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# VIETNAM: MAY 1974

## A STAFF REPORT

PREPARED FOR THE USE OF THE

## COMMITTEE ON FOREIGN RELATIONS
## UNITED STATES SENATE

AUGUST 5, 1974

NOTE: Sections of this committee print, originally classified secret, have been deleted at the request of the Department of State, the Department of Defense, and the Central Intelligence Agency. Deleted material is indicated by the notation "[Deleted]."

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## LETTER OF TRANSMITTAL

Hon. J. W. FULBRIGHT,
*Chairman, Committee on Foreign Relations,*
*U.S. Senate,*
*Washington, D.C.*

DEAR MR. CHAIRMAN: At the request of the Committee we spent the period May 12 to June 4 in Vietnam, Laos, Thailand and Cambodia. In accordance with our instructions we examined U.S. programs in Vietnam and Cambodia and the political and economic factors bearing on those programs. We also spent a day in Laos for the purpose of obtaining information relevant to the status of accounting for Americans missing in action. We have reported separately to you on that subject. Cambodia will be the subject of a separate report.

Before leaving Washington we were briefed in the Departments of State and Defense, the Central Intelligence Agency and the Agency for International Development. While in Southeast Asia we met with the American Ambassador in Saigon and his staff; General Timothy F. O'Keefe, Commander, USSAG/Seventh Air Force, at the Royal Thai Air Base in Nakohn Phanom, and members of his staff; the U.S. Consuls General in Danang and Can Tho and U.S. officials in Quang Ngai in South Vietnam; the South Vietnamese Foreign Minister and Minister of Information and other Vietnamese civilian officials; the commanders of South Vietnam's military regions I and IV; and other knowledgeable observers both American and foreign. In addition, en route back to Washington we met with members of the staff at the headquarters of U.S. Forces in the Pacific concerning U.S. military activities and military assistance programs in the countries visited.

On our return to Washington we prepared a classified report which we presented to the Committee in Executive Session on June 13. At that time you asked that we prepare an unclassified report and you wrote to the Secretary of State asking him to designate a responsible official to coordinate a review of the report on behalf of the Executive Branch together with the Committee staff in order to recommend what material in the classified report warranted deletion in the interest of national security. Representatives of the Departments of State and Defense and the Central Intelligence Agency made a prompt review of the report. Certain deletions were suggested and made. They are indicated by the notation "deleted".

In the course of our briefings, travels and the security review process we received the fullest possible cooperation of Executive Branch officials. We were pleased to note a significant lessening of the "adversary" attitude which members of the Committee staff have encountered on the part of Executive Branch officials in the course of past field inquiries.

Our report on Vietnam, in which we have followed the practice of avoiding direct attribution, is attached.

Sincerely yours,

RICHARD M. MOOSE,
CHARLES F. MEISSNER.

# VIETNAM: MAY 1974

## I. THE WAR

During the seventeen months since the Paris Agreement on Vietnam was signed there has been a substantial reduction in the level of fighting in South Vietnam. The number of North Vietnamese and Viet Cong reported killed in 1973 was only about one-third of the 1972 total—51,000 vs. 159,000—and the number of South Vietnamese military killed dropped from about 28,000 to 13,500. U.S. officials estimate that, in addition, some 14,000 South Vietnamese civilians were killed during 1973. Despite these decreases in casualties, the fact remains that at least 80,000 Vietnamese lost their lives in 1973. Accordingly, the term "less fire" used by some Americans in Saigon may be a more appropriate description of the current military situation than "cease-fire".

Although both sides continue to charge the other with cease-fire violations, lack of respect for the Agreement is so widespread that it is impossible to apportion responsibility for the continued fighting. Even in the case of isolated incidents initial responsibility is invariably lost in cycles of action and reaction.

Immediately before and after the signing of the Paris Agreement both sides sought to seize last minute advantages. In general, the South Vietnamese fared slightly better in this maneuvering than did the Communists. Thereafter, the North Vietnamese, using routes through both Laos and Cambodia, maintained a high level of infiltration of both men and material and applied continuing pressure on the South Vietnamese wherever the tactical situation permitted. The Saigon forces have, in turn, sought to eliminate Communist base areas and infiltration routes and to gain control of contested areas. Where the latter efforts failed, the South Vietnamese have sought to deny the enemy control of population by restricting freedom of movement and by making life difficult in enemy held areas through shelling and harassment.

The nature and intensity of military activity has varied widely in the four military regions of South Vietnam since January 1973, but a central theme explains much of the activity. Each adversary has attempted to consolidate his area of predominant control; the North Vietnamese and Viet Cong in the mountains and the South Vietnamese on the coastal plain. Most of the significant military activity has been concentrated where these two geographies meet or where pockets of resistance oppose the predominant force.

In northern Military Region III, north and west of Saigon, the mountains and the coastal plane fade into a relatively flat area of forests, rubber plantations and agricultural land. To the northerners this region is the gateway to Saigon and the delta and the end of their protected supply lines from the north. To the southern forces it is a strategic area for the defense of Saigon and the destruction of enemy men and material being moved south in the delta. Here in Bing Duong and Tay Ninh provinces of South Vietnam as well as in the Parrot's Beak of Cambodia (Svay Rieng province) the two forces continue to clash. In general, north of this region the war has a more traditional main force character with Viet Cong forces supplementing the North Vietnamese effort. To the south, in the delta, the Communists continue to rely more heavily on guerrilla and terrorist tactics and less on large unit efforts.

Only in northernmost Military Region I has the situation remained essentially static since the cease-fire. North Vietnamese forces control most of Quang Tri, Thua Thien and Quang Nam provinces except for the remains of Quang Tri city, the city of Hue and the narrow coastal lowlands. Hanoi's control in the majority of the northern two provinces is so complete that the North Vietnamese postal system and currency are now reported to be employed there. In addition, some 40,000 civilians from North Vietnam are said to have been resettled in this area.

North Vietnamese forces actually deployed in Military Region I are almost numerically equivalent to the South's and, in addition, several other North Vietnamese divisions are in reserve positions just over the DMZ. There are some military experts who doubt whether the city of Hue could be held in the event of another major assault and at least some Saigonese who doubt whether the effort should be made. At the moment, however, no such attack seems likely and the power of the forces on the two sides is so great, and the balance between them is so close, that the opposing commanders appear to recognize the existence of a stalemate and to plan their operations accordingly.

South of the Hai Van pass, which lies between Hue and Danang, the military situation is less stable. From time to time both sides seek to take advantage of the other; the North Vietnamese threaten weak points in the defenses along Route 1 and the South Vietnamese seek to extend their control in coastal and foothill areas traditionally held by the North Vietnamese or Viet Cong in Quang Ngai and Quang Nam provinces.

By contrast to the relatively quiet situation to the north, in Military Region II the South Vietnamese have applied continuing pressure on Communist-held areas in the coastal lowlands. In turn, North Vietnamese have steadily improved their increasingly formidable logistical structure in the central highlands while slowly eliminating the isolated South Vietnamese outposts which had been used to observe and harass Communist supply lines.

In Military Region III, which surrounds but lies mostly to the north of Saigon, there has been even more military activity. The two sides have constantly jockeyed for position and, in recent months, the South Vietnamese have chosen with increasing frequency to seize the initiative on the local level rather than remaining in a static defense posture. North Vietnamese forces to the north and west of Saigon have been considerably strengthened since January 1973 and the security situation in the region is now considered to be the worst it has been since 1970–1971.

Earlier this year South Vietnamese concern about this threat to the capital resulted in a division sized operation which caused the North

Vietnamese temporarily to evacuate the long-held Ho Bo woods. The Communists responded at various points in Military Region III, but were turned back by the South Vietnamese who then followed up with a large-scale combined armor and infantry thrust into Cambodia against the withdrawing Communist forces.

Just prior to our visit, the South Vietnamese outpost of Tong Le Chan in upper Tay Ninh province, which had been under seige since January 1973, fell to the Communists. During our stay in Saigon elements of two North Vietnamese divisions began a series of maneuvers and attacks by fire in Binh Duong province about thirty miles north of Saigon, not far from the scene of the earlier South Vietnamese offensive action in the Ho Bo woods. Despite the extensive publicity given to these enemy operations by the South Vietnamese, U.S. military officials and analysts did not consider them to be militarily significant.

The delta, Military Region IV, with a population nearly equal to that of the rest of the country combined, has had the largest number of individual military incidents since January 1973. U.S. officials estimate that half of the casualties and incidents reported in the past year occurred there. In the weeks preceding our visit, fighting had been particularly heavy in the upper delta provinces of Kien Tuong and Dinh Tuong. These actions were primarily the result of initiatives taken by the South Vietnamese against Communist base areas and continuing North Vietnamese infiltration from Cambodia's Parrot's Beak. The most significant of these actions was a six week operation conducted by two South Vietnamese regiments in the area of Tri Phap village.

While this action at Tri Phap was reportedly succeeding in dislodging the North Vietnamese from a long held and important base area in the northern delta, security in the lower delta was deteriorating. The single government division which is responsible for security in the southern delta is generally regarded as the worst in the South Vietnamese army. It is said to be poorly led, understrength and lacking in mobility. Moreover, the territorial forces which man government outposts in the area are understrength, primarily because local soldiers must spend considerable time away from their posts trying to earn a living. Between January and May 1974, more than 80 outposts in the delta fell to the Communists. Many roads in the delta are again said to be unsafe after dark and recently some ambushes have even occurred during daylight hours.

The strength of the Viet Cong in the delta is an important unknown factor. Some U.S. officials believe that the Communist infrastructure has been significantly strengthened since the 1972 offensive when government forces in the area were reduced in order to strengthen the defense of Saigon. They cite the rising incidence of terrorism and local force accommodations with the Communists to support their view. Other U.S. officials hold that the Viet Cong are so weak that their position would be untenable in the absence of North Vietnamese main force support.

U.S. officials consider the current trend in the lower delta to be serious but not irretrievable. They expect that in time the government will be able to bring its better units from the upper delta to restore security in the south. But these same officials express concern that when these units are moved infiltration will resume in the areas which they vacate. Even with the unexpected benefit derived from occasional fighting between the Khmer Communists and North Vietnamese in areas of Cambodia adjacent to the lower delta and military successes in the northern delta, the South Vietnamese army has not been able to cut off supplies of men and arms to the North Vietnamese in Military Region IV. As one U.S. official put it, "The ARVN (South Vietnamese army) is putting up a hell of fight but as long as the North Vietnamese can infiltrate, the government can't win."

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After more than a year's experience with the "cease-fire" the consensus of official U.S. opinion is that there has been no major country-wide shift in control of territory or population between the government and the Communists. All U.S. agencies agree, however, that on the basis of hamlet surveys, the South Vietnamese government has gained slightly in terms of population. In Washington we were told by State Department officials that the percentage of population in the two most secure categories of government-controlled hamlets ("A" and "B") had risen during the past year from 79 percent to 82 percent. The Joint Chiefs of Staff, citing statistics provided by the Embassy in Saigon, estimate an overall government gain of 6.2 percent achieved primarily through "consolidation of control" in areas of concentrated population and rice production.

Other analysts in Saigon estimate that in the course of the last year the North Vietnamese and Viet Cong have lost 15 percent of the territory they controlled in January 1973. On the basis of these studies, the government is shown to have gained 779 hamlets, nearly 100 of which were formerly "V", or completely Communist controlled hamlets, and the remainder "D", or contested hamlets. Overall, this analysis indicates that the government now has "dominant access" to 94 percent of the population ("A, B, and C" hamlets), a gain of five percent from the end of November 1972.

