Just as significant as the expansion of trade has been the discussion of foreign participation, including direct private investment, in the newly united Vietnam. According to the Japanese daily, the *Asahi Evening News* Jan. 7, diplomatic sources report that Hanoi is about to release a foreign investment code, liberal and broad in scope and designed to facilitate a rapid transfer of technology and resources. The provisions call for:

1) Joint ventures in three categories including: (a) Mineral resources development, including oil, with capital and technology to be provided by Western partners under production sharing contracts. (b) Up to 49 per cent foreign participation in joint companies engaged in general areas of business including the agricultural and industrial sectors. *(c)* Capital shares in joint ventures for export purposes which will be fixed on a case by case basis with a possible approval of 100 per cent foreign ownership.

2) Guarantees that joint ventures will not be nationalized for at least ten to fifteen years and then only with adequate compensation. In addition, ventures in certain areas will be spared taxes or have reduced tax rates for a specified period of time. Remittance of profits would be allowed after taxes and internal reserves are taken out.

Though American corporations cannot invest in Vietnam because of the current trade embargo, Europeans and Japanese are moving rapidly to extend aid and negotiate private investments. This is most readily seen in the oil sector, where discussions and negotiations have been held with Britain, Japan, France, Italy, Norway, Canada, and even U.S. oil companies (on an unofficial basis). The French company Compagnie Maritime d'Expertise (Comex) has already signed a contract to provide technical advisors for an oil logistics base at Vung Tau, 90 miles outside of Ho Chi Minh City. The Norwegian state oil company has concluded a $45 million service contract employing a Norwegian off shore rig to drill six wells, and is conducting seismic investigations and technical training programs. The Japanese Kaiyo Oil company and the French state-owned Elf Aquitaine are also beginning negotiations with the Vietnamese. These companies had a joint concession under the U.S.-puppet Saigon regime in 1971:

The most dramatic intervention into the Vietnamese reconstruction effort has been that of Japan. This February, a delegation of the powerful Federation of Economic Organisations (Keidanren) will be arriving in Hanoi to discuss Japanese cooperation in development of agricultural and petrochemical industries. This follows nearly two years of broad discussions between the two countries on various levels. The Japanese government granted Vietnam over $44.5 million in aid for 1976. A seven member Vietnamese oil mission headed by the chief of the Oil and Gas Directorate, Mr. Nguyen Van Bien, visited Japan last October to inspect off shore oil development projects and refining complexes. Japanese involvement in offshore oil developments in the Mekong were said to have been discussed.

Looking towards the future, the Vietnamese are eager for Japanese technical and capital assistance in state corn farms, including construction and farm machinery. Over the course of the second five year plan corn acreage is to increase threefold to five million tons of corn a year, most of it for export. (The Japanese now import 10 million tons, primarily from the United States).

In an effort to acquire a maximum amount of assistance, the Vietnamese have joined the World Bank and International Monetary Fund as well as the Asian Development Bank. The World Bank sent a five man mission to Vietnam this month as a first step towards an internationally financed program to help in reconstruction. The Asian Development Bank had earlier sent a seven-member mission in Dec. to discuss financing of various projects started under the previous regime. Most recently the IMF granted Vietnam a $36 million loan to compensate for loss of export earnings due to war damage. Significantly the U.S., a member of all three institutions, did not vote against the loans.

South Korea: Still on the "Most Troubled Nation" List

This time last year the immediate danger of a default by South Korea on its international debts was an open secret in the world financial community. But as a result of a huge rise in exports during the last year — chiefly to the United States — South Korea "was pulled right out of the hole," in the words of one Wall Street analyst.

The problem facing South Korea, and other export-oriented countries that rely heavily on the United States as a market, is that in the coming year it will be very difficult to maintain last year's favorable terms of trade and prevent a deterioration in their international payments position. This is particularly a problem for South Korea, as the leading international banks have acknowledged by keeping that country on their "most troubled nations" list. A decline in South Korea's terms of trade this year could easily bring it to the brink of default that it hovered over throughout 1975.

The overall improvement in South Korea's economy last year was based primarily on an increase in exports of manufactured goods (chiefly textiles and wood products) to the United States. Exports to the United States from January to July of 1976 came to $1.41 billion, an amount just shy of the *total* of $1.53 billion in exports sent to the U.S. during all of 1975. Of this $1.41 billion, which is a full 33 per cent of South Korea's total exports for the period, the dominant commodities involved were textiles and wood products, together with small electronics machinery. Production of these and other consumer oriented products makes up the major portion of the South Korean economy.

