The major action of the war commenced when the entire Viet Minh five division battle corps excepting three regiments launched a new Laos attack that carried to Luang Prabang. General Navarre inserted three Mobile Groups into the path of this advance at Dien Bien Phu but the Viet Minh by-passed that important road junction and continued south until late February. Then the force returned north to strike at Dien Bien Phu on the night of 13 March in a battle that continued through four stages for 56 days. The French Union lost Dien Bien Phu and over 15,000 men but the attacker lost over 20,000 men. Dien Bien Phu represented a major change in Viet Minh battle strategy outright assault of a strongly fixed position with adequate field and anti-aircraft artillery in support. The French Union garrison was overwhelmed on 7 May and by 26 May the first elements of the Viet Minh battle corps had arrived opposite the Tonkin Delta to threaten that keystone of the French defensive force in Vietnam. The battle for the Delta appeared likely to continue throughout the summer of 1954.

Stronger than ever and still growing, the Viet Minh on July 1st controlled all of Tonkin except the Delta, which was heavily infiltrated, most of Annam down to Pleiku and Qui Nhon with the exception of the Viet Minh-harassed coastal strip of Tourane-Quang Tri, and, finally, the southern tip of South Vietnam. Few areas of South Vietnam and Laos were free from Viet Minh guerrilla activities and the incidence of such activities was increasing in Cambodia.
The primary consideration in an economic review of the Associated States during the past year is the war that was being fought here. This completely overshadowed any normal economic equilibrium by limiting local output while increasing the demands for goods and services. The factors of production, such as available land, non-military manpower, and non-military capital (government or private) were seriously limited, while the effective demands on production were increased by the rise in the numbers of soldiers, the supply of money, and the concentrations of people in the urban centers. Budgetary needs that they were not able to meet from normal resources were imposed on the Governments of the Associated States to finance the war.

In addition to the above, these governments are victims of the same conditions existing in most under-developed areas, i.e., the lack of surplus production, the lack of practicably accessible sources of government revenue, the lack of the institutions and personnel necessary for economic development, the lack of political or economic cohesion, and, in some degree, the lack of a sense of a market economy. These things in themselves, disregarding the war, point to low productivity, the inability to attract foreign capital, a badly distributed income, and low government resources difficult to collect.

These two factors, the active war in this area and the under-developed nature of the economy, mean that foreign aid plays a major role in the Associated States and must continue to play a major role in any economic development.

The exact state of the economy is not easy to determine because statistics are not highly developed and because some of the factors are hidden, especially some aspects of French participation. Some pertinent information can be found, however. In the absence of any adequate statistics, the gross national product of the Associated States, taken as a whole, has been estimated at between 50 and 75 billion piasters.

Each of the three countries showed a deficit in its budget last year, including both civilian and military expenditure. The large customs receipts, brought about by the imports for the French Expeditionary Force, were not divided among the three countries according to agreed percentages, however, but were kept by Vietnam to help finance the war. If these receipts had been properly distributed, the Cambodian deficit would have been eliminated.

Two thirds of the Government budgets of between 7.5 and 9.5 billion piasters were reported as having been used to finance the war in 1953. Government revenues aside from customs receipts, are limited by the lack of an administrative organization to collect other taxes.

As of May 31, 1954, more than 2 billion piasters had been advanced by the Institute of Issue and private banks to the three governments. This figure added to the 8.3 billion piasters transferred from private
banks at the time of the PAU agreements, makes the total public debt over 10 billion piasters.

The supply of money increased from 10 billion to more than 12 billion piasters shortly after the devaluation and subsequent price rise. This increase was provided by the expansion of banknotes in circulation. Demand deposits have remained steady at the pre-devaluation level of 1.8 billion piasters.

Total foreign aid is difficult to specify, but the U.S. has been contributing about $25 million per year of non-military aid and technical assistance, while French and U.S. military expenditures together probably equal the gross national product exclusive of these expenditures, i.e., about 50 to 75 billion piasters per year. In addition, there are small amounts of French Government economic aid, Colombo Plan aid, and United Nations aid. It is these foreign aid amounts which provide the dominant influence on the money supply, prices, foreign trade, and the balance of payments.