## II. THE OPPOSING FORCES

Since the Paris Agreement was signed, the North Vietnamese have sent between 100,000 and 120,000 men to the South. Their casualties during this period have been substantial, however, and these losses, together with the sizeable totals of men exfiltrated, reduce the net increase in Communist forces in the South since the cease-fire to about 30,000 men. At the time of the April 1972 offensive North Vietnamese and Viet Cong forces were estimated at about 162,000 men. By November 1973 this total had risen to about 190,000, but in the last few months North Vietnamese strength has actually been dropping and in April 1974, the North Vietnamese and Viet Cong total was estimated to be about 184,000 men. At the time of our visit, most of the infiltration thought to have been planned for the 1973–74 dry season was believed to have been completed.

By contrast, the ground troop strength of the South Vietnamese army has continued to climb. According to statistics given to us in Saigon, the total has risen from about 228,000 in April 1972 (a time at which many units are said to have been as much as 35 percent understrength) to 320,000 in November 1973 and to 372,000 in March 1974. Department of Defense officials in Washington told us that the figure which we were given in Saigon was too high and that effective South Vietnamese ground troop strength is only about 320,000 men. One explanation for the difference could be that the Saigon figure included the strength of Regional Force units being used in the same way as South Vietnamese army units, while the Washington figure did not.

Some U.S. officials believe that the overall one million plus military manpower total of the South Vietnamese army—as distinct from combat forces—is now being allowed to decrease through attrition, but they are not confident of their information on this point. The difficulty of estimating the effective strength of the South Vietnamese forces is compounded by reports that the army payroll may include at least 100,000 "flower soldiers" who pay their superiors in order to allow them to work elsewhere, "gold soldiers" who hire others to serve in their place, and "ghosts" who exist only on payrolls.

U.S. officials point out that in assessing the overall balance of forces it is necessary to take into account not only North Vietnamese forces in the South but also several divisions which they now hold in reserve in the North totaling perhaps as many as 50,000 men. By contrast the South Vietnamese "reserve" consists of only one brigade and it may exist only on paper. Among the North Vietnamese reserves are one or more divisions recently withdrawn from Vietnam and another withdrawn from Laos. These units are now in North Vietnam undergoing refitting and receiving replacements. With the improved road system now available to the North Vietnamese they could be moved by truck to areas as far south as Military Region III in about three weeks. Meanwhile, most North Vietnamese units in the South are generally thought to be up to full strength.

Most American officials believe that the Viet Cong have never recovered from the 1968 and 1969 Tet offensives and the allied counteroffensives that followed. Estimates of the strength of the Viet Cong are highly conjectural, but U.S. officials estimate that there are roughly 50,000 guerrillas and about an equal number of poiltical cadre. The total Viet Cong troop strength numbers an additional 75,000 of whom about 30,000 are considered combat forces. Viet Cong capability to carry out main force operations remains severely limited. Working as guerrilla units, however, the Viet Cong contribute significantly to North Vietnamese efforts by harassing South Vietnamese forces, by interfering with "pacification" operations, and by disrupting refugee resettlements. The guerrilla presence compels the government to make large expenditures of military and economic resources for static local security. Their presence is also a constant reminder to the rural population of the limits of Saigon's power.

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Since the cease-fire, the North Vietnamese have significantly increased their inventory of armored vehicles in the South, more than making up for losses suffered in 1972 and subsequently. Today, the Communists and the Saigon forces have roughly the same number of tanks but the South has the advantage when armored personnel carriers are included. North Vietnamese tanks are now deployed farther south than before, including a sizeable number in northern Binh Duong province above Saigon.

The North Vietnamese have also introduced additional artillery in the South, including both long range and anti-aircraft weapons. Even though the South Vietnamese still have a four-to-one advantage in total numbers of field guns, many of the North Vietnamese weapons are considered superior because of their longer range. Given the essentially static nature of the South Vietnamese system of fire support bases and the improved mobility and anti-aircraft defense of the North Vietnamese, the Communists now have the capability of massing their artillery and attacking fire bases from outside the range of the South Vietnamese guns.

The North Vietnamese anti-aircraft build-up is increasingly cited by U.S. military officers as a factor which, when coupled with the North's vastly improved interior lines of communication, could pose serious problems for the South Vietnamese in the future. Over [deleted] anti-aircraft regiments are now deployed in the South and there are several operational surface-to-air missile sites in the Khe Sanh valley. This air defense system already covers much of northern Military Region I and some portions of the North Vietnamese logistical systems in the central highlands. In recent weeks, [deleted] have established the presence of [deleted] for anti-aircraft batteries and SA-7 missiles in the Cambodia border area of Military Region III adjacent to Saigon.

The build-up of Communist anti-aircraft capability has severely reduced the effectiveness of the South Vietnamese tactical air support, a fact reflected in the relatively low number of sorties flown in recent months. South Vietnamese aerial reconnaissance capabilities have also been adversely affected and [deleted]. Because of the North Vietnamese anti-aircraft capability, however, [deleted] especially in covering Military Region I. Officials in Saigon told us that perhaps [deleted] and the possibility of renewed U.S. air intervention in the South, the North Vietnamese consider the residual U.S. air capability in Thailand to be part of the threat against which they must be prepared.

Perhaps the most significant strategic development over the course of the past year has been the creation by the North Vietnamese of a secure base of operations in the western border highlands of South Vietnam. Some U.S. officials now refer to this area as "the third Vietnam." The principal features of this logistical complex are a newly constructed road system within South Vietnam extending from the DMZ southward into Quang Duc province in southern Military Region II; the extension of the alternate Ho Chi Minh road system in Laos to the tri-border (Vietnam, Cambodia, and Laos) area; the improvement of six old airfields in the northern highlands; the lengthening of the North Vietnamese petroleum pipeline through Laos to the tri-border area with lateral lines into the A Shau valley and Quang Tin province and the building of an alternate pipeline across the DMZ into Quang Tri province; and the construction of extensive permanent petroleum and supply storage facilities in a number of locations.

U.S. officials estimate that the Communists presently have enough ordnance stockpiled in South Vietnam for at least a year's fighting at all-out offensive levels, or for four years at current expenditure rates.

Furthermore, the improvement of the road network and the absence of interdiction now permits the North Vietnamese to move men and supplies to the South in one-fourth the time previously required and with negligible losses. The current volume of supplies moving south is said to be at "maintenance" levels. The North Vietnamese are again making extensive use of coastal shipping to supply their forces in the South. A significant amount of this shipping comes through the port of Dong Ha in the Communist held area of Quang Tri province.

The development of the facilities described above has, in the view of U.S. authorities, greatly enhanced the Communists' ability to threaten the South. Because they are located in inaccessible areas of the interior and are well defended by anti-aircraft units, the new North Vietnamese installations are relatively secure from government attack. Their overall effect is to diminish significantly the logistical advantage which the South enjoyed in the past and to give the North Vietnamese a capability to move and mass troops in a manner hitherto impossible for them. Defense Attaché officials in Saigon, while emphasizing that they are speaking only in terms of Communist capability, stated that "the enemy has spent the past year in building the greatest military threat to South Vietnam in the history of the war."

Some U.S. officials believe that in the future the North Vietnamese can be expected to engage primarily in main force operations employing combined arms tactics—infantry supported by armor—defended by the newly acquired anti-aircraft capability. Other analysts point out, however, that the North Vietnamese, at least at the outset, might experience command and control problems of the type which were evident in their April 1972 offensive should they seek to conduct a main force war.

It is in this very area of command and control that U.S. military officials believe the South Vietnamese army is most improved. A number of unofficial observers also expressed the view that as a result of having held its own for more than a year without American troops, air support or advisors, the South Vietnamese military has gained greatly in confidence and self-reliance.

In the course of briefings and discussions with American officials in Saigon and the field, we were given a number of examples of instances in which South Vietnamese commanders had successfully carried out complicated military operations on their own. One of these was a South Vietnamese thrust into Cambodia which was described in a Defense Attaché briefing as follows: [1]

> The operation demonstrated daring and imagination by leaders at all echelons . . . The complexity of coordinating and executing a plan, which included combined arms ground forces, supporting tacair, artillery and gunship support in conjunction with heliborne assaults, cannot be over-emphasized. Coordination between MR's (military regions) was also a highlight. That one MR could support another was a significant step forward in RVNAF (Vietnamese armed forces) operation . . . the colocation of a forward command post from . . . Corps with (an) air division command post including a direct air support center . . . demonstrated essential emphasis on complete command and control . . . Of significance is the fact that RVNAF neither requested nor received advice, assistance or help of any type. As a matter of fact, the Defense Attache' Office was not aware of the operation until after it had started.

[1] Specific place names and unit designations have been omitted for security reasons.

In addition to such advances in command and control capability the South Vietnamese army is said to be far better equipped today than ever before. This is due in considerable measure to the large amounts of material delivered by the United States in operations "Enhance" and "Enhance Plus" just prior to the signing of the Paris Agreement. The value of this material is estimated by the Defense Department to have been $753.3 million. In addition, the South Vietnamese were also given the equipment previously used by Korean forces in Vietnam as well as equipment worth $57 million left behind by American contractors.

Knowledgeable U.S. officials say that the mass of military equipment and material which poured into South Vietnam just before the cease-fire has not been well utilized. In many instances the South Vietnamese were not trained to use or to maintain the new equipment. As a result, one knowledgeable official said much of the material is "sitting around rusting."

Despite South Vietnam's advantage in manpower, the improvement in its command and control systems and its new equipment, American officials, both in Washington and in the field, expressed concern over the effect of adverse economic conditions on the morale of South Vietnamese forces. Between January 1973 and May 1974, the cost of living in South Vietnam increased by over 100 percent while military salaries increased only about 25 percent. According to recent U.S. studies the average South Vietnamese soldier receives only about one-third the amount required to support an average family. The impact of inflation on the individual soldier has been compounded by the disappearance of American supported jobs which previously provided supplemental income for soldiers and their families. Ironically, inflation and unemployment appear to have cut South Vietnamese desertion rates, particularly in Military Regions I and II, where these conditions are most severe.

Many U.S. officials believe that the economic hardship being experienced by South Vietnamese soldiers has already begun to impair the army's effectiveness. As mentioned earlier, in the Vietnamese delta a direct connection has been noted between the loss of outposts and the problem which territorial force members have in supporting themselves. Some senior South Vietnamese commanders told us that discipline in their units is being undermined by the reluctance of officers to enforce discipline against soldiers who absent themselves in order to provide for their families. Corruption in the army is said to be on the rise and we heard reports from a number of reliable sources of an increasing number of instances of soldiers demanding rice from farmers and transporters.

In our travels we observed several examples of petty corruption. As we entered one Vietnamese base we observed the military police on duty at the gate siphoning small quantities of gasoline from each motorscooter that passed their post. Driving in and out of Saigon we also observed numerous roadside stands at which stolen military gasoline was being sold.

The South Vietnamese government is considering various ways of helping the members of the armed forces cope with the high cost of living. General Truong, the highly regarded commander of Military Region I, has recommended, for example, that soldiers be given a supplemental living allowance in the form of rice. At the time of our visit, an overall increase in military salaries was being considered but unless government revenues are increased and commodity shortages are alleviated, a significant salary increase to such a large proportion of the wage earning population would have serious budgetry impact and would add to existing inflationary pressures.[1]

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The official American view in Saigon is that the South Vietnamese are in a very strong military position, and that their forces are growing stronger every day. Others, outside the official inner circle, agree that the South Vietnamese have a significant edge over the Communists but they point out that North Vietnamese capability has grown quite rapidly since the cease-fire. On balance, it would appear that while both forces are improving, the North Vietnamese are moving faster and that the gap between the two is narrowing.