These increased sales to the United States were the chief factor in the significant reduction during 1976 of South Korea's chronic trade deficit which during the previous two years had been running upwards of $2 billion per year. With exports during the January through October, 1976 period at $6.21 billion (total exports for 1975 were $5.08 billion), the trade deficit for this period was only $922 million.

Concern Over Deficit

There is growing evidence, however, that South Korea's major international creditors remain concerned about the level of the trade deficit, and are strongly suggesting that the government take definitive measures to further reduce it. Rumors of a devaluation of the South Korean won recently grew so insistent that Minister of Economic Planning Nam Duck-woo was forced to publically deny that his government was planning a devaluation to spur exports and reduce imports.

In the past, South Korean officials and businessmen have been known to strongly resist measures suggested by the International Monetary Fund and commercial creditors to moderate their vigorous industrial growth plans as a means of balancing the domestic budget and reducing payments deficits. These South Korean leaders fear that such austerity measures would exacerbate domestic recession. President Park seems to have renewed such resistance in his New Year's message to the country. Publicizing the country's Fourth Five Year Plan, Park's message stressed the need for the development of heavy industry and raising living standards of the South Korean population — measures which will necessitate heavy long-term investment from abroad.

The large increase in South Korea's sales abroad provided the basis for a big upturn in production, particularly of consumer-oriented manufactured products, which were up 30 per cent over 1975 levels during the first half of 1976, while plywood was up 30.1 per cent and light industries (mainly electronics) were up 29 per cent.

The Debt Picture

The reduction of the trade and current account deficits last year partially relieved Korea of the pressure to borrow short-term very heavily on the international markets. Over the past two years Korea had fallen into severe debt trouble as a result of a tremendous fall in terms of trade it suffered and its huge increase in current account deficits. Last year, however, the combined current account deficits for the first two quarters was only $292.4 million, a far smaller quarterly rate than that experienced in 1974 and 1975, when the yearly current account deficits were $2.02 billion and $1.88 billion respectively.

The increase in exports also helped the country increase its foreign exchange holdings, which stood at $2.59 billion at the end of October. The total at the end of October 1975 was only $1.36 billion.

As for the debt problem, the reduction of deficits and increase in foreign exchange holdings seems to have alleviated the danger of large-scale defaults on payments, at least for the present. While estimates on South Korea's total debt differ widely, the most reliable places it at $12 billion — a considerable portion of which is short-term, high-interest debt used to finance the huge payments deficits of the last three years. Officially, Korea was to pay a 12.8 per cent debt service ratio last year. It is not known how much in combined principal and interest was actually paid, but one estimate placed the amount of total debt payments to be paid in 1976 at $1.024 billion.

Taiwan: A U.S. Dependent

Perhaps as much as any other country, Taiwan strongly benefitted from the reflationary upturn in the U.S. economy during 1976. Chiefly as a result of a nearly $1 billion increase in exports to the U.S. during the first 11 months of 1976 over 1975 levels, this export-oriented nation reversed its trade deficit of the last two years and reattained a surplus in trade such as had characterized the economy before the "oil shock" of 1973-74. This strong recovery in exports enabled Taiwan to maintain a favorable payments position and easily meet its relatively small debt service payments.

However, 1976 showed Taiwan to be dangerously overdependent on the United States as a market for its exports — a dependence which will likely spell severe troubles for Taiwan in the coming year, since the consumer-oriented reflationary upturn that occurred in the United States during 1976 will almost surely not be repeated. Despite some attempts to diversify its export markets, a full 51 per cent of Taiwan's exports went to the United States and Japan last year, and now the markets of both countries for Taiwan's consumer-product dominated exports will signigicantly shrink. In addition, Taiwan's strong export recovery has recently provoked calls in several western countries, particularly the United States for protectionism against products from Taiwan (and other countries as well); the imposition of import quotas in the West could further reduce what is already expected to be a shrunken market.

Massive Increase in Exports

The key to Taiwan's recovery last year was the massive increase in exports, textiles and small electrical machinery to the United States. During the January through November period, exports to the United States amounted to $2,715 million, a full 37 per cent of Taiwan's total exports during the same period, and these two categories of products made up a significant portion of the sales. Together with plywood and furniture, textile and small electronics components dominate the economy of Taiwan, accounting for 54 per cent of all exports in 1976. The increased sales to the U.S. resulted in a trade surplus with the U.S. of $1,113 million, up from the small 1975 total surplus of $119 million. The surplus with the United States enabled Taiwan to register a surplus in total trade for the January-November period of $481.2 million, a signigicant recovery from the 1975 deficit of $570.2 million.

Spurred on by the sales abroad, the overall domestic production registered significant gains. Synthetic fibers production as of October was up an average of 27 per cent (measured in metric tons). Machinery and electrical