Of major importance for the year under review was the devaluation of the piaster that took place in May 1953, with special reference to the terms of trade and the balance of payments, and the inflation of prices.
Production

**Agriculture** - The Associated States are primarily agricultural areas, rice being the basic food staple and chief source of wealth. Of the total cultivated area about 85% is normally planted to rice and 1.7% to rubber.

As a result of World War II agricultural production fell to the lowest level in 20 years, and only in recent years has some progress been made to achieve or surpass pre-World War II levels. Rice production (paddy) is presently estimated at 4,425,000 tons annually, compared with 4,450,000 tons in 1952 or a little more than two-thirds of the prewar level. The production of rubber equalled 75,742 tons in 1953, compared to 63,000 tons in 1952, or an increase of 26% over pre-war years. Corn production has risen from an average annual yield of 630,000 tons in prewar years to 170,000 tons at present. In 1953 the production of sugar cane, sweet potatoes and manioc, kopr, raw tobacco, tea, peanuts, sesame, and vegetables were all generally below 1938 levels.

<table>
<thead>
<tr>
<th>Output of Paddy (in thousands of tons)</th>
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<tbody>
<tr>
<td>1938-39</td>
</tr>
<tr>
<td>6,500</td>
</tr>
<tr>
<td>1945-46</td>
</tr>
<tr>
<td>3,200</td>
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<td>1950-51</td>
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<tr>
<td>5,900</td>
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<tr>
<td>1952-53</td>
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<tr>
<td>4,350</td>
</tr>
<tr>
<td>1953-54</td>
</tr>
<tr>
<td>4,425</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Rubber Production (in thousands of tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
</tr>
<tr>
<td>60.0</td>
</tr>
<tr>
<td>1945</td>
</tr>
<tr>
<td>19.0</td>
</tr>
<tr>
<td>1951</td>
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<tr>
<td>82.0</td>
</tr>
<tr>
<td>1952</td>
</tr>
<tr>
<td>61.6</td>
</tr>
<tr>
<td>1953</td>
</tr>
<tr>
<td>75.7</td>
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</tbody>
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**Forestry** - It is estimated that forests cover 37,500,000 hectares (144,791 square miles) or about 49% of the area of the Associated States. Approximately 30% of the standing timber is economically exploitable, but owing to the insecurity during the past years, only a small amount of this valuable resource has been exploited. Production of forest products in 1953 amounted to approximately 540,000 cubic meters of timber, 270,000 cords of firewood and 48,000 tons of charcoal. These amounts represent increases over the 1952 production of 436,029 cubic meters of timber, 234,165 cords of firewood, and 35,000 tons of charcoal, but are only about one third of pre-war levels.
Fisheries - Production of fresh fish in Vietnam has fallen to onefifth of pre-war levels or to approximately 30,000 tons in 1953. In Cambodia, however, fish sales have increased from 91,000 tons in 1952 to 130,000 tons in 1953 and are 30% over 1938 levels. This represents improved marketing facilities more than increased catches.

Minerals - To a large extent, the known mineral wealth of the Associated States remains unexploited. Coal is the major item produced, but the 832,000 tons taken in 1953 is still well below the level of the pre-war years.

Tin production brought out for export in Laos increased considerably in 1953 over 1952 before the mines were lost to the Viet Minh at the end of the year, but never equalled more than a fraction of pre-war output.

Industry - Although of relatively minor importance in the overall economy of the Associated States, some manufacturing is carried on. The output of cement, oxygen, acetylene, carbonic gas, beer, and cigarettes, the most important industries, exceeded pre-war levels by the end of FY'54. Alcohol, textiles, soft drinks, refined sugar, basket work, soap, salt, and matches are also produced. In addition, there are those industries connected directly to agricultural pursuits, such as rice mills, lumber mills, rubber processing plants, charcoal producing centers, etc.