American officials who study North Vietnam most closely are generally agreed that a major Communist attack seems unlikely this year, or perhaps even next year. During this period they expect that Hanoi to pursue a two track policy of reconstruction in the North while continuing the war in the South by means of scattered strategic attacks.

Although the North Vietnamese have their own economic problems, U.S. analysts believe them to be quite capable of pursuing their dual objectives simultaneously. The Soviet Union and China are continuing to provide substantial quantities of assistance to North Vietnam, the majority of it economic. Preliminary estimates indicate that the value of total aid from these two sources in 1973 was $715 million. Military aid to North Vietnam from the Soviet Union and China, which is confined to the provision of arms, equipment and ammunition, unlike U.S. assistance, which includes operating and maintenance programs, was estimated at $290 million.

The $425 million in economic aid received by North Vietnam last year from the Soviet Union and China represented a $125 million increase over 1972 but was a little lower than the average of such aid during the period 1969–1971. Analysts say that 1973 deliveries represented an effort to make up for decreased deliveries during the period of U.S. mining and bombing in 1972. U.S. experts expect to see a rising trend of economic aid to North Vietnam in 1974 as Hanoi's reconstruction requirements increase. Conversely, increases in Soviet and Chinese military aid to North Vietnam are not expected.

No one with whom we talked believes that the North Vietnamese have abandoned their objectives in the South. The consensus view of U.S. analysts is that Hanoi will continue to build up its forces in the South and that the North Vietnamese leaders will re-evaluate the desirability and likelihood of success of a major attack as they go along. Major considerations in these North Vietnamese evaluations are thought to be the South's military strength and economic situation and Hanoi's confidence in the backing of its own allies. On the last

[1] Subsequent to our visit a 30 percent pay raise was granted to military and civilian personnel of the South Vietnamese government.

point, some analysts believe that Hanoi cannot be certain of a major military resupply effort should it decide to launch an all-out attack. Nevertheless, for the moment and for the foreseeable future the Communists appear to have the ability to maintain a significant threat poised in the South, thereby imposing an enormous psychological and economic burden on the government of President Thieu.

## III. THE POLITICAL SCENE

Virtually all visible evidence suggests that President Thieu's grip on the formal mechanisms of internal control in South Vietnam is as firm, or firmer, than ever. He has had the constitution amended to make himself eligible for re-election to another five year term after his present one expires October 31, 1975. The National Assembly, once a thorn in Thieu's side, is now more docile and the government's strength in the Senate has been greatly increased. Thieu has succeeded in neutralizing virtually all the traditional political elements, including religious based parties, regional groups and the various Saigon factions.

Although the political parties survive and are active in connection with provincial and municipal council elections, the organizational requirements contained in Decree Law 060 would, in effect, exclude all of them except for President Thieu's own Democracy Party from participation in future national elections. At the time of our visit there seemed to be some possibility that Social Democratic Alliance (SDA) might qualify as a party for electoral purposes under the decree law but the SDA is considered by many to be "kept" by the government.

Thieu's Democracy Party was formed in 1972 as a contingency device in the event elections followed the cease-fire. Its future role is now uncertain. We were told that Nguyen Van Ngan, the former Special Assistant to President Thieu who was in charge of party affairs, had, in the words of one official, "gotten carried away with his responsibilities and wanted to organize a party council which would set government policy." Apparently neither Thieu nor Prime Minister Khiem liked this idea so it was dropped.

To the extent that they have not been totally neutralized by President Thieu's maneuvers, the parties have rendered themselves ineffective. None of them presently offers a clear or viable alternative to the present government. The "third force" is still talked about, but there is little evidence that it has either a cohesive organization or effective leadership. The government applies stringent controls on anything resembling "third force" activity and the Embassy's view is that no domestic non-Communist element is now in position to challenge Thieu.

Both the South Vietnamese government and the U.S. Embassy, but particularly the latter, are extremely sensitive to the allegation that there are 200,000 political prisoners in South Vietnam. After having long taken the position that the question of political prisoners was a sensitive matter involving the sovereignty of the Saigon government, the Embassy has prepared a report which, in its view, proves conclusively that there could not be 200,000 political prisoners because South Vietnamese prisons do not have sufficient capacity to hold that number of persons. The Embassy estimated, at the time of our visit that there were only about 35,000 civilian prisoners of all types in Vietnamese jails, prisons and other places of detention.[1] Embassy officers acknowledge that the study does not address the question of whether there are *any* political prisoners. They add, however, that all of those who are in prison are there as the result of having been charged with, or convicted of, some activity which is illegal under South Vietnamese law.

The Embassy states that until recently, about one-half of those in prison were there as the result of decisions taken under what is known as the "An Tri" system. As described by Embassy officers, the An Tri system is "based on law" and was designed as an "emergency expedient." Charges are usually supported by "intelligence type" evidence which, in the words of one official, "might not be proof enough to go the judicial route."

Although there is little formal political activity of any significance in Saigon there is said to be considerable maneuvering within the governing power structure. The participants include Thieu's advisors, senior civil servants and competing civilian and military figures. One experienced foreign observer described these activities as "a complicated inside game, the sort of thing that foreigners—particularly American officials—see little of."

One of the more active internal rivalries going on at the time of our visit involved two presidential assistants, Hoang Duc Nha, who is the President's cousin, and Nguyan Van Ngan. Until quite recently, the Presidential staff, dominated by these two assistants, had shared power with the Prime Minister's staff and the cabinet, with the latter usually faring rather badly. We were told that when Ngan's enthusiasm for the Democracy Party and his charges of corruption against Nha brought him into disfavor with the President, Nha capitalized on this fact and succeeded in extending his influence in various areas, including economic policy.

In February 1974 President Thieu, reportedly in response to pressures from within the government and partly as a result of the Nha-Ngan feud, reorganized the cabinet. The changes strengthened Prime Minister Khiem's role and reduced the number and influence of the Presidential staff. In the process Nha became Minister of Information, but despite the appearance of having been subordinated to the Prime Minister, he is now thought to be more influential than ever.

To illustrate how politics are played in Saigon, the press carried a report (now said to have been planted by Nha) in early June that Ngan had been arrested in connection with an alleged Communist spy ring and his property confiscated. On returning to Washington, we received a press release from the South Vietnamese Information Service in Washington (which is headed by one of Nha's appointees) announcing that the earlier report was not true, and stating that although Mr. Ngan is "no longer Special Assistant to the President . . . the abolishment of his office has no political implications whatsoever." The release went on to explain that Mr. Ngan's dismissal was "part of the administrative reform which is currently in progress in Vietnam aimed at streamlining the government's budget and personnel."

The program of administrative reform referred to in the press release was originally announced in July 1973 and has been publicized in Vietnam as the "Administrative Revolution." U.S. Embassy officers

[1] The Embassy has subsequently revised this estimate downward to 81,000.

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described the program as one which was designed to increase the government's "efficiency and responsiveness in the face of the Communist threat." They explained that the particular threat the government had in mind was a possible post cease-fire electoral contest.

Some independent observers attach more political significance to the "Administrative Revolution" than does the U.S. Embassy. They note that the upper level of the bureaucracy is the only significant element in the government which Thieu does not totally control. The senior civil servants are described as largely opposed to Thieu, though not as an organized group and not because of policy differences, but rather out of self-interest and personal disdain for Thieu and the military group upon which his power is based. If fully implemented, the "Administrative Revolution" would sharply decrease the influence and prerogatives of the bureaucrats and, in turn, reduce Thieu's dependence upon them. For that reason it is argued, senior civil servants can be expected to resist any sweeping changes. Some say that if Thieu pushes them too hard, they will resist and the operation of the government will suffer.

Although the "Administrative Revolution" is ostensibly designed to decentralize the functions of government, its actual effect would be to concentrate more power in the hands of the President. As one experienced American observer put it, "Thieu wants to be in position to control the flow of government benefits to the countryside in order to reinforce his own position."

A similar trend toward more highly centralized control is evident in the steady retreat from local self-government in the past two years. In August 1972, as one of a series of moves to strengthen the position of his government in the event of a cease-fire, Thieu abolished the authority for the election of hamlet chiefs and authorized district chiefs to appoint members of the village and hamlet administrative committees. The effect of this decision was the elimination of virtually all the institutions of local self-government (although village chiefs are still elected) which had been established at American instigation beginning in 1966.

During our visit to Saigon the Embassy gave us a memorandum prepared by the AID Mission in September 1972 which described the original purpose of these local institutions and analyzed the effect of their abolition. The following are excerpts from the memorandum:

> The GVN realized in 1966, that if it was to command the support of the people, offset the political efforts of the enemy and utilize village institutions to augment the war effort, it must increase the authority and prestige of village government. . . . If people were given a greater voice, local institutions would be strengthened and made more effective and responsive and citizens would support and help preserve these institutions. . . . This vertical hierarchy supplemented by horizontal economic and social structures would form a link between national policies, local implementation, and popular acceptance of the legitimacy of government and administration. . . . Although the appointment of hamlet chiefs and other village and hamlet officials by the Province Chief may give the GVN tighter control over local administration in the short run, it may impede the process of "winning the hearts and minds" of the people and institutionalizing local governmental legitimacy in the long run. . . . the removal of local administrative officials from public accountability reduced the credibility of government decisions and programs as well as the legitimacy of representative government.

The changes just described took effect prior to the ceasefire. Since then, the principle of local self-government has been further undercut by two additional measures. In the fall of 1973 the Thieu government inaugurated the "sub-sub sector program" under which military officers will be placed in each village to direct the activities of Popular Forces and People's Self Defense Forces, a responsibility previously vested in the hands of village chiefs. In January of this year an existing constitutional provision was repealed which, although it had never been implemented, provided for the election of province chiefs. The cumulative effect of these changes is to reaffirm military control over the entire vertical structure of the Vietnamese government from the President's office down to village administration. Provincial and municipal councils are still elected but they have no significant authority.

* * * * * * *

All observers agree that the army remains Thieu's principal source of support. At the same time they note that the increasingly serious nature of the economic crisis has obliged Thieu to take account of views other than his own and those of the military. One longtime foreign observer with access to the inner circles of the Vietnamese government told us that Thieu is now much less able to impose his will on important issues than he was in the past. The days are over he said "when Thieu and the American Ambassador could decide policy." He cited as an example a time in the recent past, perhaps last fall, when leading military commanders were considering a series of major offensive actions against the North Vietnamese. According to this account there was opposition from a number of figures in the government who argued that such an offensive would be too risky, both militarily and diplomatically, and that adequate resources were not available.

According to several independent observers, the departure of the Americans and the prospect of declining aid levels has created a new situation in which Thieu will increasingly face the necessity of choosing between compromise on certain policies—particularly those which involve the allocation of scarce resources—or tightening his grip on the population in order to prevent political disorder as a result of economic conditions. Many observers, including some American officials, believe that if economic conditions continue to deteriorate, Thieu might not be able to maintain control. As one American official who views the economic situation as quite serious remarked, "The question is not whether the Vietnamese people would survive but whether the present government would survive."

