appear to be in crude hardwood and softwood logs and in pulpwood lines; sawmills and wood-processing facilities in the country are few in number, are antiquated, and often cannot even provide products in sufficient quantity and quality to meet domestic requirements. Although investment in processing equipment has been negligible because of wartime uncertainty, there is some possibility that South Vietnam could develop a processed-wood industry (such as plywood) for export within the next few years, given required new investment.

27. Demand in international markets for wood and wood products, already growing rapidly, will no doubt continue to increase during the next several years. World demand for crude woods -- hard and softwood logs, sawn lumber, and pulpwood -- grew at an average annual rate of about 8.4% during 1964-70. Again, the Japanese market for these products is large, accounting for about 30% of total world imports in 1970, and its average annual growth was about 7% during 1968-71. Nearly half of the Japanese market is supplied by Asian countries (principally Indonesia, Malaysia, and the Philippines), all of which have experienced substantial increases in wood exports in the last decade.

Other Exports

28. Prospects for the development of a dynamic export sector in South Vietnam will also depend largely on the growth of commodity exports that cannot be specified on the basis of present and past experience. The experience of export growth in other rapidly growing less developed countries underscores the importance of providing for this phenomenon in projections. The plywood industry in South Korea, for example, increased its sales abroad from nearly zero in 1960 to \$30 million, or 12% of total

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exports, by 1966. Similarly, Taiwan expanded its export base to include such unforeseen items as canned mushrooms and asparagus, which grew from: essentially nothing to values of \$25.2 million and \$33.1 million respectively in less than five years. A similar experience could occur in South Vietnam as security conditions in the countryside improve, abandoned lands are reclaimed or new lands opened, and the labor force is expanded. Commodities that might enter export markets in more significant quantities could well include poultry products, feedgrains, fresh fruits and vegetables, processed and semiprocessed food products, and simple consumer durables.

Government Policies for the Longer Term

29. The success of Vietnamese efforts to expand exports will be highly dependent on a continuation of government policies designed to stimulate export industries. Paramount among these will be the maintenance of a flexible foreign-exchange rate policy that reflects the changing value of the piaster. Although a subsidy program can be utilized in the short run to lower prices of exports artificially and stimulate production of export goods, in the long term such a policy could encourage inefficient industries and inhibit development of production for domestic uses. If prices are to play their important signal role in the allocation of resources, there will be a need for further narrowing of the existing gap between the effective exchange rates for imports and exports, a process that will probably take several years to achieve.

30. As the profit rate in South Vietnamese exporting becomes more dependent on cost reduction and less on subsidies, promotion of private investment in more efficient modes of production will be needed. Existing South Vietnamese law on foreign investment is quite liberal, but a good deal depends on the bureaucracy's application of the law. Other government policies necessary over the longer term include assurance of greater credit availability to export industries, encouragement of quality control and product standardization, education in marketing techniques, and simplification of export procedures.