Foreign Trade - The foreign trade of the Associated States has been characterized by a gross imbalance on merchandise account, with exports covering only about one-fourth the imports. This deficit on merchandise account has increased from 2 billion piasters in 1948 to more than 11 billion piasters in 1952. 1953 saw a slight reduction to 10 billion piasters.
The change in 1953 was less than might be expected in view of the devaluation because of the time lag (the devaluation took place before the middle of the year), the export taxes imposed by the Vietnamese Government which prevented the devaluation from exercising its full influence on export price reductions, the early prohibition on the export of rice, and the subsequent fall in world prices of rice and rubber, making receipts from these major exports disappointingly low.

If the period June - March 1952/53 is compared with June - March 1953/54, the change is more striking, with imports dropping 26%, exports dropping 16%, and the trade deficit being reduced by 30%.

This deficit on merchandise account is aggravated by a large outflow on capital transfers. The net outflow on this account has grown from 4 billion piasters in 1948 to about 14 billion piasters in 1951. The current magnitude of this outflow is estimated to exceed 20 billion piasters annually.

These deficits are covered mainly by French Army expenditures and U.S. Economic Aid.

Merchandise imports continue to come primarily from France, three quarters of the total coming from this source last year. Exports on the other hand have been gradually shifting from France and the French Union to the hard currency areas (dollar and sterling areas).

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Prices

The general index of wholesale prices rose 22% during the post-devaluation period in spite of a decline in the price of rice, which is heavily weighted in this index. Local products other than rice rose 11.5% in price, while imported products rose 51.8%.

Consumers' prices also rose, especially on imported item. Prices on local items rose less because of the fall in the price of rice and
because of Government controls on wages.

The increases in prices were due to the devaluation, and the failure of the Government to take strong enough anti-inflationary measures, the increase in the supply of money, the large local military expenditures, the shortage of goods and services, the lack of confidence in the future, and other causes.
2.00 HEALTH AND SANITATION

With an estimated population of 26 million, the Associated States have only about 250 doctors and 84 hospitals, with a total capacity of 12,600 beds. There are perhaps 300 maternities and infirmaries, averaging less than 10 beds each. Even these meager facilities are concentrated in the urban centers and, because of poor transportation, are essentially unavailable to the 75% of the population who live in rural areas. To aggravate the situation, military requirements further reduce the beds available for civilians.

Additionally, few programs of preventive medicine, designed to protect the people from the debilitating diseases so prevalent in this area, were in operation prior to those installed with the assistance of American Economic Aid.

To fill the obvious needs for trained personnel in the field of health, there is only one medical school, with branches in Hanoi and Saigon, attended by 325 students of which 30 to 40 graduate per year. Almost all graduates are conscripted by the Military.

Cambodia has a Health Officers School.

This is the basic situation from which Health and Sanitation problems are being attacked.
Technical assistance, training ambulances, trucks, Jeep Station wagons, typewriters, books, first aid kits, Aralen, Penicillin, Aureomycin, Terramycin, Chloromycetin, Streptomycin, D. D. T. powder. Hospital and laboratory equipment, Anesthesia apparatus, electric refrigerators, blood bank units, mobile X ray units, sprayers, outboard motor equipped boat, Quonset huts, beds, pit privies, well pumps, ambulances.
2.11 - Malaria Control

Highly prevalent in mountainous areas, malaria is combated by an integrated program of both prevention and treatment. At present, there are 16 three-man malaria survey teams who gather mosquitos, take blood smears and make spleen examinations. 8 three-man laboratory teams who identify mosquitos and examine blood smears. 48 six-man DDT spraying teams. About 230 tons of 75% wettable DDT are used annually to spray 1,104,000 homes, giving protection to some 4,450,000* people. Over 150,000 tablets of Aralen are dispersed annually to 100,000 patients.