In this connection, several unofficial observers pointed out that President Thieu's greatest asset has always been his close relationship with the Americans. It was their view that if the day ever comes when other Vietnamese believe that Thieu can no longer deliver American aid, he will be finished. At that point, they suggest, Saigon will see an open struggle between "realists" who will urge some accommodation and compromise and other elements who may be even more inflexible than Thieu.

## IV. THE EMBASSY

Over the years the American Embassy in Saigon has acquired a reputation, among both official and unofficial observers, for close identification with the policies of the South Vietnamese government and for selective reporting. These same tendencies are apparent today.

Each week the four consulates general in South Vietnam send the

Embassy a round-up of events relating to the military situation and the implementation of the Paris Agreement. The Embassy submits a summary of this information, together with comments on developments in Saigon, in the form of a weekly telegraphic report to Washington. A review of the material used by the Embassy to prepare these reports indicates that the thrust of information submitted from the field to Saigon is sometimes altered and that on occasion significant information is withheld altogether.

One consistent pattern which emerges from a study of these reports is the Embassy's tendency to play down or to ignore obvious cease-fire violations by the South Vietnamese armed forces. This spring, for example, one consulate general reported to Saigon the conclusion of a large government operation designed to "clear out a Communist base area" and noted that "hundreds of homes and bunkers had been destroyed." In summarizing this information in its weekly report to Washington the Embassy made no mention of the government operation, but noted instead an overall decline in military activity despite "significant Communist attacks."

We encountered many other instances in which South Vietnamese offensive initiatives were not reported to Washington. The following are examples of items contained in field summaries but which were omitted from the Embassy's weekly round-up:

> Most contacts in (location deleted) were the result of RVNAF (South Vietnamese) initiatives";
>
> Most (of the incidents) occurring in . . . and . . . might be attributed to elimination by . . . (South Vietnamese) divisions of (enemy) minibases . . . in accordance with the MR commander's instructions";
>
> There was an increase in military activity in . . . province as a result of (government) operations. Communist initiated incidents were at the lowest level for a year.

Some U.S. officials with whom this reporting was discussed point out that the question of who initiates a given military action is not of itself a significant matter given the fact that both sides constantly violate the Agreement. These same officials did, however, express concern that those who rely on the Embassy's reporting could be misinformed. Other U.S. officials discount the importance of this practice, noting that the Embassy's biases are well known and that supplemental sources of information are available.

The Embassy is also known to make substantial deletions in reports from its consulates general before relaying them to Washington. Earlier this year, one of these posts reported to Saigon a serious deterioration in security within its military region. The message in question included five specific references to declining security conditions or poor performances on the part of government forces. In this instance, the text of the consulate general's report was relayed to Washington but only after the passages in question had been deleted, thereby eliminating significant aspects of the field assessment. Readers in Washington had no way of knowing that the message had been altered. The more important deletions were as follows:[1]

> This latest round of VC/NVA attacks further eroded security in some provinces where deterioration which began in December must now be viewed as serious.
>
> Overall security in . . . has fallen sharply since December, a condition which province officers say they are powerless to remedy with existing forces.

[1] Specific place names and unit designations have been omitted for security reasons.

Last week the province chief learned that an accommodation had been reached between the . . . RF company in . . . and VC in the area by which RF soldiers were allowed to travel unarmed by sampan from their outpost unhindered. The province chief immediately ordered the company out on operations . . . .
. . . (province) like . . . (province) has seen security decline markedly in 1974.

Although Embassy reporting normally downplays government initiatives, it sometimes highlights successful operations. In February 1974, as noted in an earlier section, two South Vietnamese regiments attacked a long time Communist base area at Tri Phap in the delta. Embassy summaries at the time referred to the operation as follows: "The successful six weeks GVN (South Vietnamese government) operation against Tri Phap continues." In early April, the Embassy reported that the government had "concluded the pacification phase of its military efforts and began to consolidate its control through outposts and construction and preparation for permanent resettlement."

In the first of these summaries the Embassy made critical mention of the ICCS's failure "to conduct a formal investigation into the Cai Lay school atrocity." A similar comment was lacking in the Embassy's treatment of the Tri Phap operation. Both the reported government attack on Tri Phap and the apparent Communist mortar attack on Cai Lay were, of course, violations of the cease-fire.

In this connection we noted that briefing officers on the Defense Attaché staff as well as Embassy officers generally employ terms such as "consolidation" or "pacification" activities and "security operations" when referring to what are, in reality, offensive actions by the South Vietnamese army. North Vietnamese and Provisional Revolutionary Government statements refer to such activities by the government as "land grabbing."

The Embassy, both in briefings provided to us and in its reporting to Washington, closely followed the public line of the South Vietnamese government in justifying the South Vietnamese measures which precipitated the temporary breakdown in May 1974 of the talks in Paris and Saigon between the South Vietnamese and the Provisional Revolutionary Government. The ostensible cause of this break was what President Thieu's spokesmen widely publicized on April 12 as a "massive North Vietnamese ground attack supported by tanks," which allegedly "overran" the long beseiged border outpost of Tong Le Chan and presumably resulted in the loss of its entire garrison. In the following days, according to the Department of State, the South Vietnamese "reacted politically" by suspending their participation in the bilateral talks with the Provisional Revolutionary Government at La Celle St. Cloud in Paris and further isolating the Communist military delegates at Tan Son Nhut in Saigon by cutting their telephone lines, suspending weekly liaison flights to the Provisional Revolutionary Government headquarters and cancelling the weekly Saigon press conferences of the Provisional Revolutionary Government representatives. In response, the Communists suspended participation in the Two Party military team meetings and the missing in action talks (Four Party Joint Military Team) in Saigon and announced the "*sine die*" suspension of the Paris sessions.

Within a few days following the fall at Tong Le Chan, it became widely known in Saigon that the outpost had not, in fact, been overrun by tanks and infantry but rather had been abandoned by the South

Vietnamese in the face of increasing Communist pressure. According to reliable American and foreign observers the commander of the outpost informed Saigon in early April that his position had become untenable. The government was then faced with a decision of whether to sacrifice the garrison in a last ditch defense or to attempt to extricate its personnel. Not wanting to undermine the morale of other isolated bases or to appear to be surrendering, Saigon apparently decided to exploit the situation for propaganda purposes. On the night of April 11, the government defenders withdrew from the outpost taking 65 wounded with them and made their way to safety without any losses. U.S. military officials now concede that what the government first portrayed as a heroic last stand ("a little Dien Bien Phu") and what later appeared to have been a skillfully executed strategic withdrawal, was, in fact, facilitated by the North Vietnamese who "surrounded" the outpost—on three sides—and allowed the defenders to leave unmolested.

Although the Embassy must have had access to these facts, it reported to Washington on April 16 what it described as the Communists' "transparent attempt to distract attention from their overrunning of Tong Le Chan" noting that Communist media had ". . . admitted laying seige to the base . . . but denied involvement by (North Vietnamese) ground forces, asserting instead that the defenders fled their base." For at least two weeks thereafter, the Embassy, even in its telegrams to Washington, supported the government's exploitation of the Tong Le Chan incident. On April 24 the Embassy noted that the ". . . bombardment and fall of Tong Le Chan have caused the (South Vietnamese government) to be less generous in its application of the eleven point privileges and immunities accorded to the Communist delegations and to take a less permissive approach to 'PRG' behavior."[1]

Many foreign observers in Saigon, including members of the diplomatic corps, believe that the extensive publicity which the Saigon government was giving to the Tong Le Chan incident and other military actions in April and May, such as the maneuvering around Ben Cat, was part of a deliberate effort by the Saigon government, assisted by the U.S. Embassy, to impress the U.S. Congress of the necessity to authorize additional military assistance for South Vietnam. Some American officials, however, expressed concern at the impact of this public relations campaign on the prospects for future negotiation among the Vietnamese parties. One senior U.S. official with whom we discussed this problem acknowledged that the South Vietnamese government had made a determined effort to "position itself as the victim of North Vietnamese violations," and conceded that they "might have overreached themselves." Other Americans noted that the Embassy must bear a significant measure of responsibility for having encouraged them to do so.

Even those officials who are critical of the Embassy's reporting note that it contains one significant new element. In the past the Embassy's institutional memory has consisted of the personal expertise of a few individuals. During the past year the Embassy has devoted consider-

[1] Several months ago the Embassy adopted the practice of enclosing the abbreviation for Provisional Revolutionary Government in quotation marks, i.e. "PRG". In fact, Embassy messages usually refer to the Provisional Revolutionary Government, one of the four legal parties to the Paris Agreement, as the "so-called PRG."

able attention to the study of leadership, and the interlocking political, social and financial patterns of Vietnamese society. In contrast with past practice, the Embassy's reporting on these subjects is now said to be perceptive, frank and of significant potential value to policy makers.

## V. THE PARIS AGREEMENT

Although most South Vietnamese officials are restrained in their criticism of the Paris Agreement (at least when talking with Americans), it is no secret that they strongly resent the pressure which was brought to bear upon them by the United States to sign it. Both U.S. and Vietnamese officials told us that President Thieu acquiesced in the ceasefire only after having received assurances from the United States that North Vietnamese infiltration would not continue. As noted earlier, U.S. intelligence sources believe that since the ceasefire some 100,000 North Vietnamese have entered South Vietnam in violation of the Agreement. The current South Vietnamese attitude is that the Agreement succeeded only in bringing about the return of American prisoners of war and the extraction of U.S. forces while leaving the Saigon government to deal with a legitimized and reinforced Communist presence in the South.

U.S. officials believe that the North Vietnamese expected the Saigon government to be in a much weaker military and political position following the ceasefire than has proved to be the case. The North Vietnamese also apparently expected the United States to compel the Saigon government to implement the political provisions contained in Article 11 of the Agreement, thus allowing the Communists the opportunity for a political role in the South. Although North Vietnamese political expectations have not materialized, they are nevertheless in a stronger military position by virtue of the American withdrawal. In this connection, they are strongly critical of the continued presence of American "advisory" personnel in South Vietnam and of the provision to South Vietnam by the United States of F5–E aircraft. Hanoi argues, with some justification, that F–5Es violate the principle of replacement in kind as defined in the Paris Agreement. The North Vietnamese also continue to allege that the South Vietnamese are holding 200,000 political prisoners.

The primary South Vietnamese complaints are the continued North Vietnamese infiltration of men in violation of the total ban on such movements and the introduction of equipment on a scale exceeding the "one-for-one" formula provided for under the Agreement. In this connection, South Vietnamese officials place great emphasis on the refusal of the Communists to designate ports of entry or to cooperate in the deployment of Two Party Joint Military truce supervisory teams. U.S. officials reiterate these complaints and, in addition, call attention to North Vietnam's continued use of Laos and Cambodia to support their operations in South Vietnam—this latter despite the fact that the Embassy in Saigon condones and, according to some officials, encourages South Vietnamese incursions into Cambodia and Laos.

U.S. officials also express strong frustration over the refusal of the North Vietnamese in the Four Party Joint Military Team talks to separate discussions of Article 8(b), which obligated the parties to cooperate in accounting for the missing in action from the implementation of other aspects of the Agreement. They note that in order for the United States to be able to engage in productive discussions with the North Vietnamese concerning our missing in action, the Saigon government would have to agree to discuss Communist requests relating to the care and visitation of the graves of their dead in the South and perhaps to make other political concessions—neither of which Saigon will agree to do.

Discussion of the political articles of the agreement is supposed to be taking place between representatives of the Saigon government and the Provisional Revolutionary Government at La Celle St. Cloud near Paris. The principal items on that agenda have been the formation of the National Council for Reconciliation and Concord and arrangements for the conduct of elections. Thus far, the Paris discussions have been totally unproductive.

The Embassy's position, which parallels that of the Saigon government, is that the North Vietnamese are wholly to blame for the lack of progress in the talks. In their view, Hanoi has refused to agree to "the objective application of the provisions," because the Communists know they could not win an internationally supervised election. American officials believe that the Communists will agree to elections only if they are allowed to control their organization. American officials, both in Saigon and in Washington, say that the Communists will continue to play a waiting game hoping that they can profit from a deterioration of economic and political conditions in the South.

The Two Party Joint Military Commission which was supposed to be responsible for the implementation of military aspects of the cease-fire has made no progress to date. The South Vietnamese and the Provisional Revolutionary Government have been unable to agree on procedures for delineating areas of control, ports of entry, replacement of equipment, deployment of teams or even the privileges and immunities of the Provisional Revolutionary Government delegation. It would appear that, for the most part, the meetings between the two parties have been little more than occasions for the exchange of political rhetoric.

The absence of any progress in the Two Party Joint Military talks has further compounded the ineffectiveness of the International Commission of Control and Supervision (ICCS). Although ICCS teams are deployed in all seven regions established by the Agreement, the Communist members of the Commission have refused to staff some sub-regional sites. ICCS activities have also been severely limited by a continuing impasse over procedural points such as the order in which complaints should be investigated and the insistence of the North Vietnamese and the Provisional Revolutionary Government upon "security guarantees" as a precondition for field investigations. The four members of the Commission itself are polarized with the Indonesians and Iranians (who replaced the Canadians) on one side and the Hungarians and Poles on the other. In recent weeks the Indonesians have been particularly persistent in asserting the right of any delegation to inscribe specific investigations on the agenda. The Iranians have generally backed the Indonesians.

In addition to its substantive difficulties, the ICCS also has serious financial problems. In June 1973, an initial budget of $43 million was proposed but it was never formally agreed to by the participants. The United States pressed for a revised budget of $28.4 million and this now appears to be the working figure for the first 14 months operations. The ICCS is presently about $7.0 million in debt, most of which is owed to Air America which provides transporation for the Commission, and Pacific Architects and Engineers which maintains the facilities used by the ICCS throughout the country.

Under the terms of the Agreement, the four Paris signatories were each to have contributed 23 percent of the cost of ICCS operations and the four Commission members two percent each. Thus far, the South Vietnamese have contributed $6.5 million representing their 23 percent of the initial budget, but the Provisional Revolutionary Government and North Vietnam have contributed only $1.3 million and $2.5 million respectively. The United States has already spent $9.2 million in support of the ICCS and a request is currently pending before Congress for authorization to grant an additional $27.7 million for ICCS operations—$16.5 million for future operating costs and $11.2 million to repay AID for funds "borrowed" to pay ICCS contributions in FY 1974.

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After a year's experience with the Paris Agreement most observers agree that its most positive result has been the decrease in the intensity of fighting. The other results are regarded as mixed:

—The United States recovered its prisoners and was able to withdraw its troops without having to ensure the Communists a role in the government of the South.

—The North Vietnamese and the Provisional Revolutionary Government eliminated the United States as a direct military adversary. While they obtained a degree of recognition of their presence in the South, they did not succeed in bringing down the Thieu government.

—The South Vietnamese lost the protection of the direct American military presence, but were not compelled, as they had feared they might be, to share power with the Communists.

As was recognized at the time, the Agreement did not provide an answer to the question of who will control South Vietnam in the future. On the basis of explanations made when it was signed, the Agreement was to provide a means of resolving that question within a framework of controlled military and political processes. In order for those processes to work, however, the contending Vietnamese parties would have had to reach agreement on critically interrelated procedural questions of a political and military nature. The fact that they have failed to reach such agreements reflects the essentially irreconcilable nature of their respective objectives.

For the time being each side continues to pay lip service to the Paris Agreement. Each stresses the implementation of those provisions of the Agreement which would benefit it the most while ignoring those obligations which, if honored, might lessen its present advantages. The asymmetry of the parties' selective approach to the implementation of the agreements again reflects the basic differences in their positions and their strategies.

In the absence of any prospect of a meaningful political role in the South, the Communists see no choice but to continue the struggle by military means. Given the military threat which the Communists al-

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ready pose in the South, the Saigon government does not believe that it can afford to allow the Communists an opportunity to undermine its existing control by political action. Thus, since neither side is willing to compromise, the struggle continues.

## VI. THE U.S. PRESENCE

In April 1973 there were approximately 8,500 official Americans in Vietnam. As of May 21, 1974, that total had dropped to 5,200 according to detailed figures provided by the Embassy. The State Department reported to the Committee on May 21, however, that as of March 31, 1974, there were only 4,645 official Americans. The principal components of the U.S. Mission in South Vietnam are the State Department with 137 personnel; USIS with 30; AID with 690 employees and contractors; a Marine guard contingent of 153 men; the Defense Attaché office which includes around 900 American civilian employees, 50 military personnel and about 2,500 American civilian contractors; the office of the Special Assistant to the Ambassador for Field Operations (SAAFO) with 196 employees and contractors; and the CIA with [deleted].

The reduction in American personnel during the past year has come about primarily as a result of a decrease in Defense Department civilian employees from 1,100 to 846 and in Defense Department contractors from 4,900 to 2,643. AID personnel and contractors have declined from about 1,160 to about 690. Other components of the mission have remained at about their previous size.

SAAFO, the vestigial remnant of the previous provincial advisory or Civil Operations and Revolutionary Development Support (CORDS) system, continues to cling to its precarious bureaucratic existence. Although the number of its direct hire personnel has declined from 183 to 96 in the past year, SAAFO has apparently acquired about 100 contract personnel. In theory, the function of SAAFO is to ensure adequate coordination between elements of the Mission's field operations, a role which seems to overlap that of the consuls general, and which in practice seems to have little to do with the activities of the majority of official Americans outside of Saigon.

There are personnel from every agency in each of the four military regions and some American representatives in practically every province. Of the approximately 5,200 official Americans in Vietnam, about 3,100 are located in Saigon and the remaining 2,100 in other locations around the country. Over 1,700 of those outside of Saigon are Defense Department contract personnel and of these, over half are at the major South Vietnamese army installation at Bien Hoa near Saigon. There are also Defense Department civilians in each military region. Of the 690 AID personnel, 640 are in Saigon and only 50 in the field.

The largest U.S. Government organization in Vietnam today is the Defense Attaché Office. It combines traditional attaché functions [deleted] with responsibility for the administration of the military assistance program.

It had been understood at the time the Paris Agreement was signed that the direct hire civilian employees of the Defense Attaché Office would be phased out by the end of January 1974, and that civilian contractors would be reduced to below 500 very soon thereafter. The plans for implementing this understanding have apparently been shelved. The administration of the military assistance program continues to involve large numbers of direct hire American employees. The majority are located in the former MACV headquarters. A majority of the personnel in the Defense Attaché organization work directly on the military assistance program, but most of the direct contact with the Vietnamese military is said to be carried out by contractors. Some other direct hire civilians perform duties which are said to be an extension of normal attaché functions. A substantial number of the 846 Defense Attaché personnel are engaged in providing administrative support for the Defense Attaché organization itself.

Defense Attaché officials hope to reduce the number of contract personnel from the present 2,000 level down to about 1,000 by the end of fiscal year 1975 but there apparently are no plans to eliminate such support entirely. The training of Vietnamese personnel to perform services previously provided by contractors has progressed far more slowly than anticipated. The primary reason for this is that contractors spend much of their time actually performing maintenance themselves rather than training Vietnamese to take over their jobs. Moreover, according to Defense Attaché officials, the United States has not programmed training to make the South Vietnamese self-sufficient in certain technical fields such as electronics and major aircraft inspection and overhaul.

The provision of technical services to the Vietnamese Air Force will continue to account for the largest number of contractors through Fiscal Year 1975. Some 1000 personnel are presently involved in this program at a cost of over $30 million. The next largest group of contractor personnel is engaged in the maintenance of a countrywide communications system which serves both the Vietnamese armed forces and the U.S. Mission. The Federal Electric Corporation, an International Telephone and Telegraph subsidiary, has a $5 million contract to maintain this system in FY 1975 employing approximately 261 Americans. For subsequent years the cost of this contract is projected at $3.3 million with over 200 employees. Not all of the long term contract support will be for technical services. The Defense Department also plans to continue to provide supply facility and port management services at a cost of several million dollars over the next two years.

## VII. THE MILITARY ASSISTANCE PROGRAM

Between 1962 and 1973 the United States provided South Vietnam with over $14 billion in military assistance, not including excess and surplus equipment valued in the hundreds of millions of dollars. The Congressionally imposed ceiling on military assistance to Vietnam in FY 1974 was $1.126 billion. As originally submitted to the Congress, the request for the FY 1975 program was $1.45 billion.

The largest single item in the FY 1974 program was ammunition which accounted for over $340 million of the total. The FY 1975 request includes about $468 million for ammunition, of which $400 million is earmarked for army ground munitions. The increased request for ammunition is attributed by Defense Department officials to price increases which average around 30 percent on individual items. The cost of 105 mm. shells, for example, is said to have increased 27 percent since last year.

Defense Attaché officials have made a continuing effort to reduce South Vietnamese ammunition consumption. The measures taken include a reduction of about 30 percent in the quantity of shells being provided under the military assistance program. Despite these cuts many U.S. and some Vietnamese officers believe the South Vietnamese army's use of artillery is still excessive. We noted that despite references by Defense Department officials in Washington to alleged South Vietnamese ammunition shortages, no mention of such shortages was made to us in briefings or discussions in Vietnam.

Toward the end of 1973 U.S. officials realized that South Vietnamese artillery expenditures were exceeding budgeted rates for the first half of FY 1974 ($165 million out of a budgeted total of $301 million). At about the same time, it became apparent in Washington from final Congressional action on the FY 1974 Defense procurement bill that military assistance funds for Vietnam would be less than originally programmed. In Saigon, Defense Attaché officials learned that substantial obligations against their existing FY 1974 program had been made in Washington in order to "repay" deliveries of material in prior years. As a result, the Defense Attaché Office, in conjunction with the South Vietnamese Joint General Staff and the U.S. Pacific Command undertook an urgent study of the ammunition problem.

These studies concluded that the data being provided to the Defense Attaché Office by the South Vietnamese army did not substantiate the reported firings on which its ammunition requests were based and that the budgetary impact of the ammunition expenditure problem was serious. The study also revealed that the countrywide ratio of the number of rounds fired by South Vietnamese forces to that fired by Communist forces was about 16 to 1. In Military Regions II and III, where South Vietnamese commanders have consistently been the most aggressive and where some U.S. officials say random "harassment and interdiction" fire against Communist controlled areas is still common, the ratio was on the order of 50 to 1. By contrast, South Vietnamese forces in Military Region I were firing only about 4 rounds for each round fired against them. While U.S. officials believe that these statistics confirm that South Vietnamese use of ammunition is excessive, they also point out that a defensive force normally expends more ammunition than its attackers. This is particularly true in Vietnam, they say, because South Vietnamese fire bases are vulnerable to an enemy who has considerable freedom and ability to move and mass his own artillery.

At the time of our visit efforts to obtain more reliable information were continuing, but Defense Attaché acknowledged that they still have no reliable means of verifying reported expenditures. They do not know, for example, whether the South Vietnamese are "storing up ammunition for a rainy day," as one officer put it, and they are unable to ascertain whether the one-for-one replacement rate for ammunition is being exceeded.