* These figures are at variance with those in the 1953 report because of printing errors in that report.

Instruction in Malaria at Pasteur Institute, Saigon
This program is designed to reduce disease-producing environs. A major part of this attempt is concentrated in the well program. With an ultimate goal of serving 10,000 villages, the immediate program envisages supplying 4,000 villages with sanitary wells, 5 to 10 meters deep, provided with hand pumps. The wells are dug by the villages and the program provides the lining, the cap and the pump. To date, 2,000 pumps have been distributed. A deep-well drilling rig has been supplied which will help to reach more palatable water than is usually possible with the shallow wells. Several wells have also been made available and the water system at Hue, in Central Vietnam, has received financial help. Water testing kits have been given to Cambodia.

The improper disposal of human excreta is another major problem causing a high incidence of intestinal diseases. In an effort to reduce the sources of infection, a demonstration pit-privy program was started, with emphasis on information to be furnished by local health educators. This program provides a prefabricated reinforced concrete slab to any community, group, or individual who will do the excavating and construct the superstructure. Work is underway to establish 4,000 of these pit-privies, with primary emphasis in major food producing areas.
New water treatment and storage plant, Hue Central Vietnam. This new addition consists of a water tower, two water tanks and a pumping station which will increase the daily sanitary water supply by 2,642,000 gallons.

2.13 - Venereal Disease

The Associated States have requested aid in establishing survey and treatment centers for venereal diseases in the principal cities. This program has been integrated with the development of the Public Health Laboratory Program (see following), under which laboratories are being established in Hanoi and Saigon. Penicillin is provided to the hospitals, some of which is used in the treatment of venereal disease patients. Nearly 25,000 patients have received treatment with penicillin this year.
2.14 - Trachoma Control

Twenty-two teams have been established to dispense antibiotics for the control of this disease. Each team has three nurses, a clerk and a chauffeur. In addition, some of the first aid people are given training in the treatment of trachoma. About 500,000 patients are treated annually at present, and the trachoma control teams also assist in giving inoculations against smallpox and cholera.

2.15 - Maternal and Child Health

Some 50% of the infants die in the first year of life in the Associated States. To help reduce the infant mortality rate, an American doctor was obtained on a contractual basis for a period of eight months to survey the need for, and to develop, training courses for 130 midwives in North Vietnam. A suggested list of essential equipment for improving these services to the people was developed at the same time Cambodia and Laos also have received equipment, medicines and financial aid under this program. USAOM nurses have started a nurse-training course in Laos for 84 midwives there. The World Health Organization furnishes technical assistants for this program in Cambodia.
2.16 - Other Contagious Diseases

Tuberculosis is prevalent throughout the Associated States, and a program of vaccination with BCG has been started under the supervision of technicians provided by the World Health Organization and the United Nations International Children Emergency Fund, using counterpart funds for equipment and operating expenses. Surveys in the control of plague and typhus have been made and two effective rat extermination projects were carried out this past year.

Six mobile teams in Cambodia and four in Laos help control yaws with penicillin. This program provides the penicillin, vehicles and operating expenses.

2.21 - Intestinal Parasite Control

Surveys conducted in the schools of North Vietnam came out 92% positive for round-worm, 23% positive for hookworm, and 46% positive for whipworm. To help meet this situation, a program has been developed to provide training for laboratory technicians and health educators in North Vietnam and Laos in the identification of intestinal parasites. Village health educators are charged with instituting educational courses in the schools and with the collection of fecal samples which they submit to the laboratory technicians for examination. On the recommendation of the chief doctors, hexylresorcinol crysytoids are distributed by the health educators. An integral part of this program is the pit-privy program explained previously (see Section 2.12). Some 36 laboratory technicians and health educators have been given special training in intestinal parasite control in Vietnam and Laos.

2.30 - Medical Care Facilities

To help meet the drastic shortage of medical care facilities, American Aid has assisted in the reconstruction of provincial hospitals and in providing minimum essential equipment. Medicines have also been furnished.