Aircraft procurement is another major component of the military assistance program. In FY 1974, $165 million was obligated for this purpose. The amount requested for FY 1975 is $251 million. Defense

Department officials estimated that about 200 aircraft were lost in FY 1974 and said that no replacements for them were provided. The delivery of F-5E aircraft began in FY 1974, however, and approximately [deleted] of these planes will be delivered each month in FY 1975. The F-5E is a more sophisticated aircraft than the earlier models which it is replacing. The total cost of the 154 plane F-5 program over the next few fiscal years is expected to be over $500 million.

The overall inventory of South Vietnamese airplanes is about 1,800, making it one of the larger air forces in the world. As noted earlier, the build-up of North Vietnamese anti-aircraft defenses has reduced the effectiveness of the South Vietnamese air force. This fact is reflected in the greatly reduced number of sorties flown and in a reported loss of accuracy in bombing operations as a result of the necessity of operating at higher altitudes.

The estimated cost to the United States of providing petroleum for the South Vietnamese armed forces in FY 1975 will be $137.4 million. About $42 million was originally programmed for this purpose in FY 1974, but price increases of 157 percent drove actual expenditures to $78 million despite a 22 percent reduction in consumption.

For a brief period at the height of the fuel crisis in November 1973, the United States furnished the South Vietnamese armed forces with petroleum out of its Pacific Command reserve stocks in order to make up for petroleum which the U.S. had previously purchased from Middle East sources for the South Vietnamese. Thereafter, the U.S. Government worked out a complicated arrangement whereby the South Vietnamese now contract directly with Middle East suppliers for petroleum. In order to assure suppliers of payment the U.S. Government deposits a check each month in the special Saigon account of a designated Defense Attaché official who, in turn, issues a check to the oil companies before deliveries for that month are made.

For several years the United States has provided dehydrated rice and canned rations for use by the South Vietnamese army on field operations. In FY 1975 some 13.5 million individual rations will be furnished at a cost of approximately $22.5 million. Clothing is also provided under the program and this, like most other items of supply, has increased in cost during the past year. The Defense Attaché office reported, for example, that the cost of two-piece suits of woolen underwear (77,722 tops and 132,651 bottoms) being furnished to the Vietnamese had increased from $5.50 a set in FY 1974 to $11.50 a set in FY 1975.

Officials in both Washington and Saigon concede that the management of the military assistance accounts in FY 1974 was highly unsatisfactory. While the DAO in Saigon had primary responsibility for assessing the needs of the South Vietnamese, Washington officials apparently made the final decisions as to what was shipped and what was charged to the program. Officials privately acknowledge that, historically, the bookkeeping on the Vietnam military assistance program has been extremely loose and that the large number of separate accounts used in the past made the program extraordinarily difficult to administer.

As a result of the budget crisis in the late fall of 1973 and new legislation in the spring of this year, new procedures are being designed which officials hope will simplify financial management. Some of those familiar with the program, however, doubt whether anything short of an accounting system designed to monitor the program on a delivery basis, such as was instituted in Laos following passage of the Symington Amendment in 1971, will be effective.

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In addition to the continued provision of material to the South Vietnamese government, the United States is still engaged in disposing of excess U.S. military property left behind following the withdrawal of U.S. troops. These activities are the subject of continuing reports of corruption allegedly involving Vietnamese and, occasionally, U.S. officials. The more prominent of such reports concern the illegal export and sale of scrap brass.

During the war over 131,000 short tons of brass shell casings were shipped to Vietnam. This brass remained the property of the U.S. Government until December 1972 when title to all scrap and battlefield residue was formally transferred to the South Vietnamese government. At the current world price of $1,400 per short ton the sale and export of this material should have netted the South Vietnamese government revenue and foreign exchange in the amount of approximately $184 million.

On June 20, 1973 the *Los Angeles Times* reported from Saigon that Vietnamese officials were trying to suppress public knowledge of a reported attempt to smuggle 16,000 tons of scrap brass worth $17.3 million out of the country. The *Times* story, written by Jacques Leslie, alleged that the individuals involved in this and other brass smuggling activities included high ranking generals as well as some officials in the Prime Minister's office. The South Vietnamese government reacted strongly to these allegations and Mr. Leslie was subsequently expelled from South Vietnam.

After the brass scandal surfaced publicly, the General Accounting Office (GAO) investigated U.S. surplus property disposal operations in Vietnam, including the handling of scrap brass. The GAO report, which was released on April 1, 1974, was critical of the manner in which scrap disposal operations were being conducted. It confirmed the substance of the earlier reports although it did not pinpoint specific Vietnamese officials.

On May 9, 1974, despite the GAO findings announced earlier, the Department of Defense stated in a letter to the Committee on Foreign Relations in response to an inquiry regarding scrap brass, that "The Government of Vietnam exercises close control over the export of commodities from Vietnam, to include scrap of all types." "In addition," the letter continued, the "unauthorized possession of or movement of scrap brass within Vietnam has been prohibited by Vietnamese law for some time."

Contrary to the inference of the Defense Department's letter to the Committee, U.S. officials in Saigon told us that the brass problem is far from solved. They pointed out, however that it is a Vietnamese responsibility because the brass no longer belongs to the U.S. Government. In this connection, we were told that virtually all scrap brass is believed to have been "recovered" but that the South Vietnamese government has thus far been unable to gain control of it. The primary problem is that the brass casings are in the hands of Vietnames military commanders and others with political connections.

According to estimates prepared in Saigon about 14,000 short tons of scrap brass worth about $20 million were returned to the United States before title to the remaining 117,000 tons was transferred to the South Vietnamese government. Approximately 26,000 short tons worth over $36 million are known to have been illegally exported and another $42 million is believed to have gone the same route. The remaining 61,000 short tons are thought to be still in Vietnam. At current prices the value of this brass would be $85 million. U.S. officials told us that reports which they have received from Singapore indicate that scrap brass is still being smuggled out of South Vietnam. Unless the South Vietnamese government devises some way to gain control of the remaining brass it will receive neither the expected income nor the balance of payments benefit which would accrue from its sale.

* * * * * * *

Although the cost of providing military assistance to South Vietnam has declined from $2.27 billion in FY 1973 (not including the $753.3 million in equipment provided in operations "Enhance" and "Enhance Plus") to $1.126 billion in FY 1974 and may not exceed $1.0 billion in FY 1975, U.S. officials see no prospect for phasing out the program. Even if the tempo of fighting were further reduced, South Vietnam's armed forces would continue to require sizeable amounts of supplies and equipment for as long as the North Vietnamese military threat persists.

In the absence of a genuine cease-fire and final settlement of the war, U.S. officials cannot foresee the time when the South Vietnamese will be able to provide for their own defense needs—certainly not in terms of supplies and equipment, all of which are now provided by the United States. The same is generally true of North Vietnam, of course, which is also highly dependent upon its allies—although not to the same degree as the South.

In recent months some officials concerned with the military assistance program have begun to consider ways in which the South Vietnamese might restructure or reduce their forces in order to reduce the cost of maintaining them. These Americans believe that further reductions in U.S. military assistance are likely and that the South Vietnamese should begin to prepare for that eventuality. This idea appears to be taking hold very slowly with the Vietnamese military despite warnings from some of their own civilian officials.

American officials themselves are by no means all in agreement on the necessity or desirability of Vietnamese force reductions. During discussions of the 1974 South Vietnamese budget, for example, the Embassy recommended strongly against any cuts in the size of the Vietnamese armed forces. Meanwhile, U.S. economic aid planners are, in part, basing their projections of Vietnamese economic growth on an assumption that the South Vietnamese armed forces will be reduced from their present approximate strength of one million men to around 800,000 men by 1977. There is no indication that the South Vietnamese army is contemplating such a reduction.

## VIII. THE ECONOMY

The state of the Vietnamese economy is capsulized neatly in the following statement taken from an AID summary of Vietnam's economy dated May 2, 1974:

> For South Vietnam, the sustained business recession, continued adjustment to the U.S. troop withdrawal, reduced foreign aid,

lower real import levels and increased urban unemployment of 1973 continued into 1974. Worldwide shortages of grains, petroleum, fertilizer, soybeans, plastics, machinery, and iron and steel products continue to impact heavily on the economy. Dollar import prices remain at the levels to which 1973 saw them skyrocket, domestic inflation is accelerating at a high rate, foreign exchange reserves are falling, non-defensive spending is stagnant and the full impact of the worldwide oil crisis has been felt. These adverse economic factors along with continuing security problems caused postponement of the much awaited start of reconstruction and development activities following the cease-fire in February 1973.

The fundamental economic problem of South Vietnam is that it lacks the economic resources to support either its present level of fiscal expenditure or its domestic consumption. It is unable to generate enough revenue to finance its fiscal budget and it is unable to meet fully its domestic economic needs nor afford to import the goods to meet these needs.

In the daily life of the Vietnamese people, these statistics are felt in terms of inflation which was 65 percent in 1973 and is expected to be 114 percent in 1974, unemployment which runs as high as 40 to 50 percent in some areas, declining standards of living and, in some areas, food shortages. Those hardest hit are the urban population, civil servants and the military.

In the course of our discussions with officials, both in Washington and Saigon, we encountered two decidedly different approaches to the Vietnamese economic situation and the question of U.S. economic aid. American officials whose primary responsibilities lied in the policy area approach the problem in terms of the gross amounts of U.S. assistance required to maintain a viable economy thereby preserving the military and political situation in South Vietnam. On the other hand, officials, both American and foreign, whose professional specialty is economic development, invariably focus on what many of them refer to as the "structural" problems of the Vietnamese economy, by which they mean to refer to its lack of productivity, the displacement of its labor force, the imbalance between imports and foreign exchange earnings and its lack of ability to stimulate investment and growth.

In order either to make judgments about the gross amounts of outside assistance required to maintain the South Vietnamese government, or to appreciate the magnitude of the structural problems inherent in any program of economic development in that country, it is necessary to understand how the Vietnamese economy arrived at its present condition. The following retrospective view represents the consensus of a wide range of official and unofficial American and foreign observers.

South Vietnam has great inherent economic potential. It has a large and fertile agricultural area, abundant forest resources, unexploited fishery assets, an excellent or potentially excellent system of waterways, roads, airports and harbors. It also has a well-disciplined, well-trained and industrious labor force with a broad range of agricultural and industrial skills. Given peace and adequate capital assistance for a transition into a peacetime economy, there is no reason why the Vietnamese could not achieve self-sustaining economic growth.

South Vietnam's national accounts show that the gross domestic product at constant prices has grown on the average at a rate of 3 percent a year. Population has also grown at roughly the same rate. The result has been that the average per capita income from the early 60's through the early 1970's has remained at approximately $140.

During this period the war wrought a significant toll on the productive base of the economy. Agricultural output in 1973 on a per capita basis was 11 percent lower than average production from 1961–1965.

INDEX OF AGRICULTURAL PRODUCTION

[1961–65=100]

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|---|---|---|---|
| Total index | 96 | 86 | 91 | 84 | 94 | 103 | 113 | 1111 | 115 |
| Per capita | 91 | 80 | 82 | 74 | 81 | 86 | 92 | 88 | 89 |

Rice is the major agricultural crop. It is grown on about 2.7 million hectares or approximately 90 percent of the cultivated land and 45 percent of the arable land. Roughly 80 percent of the country's rice production is in the Mekong delta. Rice output continued to drop until 1968 when through American aid efforts miracle rice was introduced. Today, 40 percent of the delta's rice is grown on 25 percent of its land, but sustaining this productivity requires considerable foreign exchange expenditures for fertilizer, pesticides, pumps, tractors and petroleum products.

Over the last few years the Vietnamese government has held down the price of rice by means of controls and the importation of P.L. 480 rice. At present, the price of rice in Vietnam is about one-half the world price. The objective of this policy is to subsidize the price of rice for the urban population. Rice producers have borne the cost of this subsidy in the form of lower prices which, in effect, transferred a portion of their income to consumers. The effect of this policy has been to diminish the economic incentives for expanding agricultural production.

VIETNAM'S RICE IMPORTS SINCE 1965

(1000 Metric Tons)

| 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|---|---|---|
| 129.5 | 434.2 | 750.4 | 677.9 | 336.0 | 559.1 | 137.1 | 275.9 | 259.5 |

Industrial agricultural production was also significantly reduced during the past war years. The most important and most heavily affected of these commodities was rubber, which accounted for more than 50 percent of South Vietnam's exports in 1960. Sugar cane, jute and kenaf experienced similar declines. Some 558,000 hectares of land in production before the war have been idled.

The decline of the agricultural production during the past war years was primarily the result of a decline in rural security. The guerrilla war, as it was fought and is still being fought in the delta, is partly a war for control of economic resources, both natural and human. The allied response to this enemy initiative was to consolidate rural defensive positions. This consolidation was combined with a more intensive cultivation of that land which could be protected. Farmers and families in peripheral, marginally secure or insecure areas were encouraged or forced to move. Population also left contested and Communist dominated areas because of their designation as "free fire zones" and because Communist leadership was more harsh or demanding than the people wished to tolerate. As a result of a combination of these factors, many rural families moved to the cities. Over the war period it is estimated that some three million people migrated to urban areas. Today there is still very little arable land available in already secure areas to which these people can return.

The exodus of labor from agriculture was absorbed into the expanding public service sector (to include the military, the police, rural cadre and the government bureaucracy at national, province and municipal levels) and the expanding private service sector (to include domestic servants, repairmen, taxi drivers, bar girls and guards). During the years of direct American involvement in the war the public and private service sectors grew to produce some 55 percent of the gross national product, the market value of all goods and services produced in the economy. The public sector accounted for 20 percent of these services. In a normal less developed country this figure would be between 5 percent and 7 percent. Therefore, despite the drop in agricultural production and industrial output, the per capita income of the country remained relatively constant because of the compensating expansion of the public and private service sector.

TOTAL GVN ARMED FORCES STRENGTH AND EMPLOYMENT IN CIVILIAN MINISTRIES

[In thousands of personnel by calendar year]

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|---|---|---|
| RVNAF | 571.2 | 622.9 | 643.1 | 819.0 | 974.0 | 1,050.0 | 1,000.0 |
| Paramilitary | 68.0 | 54.7 | 76.9 | 102.6 | 105.8 | 62.0 | 150.0 |
| Civilian employment | 178.7 | 192.0 | 187.2 | 216.2 | 220.4 | 235.0 | 265.0 |
| Police [1] | (52.2) | (60.0) | (70.3) | (78.4) | (85.2) | (88.0) | (113.7) |
| Total | 817.9 | 869.6 | 907.2 | 1,138.2 | 1,300.2 | 1,347.0 | 1,415.0 |

[1] Included in civilian employment total.

The expansion of the service sector of the Vietnamese economy was financed by U.S. direct dollar spending in the economy and by U.S. budgetary support of the Saigon government. In 1964, U.S. piaster purchases in Vietnam were $42.0 million. In 1971, this figure reached its high of $403.1 million.

U.S. PIASTER PURCHASES WITH DOLLARS BY U.S. DISBURSING OFFICER, SAIGON, VIETNAM

| | Piasters (billions) | $U.S. (millions) |
|---|---|---|
| 1964 | 2.5 | 42.0 |
| 1965 | (1) | 74.0 |
| 1966 | (1) | 238.1 |
| 1967 | 19.1 | 202.8 |
| 1968 | 36.7 | 310.8 |
| 1969 | 40.9 | 346.7 |
| 1970 | 41.2 | 318.3 |
| 1971 | 74.0 | 403.1 |
| 1972 | 77.6 | 228.9 |
| 1973 | (1) | 127.9 |

[1] Not available.

The shift of the Vietnamese economy to a service orientation was anticipated and encouraged by the economic policies pursued by the United States in Vietnam between 1967 and 1972. It was reasoned that the increase in purchasing power generated by the growth of the American supported service sector had to be absorbed by increased amounts of imported consumer goods in order to contain inflationary pressures. These imports were paid for through the U.S. Commodity Import Program (CIP) and P.L. 480 program. Both programs simultaneously generated the piasters used to finance the growing cost of the South Vietnamese military establishment and bureaucracy. This method of raising revenue was relied upon primarily because of the inadequacy of the domestic tax base and the government's inability or unwillingness to tax such resources as were available. In the short term this policy achieved the political objective of insulating the Vietnamese population from inflation and the drop in domestic production caused by the war. In the process Vietnam became conditioned to expect the imports which American spending and aid made possible.

Many observers believe that, in retrospect, one of the most serious mistakes of this period was the failure to encourage Vietnamese investment in import substitute and export industries. Dollar earnings were plentiful (GVN reserves remained at a high level through 1970) but most of this exchange slipped away, either to bank accounts abroad or was spent on nonproductive consumer goods. During the period 1966 to 1972 at least $2 billion from U.S. official and troop spending flowed through Vietnam. Today there is very little to show for these earnings in terms of domestic savings available for private investment in economic development. Repatriation of these funds is considered an unlikely possibility at this time.

Another aspect of U.S. support policy was the pegging of the Vietnamese exchange rate at 118 piasters to the dollar from 1967 until 1972. This rate vastly overvalued the piaster, thus making imports less expensive and discouraged local industrial development. It also helped insulate the local economy from U.S. troop spending by undervaluing the dollar and thereby heavily taxing any troop spending on the South Vietnamese economy. In the fall of 1970, as the reduction of American forces began to be significant and demand for services dropped, the exchange rate for GI's was raised to 275 piasters to the dollar in order to encourage more GI spending and thereby offset decreasing demand. This device was used again in November 1971 to stimulate more demand. In 1971 the residual dollar earning rate from the U.S. presence was approximately $400 million. After the cease-fire of January 28, 1973, and the departure of the last American soldiers 60 days later, Vietnam was left with a residual dollar earning rate from the U.S. presence of $128 million.

The departure of GI's brought a drop in official U.S. employment of Vietnamese. The number of Vietnamese directly employed by the U.S. Mission on September 30, 1973 was 17,273 compared to 160,041 at the peak in June 1969 and 50,699 in September 1972. It is estimated that the number of Vietnamese employed indirectly by the American presence involved similar numbers and reductions.

U.S. GOVERNMENT DIRECT CIVILIAN EMPLOYMENT IN THE REPUBLIC OF VIETNAM

(End of year totals)

| | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|---|
| Vietnamese | 141,506 | 140,004 | 144,763 | 126,457 | 101,826 | 54,686 |
| 3d country nationals | 15,637 | 18,883 | 18,343 | 10,706 | 5,612 | 2,739 |
| U.S. nationals | 11,970 | 13,257 | 11,930 | 9,997 | 9,713 | 7,804 |
| Total | 169,113 | 172,144 | 175,036 | 147,160 | 117,151 | 65,229 |

Unfortunately, very little had been done to anticipate the economic adjustments which would be required as a result of the departure of the American troops. The exchange rate changes for troop spending in 1970 and 1971 were a successful short term device but they only delayed the ultimate reckoning. Other factors that could have been beneficial to the economy at this time did not materialize. There were no substantial reflows for purposes of investment of Vietnamese owned, foreign held dollar balances. Foreign investors did not come forward nor did non-U.S. aid expand.

The effect of the drop in American spending was compounded by a number of other factors. The first of these was the North Vietnamese offensive of 1972 which created massive numbers of refugees in Military Regions I and II. The housing, feeding and resettling of this group of 750,000 new refugees consumed large amounts of aid and domestic economic resources. Despite the impressive totals of refugees resettled cited by U.S. and Vietnamese officials, a very small percentage of these unfortunate people have found viable new locations. Today, the countless thousands of displaced and jobless Vietnamese in the cities constitute one of the government's most serious and intractable problems. Furthermore, the offensive severely damaged the confidence of foreign and domestic investors.

The upward movement of worldwide prices which also began in the 1972 period cut the real value of foreign aid and stimulated domestic inflation. In 1972 rice, petroleum products, fertilizer, sugar, cement and steel represented 34 percent of Vietnam's imports. The price on these products rose an average of 80 percent between mid-1972 and late 1973. Roughly two-thirds of the 65 percent increase in Saigon's retail price index in 1973 was attributable to increased import prices. The impact of the price increases was particularly severe because Vietnam lacks exports whose corresponding increased earnings could have offset some of the increased cost of imports. The average landed cost of all imports in 1973 was 35 percent higher than in 1972.

In summary, Vietnam is rich in agricultural resources but cannot feed herself, has absorbed western technology but cannot afford the imports to operate it, has a well trained labor force but cannot employ it, and provides a wide range of government services but does not have the revenues to pay for them. Most independent economic observers agree that while the potential may be great, the realities present a very drab outlook.

## IX. THE U.S. ECONOMIC ASSISTANCE PROGRAM

U.S. military and economic assistance programs are directly tied to the United States' policy of ensuring the survival of the South Vietnamese government. U.S. military assistance provides virtually all of the supplies and equipment used by South Vietnam's armed forces. U.S. economic assistance provides over one-third of South Vietnam's total operating budget, an amount covering well over one-half of the deficit between revenues and expenditures. In addition, U.S. economic assistance and dollar spending in Vietnam currently provide the foreign exchange for at least 80 percent of the goods imported by South Vietnam.

The FY 1975 economic assistance program proposes a continuation of the same levels and types of support. Despite the emphasis which is placed on the reconstruction and development aspects of the FY 1975 program in the presentation of the program, the primary determinants of its size and nature are South Vietnam's estimated budgetary and trade deficits.

In 1973 the budget deficit of the South Vietnamese government was $411 million, representing a 56 percent shortfall of revenues versus total expenditures. Imports during 1973 were valued at about $800 million and exports at only around $60 million. Official estimates present a similar outlook for 1974. The budget deficit may be cut to 44 percent in 1974 but the deficit will still amount to $526 million.[1] A foreign trade gap of $738 million is anticipated in 1974.

The Commodity Import Program (CIP) and the P.L. 480 program will continue to be the primary vehicles for the provision of budgetary and import support to South Vietnam in FY 1975. During the last fiscal year these two programs accounted for a total of $484 million, or 75 percent of the overall $649 million in economic aid delivered to South Vietnam. The projected amounts for FY 1975 are $380 million for commodity imports and $195 million for P.L. 480, making a total of $575 million out of an overall economic aid package of $945 million.

Under both programs (although there are some exceptions in the CIP program) goods are purchased in the United States with dollars appropriated by Congress. These goods are then, in effect, sold to merchants in the Vietnamese economy for piasters.

In the past the piasters generated in this manner were granted to the South Vietnamese government as direct budget support for its military, as well as certain of its economic and social programs. The CIP and P.L. 480 programs, therefore, have provided both dollar purchasing power in the U.S. to close the trade gap and piasters in South Vietnam to close the budget deficit.

The dependence of the Vietnamese economy on CIP and P.L. 480 is illustrated in the following chart of the country's ten most important

[1] The decrease in the percentage of the budget deficit in relation to the total budget in 1974 is due to an expanding amount of "extra budgetary expenditures" financed almost totally by American funds. In 1974 these expenditures will amount to approximately 90 billion piasters. If these extra budgetary expenditures are included in the budget, the deficit in 1974 will be 53 percent of the total Vietnamese government budget.

imports by value in 1973. These imports represented $493 million of some $800 million in total imports. The funding sources are indicated in the following chart.

VIETNAM'S 10 LARGEST IMPORTS IN 1973 BY VALUE

[U.S. dollars in millions]

| Commodity | Value | Source of funding[1] |
|---|---|---|
| 1. Petroleum (civilian use only) | $82 | Commodity import program. |
| 2. Rice | 77 | Public Law 480. |
| 3. Machinery | 68 | Commodity import program. |
| 4. Sugar | 59 | Vietnamese foreign exchange.[2] |
| 5. Fertilizer | 57 | Commodity import program. |
| 6. Yarn and thread | 36 | Do. |
| 7. Iron and steel | 35 | Do. |
| 8. Wheat | 29 | Public Law 480. |
| 9. Pharmaceuticals | 27 | Commodity import program. |
| 10. Cotton | 23 | Public Law 480. |

[1] In some categories such as machinery and pharmaceuticals, some Vietnamese foreign exchange may have been used.
[2] South Vietnam has since prohibited all imports of sugar.

While the CIP and P.L. 480 program are administered by U.S. fiscal years, U.S. piaster contributions to the Vietnamese budget are allocated by Vietnamese fiscal years which coincide with calendar years. As of the time of our visit the AID Mission was planning to allocate the piasters generated during 1974 by the CIP and P.L. 480 sales program, plus other U.S. piaster sources, to the South Vietnamese government as shown in the chart below. The 200 billion piasters to be contributed to the civil and military budget represented 58 percent of the budget gap and 36 percent of the total budget.

*Estimated U.S. Piaster Allocation for 1974*[1]
*(as of April 5, 1974)*

| Purpose: | *Billions of piasters* |
|---|---|
| Production credit | 8.0 |
| Title 30 (foreign aid chapters) GVN national budget | 68.0 |
| Defense budget support (joint support funds) | 118.0 |
| Trust Fund | 6.0 |
| Total | 200.0 |

[1] 620 Piasters to U.S. dollar, April 24, 1974.

On our return to Washington we were told that this allocation formula would be revised due to the implementation of section 40 of the Foreign Assistance Act of 1973.[1] The intent of section 40 was to prohibit the use of the piaster funds generated by P.L. 480 sales for defense purposes. In the recent past all P.L. 480 counterpart fund piasters generated in Vietnam have been granted to the South Vietnamese Government to offset its military expenditures. AID had originally argued that because the P.L. 480 agreement with Vietnam had been automatically renewed for calendar year 1974 prior to the date of enactment of Section 40, proceeds from P.L. 480 deliveries throughout 1974 could be used for defense purposes. Following an ambiguous ruling from the Comptroller General on April 30, 1974, AID abandoned this argument and made a policy decision that neither P.L. 480 nor CIP

[1] "Effective July 1, 1974, no amount of any Foreign Currency (including principal and interest from loan repayments which accrues in connection with any sale for foreign currency under any provision of law) may be used under any agreement entered into after the date of the enactment of this Act, or any revision or extension entered into after such date of any prior to subsequent agreement, to provide any assistance to any foreign country to procure equipment, materials, facilities, or services for the common defense, including internal security, unless such agreement is specifically authorized by legislation enacted after such date."

proceeds (CIP was not affected by Section 40) would be used for defense purposes. This decision will significantly alter the manner in which U.S. generated piasters will be used to defray the South Vietnamese budget deficit. A new allocation has not yet been devised.

The Executive Branch has several options available to it for continued budgetary support of the Saigon government. First, it could request specific Congressional authorization to use P.L. 480 proceeds for defense purposes in Vietnam. We received no indication in our conversations with Executive Branch representatives that this approach is being considered. Second, the U.S. counterpart funds could be allocated for South Vietnamese civil expenditures, thus releasing Vietnamese funds previously used for those activities for defense expenditures. Third, the Vietnamese could accept long-term dollar obligations at concessionary rates for P.L. 480 commodities, thereby allowing the Vietnamese government to spend the piasters generated by the sale of these products as it so chooses. It now appears that the programming problem created by Section 40 will be resolved by some mixture of options two and three.

The role which the P.L. 480 and CIP programs continue to play in the transfer of resources from the U.S. Government to South Vietnam is not readily apparent from the Executive Branch presentation of the FY 1975 program. Despite the importance of P.L. 480 commodities to the Vietnamese budget and economy, and the fact that AID administers P.L. 480 as an integral part of the overall U.S. economic assistance program in Vietnam, the P.L. 480 program is not mentioned once in the AID Congressional presentation. Similarly, at first glance, the financing of commodity imports does not appear as an identifiable activity in the FY 1975 program presentation. Nevertheless, the food and commodity import programs continue to be as important as they have been in the past comprising, as mentioned earlier, three-fourths of the total economic aid package.

According to estimates obtained in Washington and Saigon the FY 1975 P.L. 480 program in South Vietnam will total between $127 million and $195 million. (The P.L. 480 program will be discussed in more detail in a subsequent section). The magnitude of continuing commodity import financing can only be determined on the basis of a detailed examination of the AID presentation.

The following chart summarizing the FY 1975 AID request was taken from the AID Congressional presentation book.

PROGRAM SUMMARY OF FISCAL YEAR 1975 AID REQUEST

[In millions of dollars]

| | Fiscal year— 1973 actual | 1974 [1] estimated | 1975 proposed |
|---|---|---|---|
| Humanitarian assistance | 40.0 | 89.0 | 165.0 |
| Reconstruction and development | 29.7 | 15.0 | 227.7 |
| Food and nutrition | — | — | 185.0 |
| Industrial production | — | — | 155.0 |
| Transportation and miscellaneous | | | 47.3 |
| Commercial import program (CIP) | 226.2 | 239.0 | — |
| Technical support | 16.4 | 15.0 | — |
| Development loans | | 50.0 | — |
| Total | 312.3 | 404.0 | 750.0 |

[1] Includes $54,000,000 supplemental appropriation.

The absence of a FY 1975 entry beside "Commercial Import Program" (the terms "commercial" and "commodity" are used interchangeably) in the above chart would seem to indicate the disappearance of that program. Study of the overall documentation reveals that what were formerly identified as CIP items are now referred to as "basic commodities". Their costs have been folded into functional line items. The following chart indicates how "basic commodities" would be allocated among functional programs in the new program. The "basic commodities" contained in the FY 1975 request total $380 million, a little more than half of the total request, an increase of $141 million over the FY 1974 CIP program.

PROGRAM SUMMARY INDICATING BASIC COMMODITIES

[In millions of dollars]

| | Fiscal year 1973 actual | Fiscal year 1974 estimated | Fiscal year 1974 proposed (A) program operations | (B) basic commodities | (A)+(B) Total proposed |
|---|---|---|---|---|---|
| Humanitarian assistance | 40.0 | 85.0 | 125.0 | 10.0 | 135.0 |
| Reconstruction and development | 29.7 | 15.0 | 227.7 | | 227.7 |
| Food and nutrition | | | | 185.0 | 185.0 |
| Industrial production | | | | 155.0 | 155.0 |
| Transportation and miscellaneous | | | 17.3 | 30.0 | 47.3 |
| Commercial import program | 226.2 | 239.0 | | | |
| Technical support | 16.4 | 15.0 | | | |
| Development loans | | 50.0 | | | |
| Total | 312.3 | 404.0 | 370.0 | 380.0 | 750.0 |

Three new program budget lines have been introduced in the FY 1975 request: "Food and Nutrition"; "Industrial Production"; and "Transportation and Miscellaneous". As indicated in the above chart the $185 million "Food and Nutrition" program consists entirely of the importation of commodities associated with agricultural production. The largest single element is an estimated $120 million for fertilizer imports. Other projected agriculture related imports include pesticides and petroleum products. Substantial amounts of these products are required for the capital intensive agriculture associated with the introduction of miracle rice under previous U.S. programs.

"Industrial Production" is another new program line which also consists entirely of import financing. Its objective is to sustain the small Vietnamese industrial sector, economic infrastructure and sales and service businesses. Anticipated imports include finished goods, raw and semi-processed materials, petroleum products, iron and steel, wood pulp and chemicals. The estimated cost of this portion of the program is $155 million.

The request of $47.3 million for "Transportation and Miscellaneous" is a confusing line item. We learned that the "Transportation Program" consists of nothing more than the provision of $30 million for the importation of petroleum products. In that both the "Food and Nutrition" program and the "Industrial Production" program also include petroleum products among their basic commodities, the possibility arises that this $30 million may duplicate other requests. "Miscellaneous" is the new description applied in the Congressional presentation to the request for $17.4 million in funds to support AID mission in South Vietnam. In previous budgets it has been referred to as "technical support." The request represents a $2.4 million increase over FY 1974.

The three program lines discussed above represent $387.3 million or 52 percent of the $750 million request. The remaining funds are divided between two other program lines: $227.7 million for "Reconstruction and Development" and $125 million for "Humanitarian Assistance."

A breakdown of the proposed "Reconstruction and Development" program between technical assistance and capital investment is shown below. Our inquiries in the field indicated that very little of this money will be spent in ways which would ordinarily be considered reconstruction. Possibly only the highway project and the canal dredging would actually fall in that category. In the latter case the $10 million requested for capital investment would be used for the purchase and importation of two dredges.

RECONSTRUCTION AND DEVELOPMENT

[In millions of dollars]

| | Technical assistance | Capital investment |
|---|---|---|
| Agriculture | 3.2 | |
| Rural credit | | 60.0 |
| Canal dredging | | 10.0 |
| Low-lift pumps | | 4.0 |
| Fish farm development | | 4.0 |
| Salt water intrusion | | 11.0 |
| Industry | 1.5 | |
| Industrial credit | | 40.0 |
| Industrial park | | 5.0 |
| Export processing zone | | 5.0 |
| Urea plant | | 80.0 |
| Highway construction | 3.4 | |
| Development planning | .6 | |
| Total | 8.7 | 219.0 |

This "capital investment" item like the "basic commodities" components of the program lines reviewed earlier is, in reality, another manner of providing import financing. Close scrutiny of other line items in the breakout of the "Reconstruction and Development" program suggest that a good portion of the "development" budget is a capital goods import program. In addition to the $10 million for dredges, there are proposals for $4.0 million in irrigation pumps and an $80 million urea fertilizer plant.

The other development programs for agriculture and industry outlined in the AID proposal involve dollar grants to the Vietnamese government for projects that will be paid for in piasters. For example, the $100 million request for rural and industrial credit would provide the basis for loans to be made in piasters. To the extent that these loans are used for the purchase of imports, their dollar funding represents an extension of the commodity import program. Granting dollars to underwrite local credit programs is another means of providing the government of Vietnam with additional foreign exchange.

Some experts point out that projects which have a large local cost component such as the funding of credit institutions, dikes and industrial parks should be financed out of counterpart funds rather than with direct dollar grants.

As the war has decreased in intensity proposals for humanitarian assistance in Vietnam have increased. In FY 1973 the actual cost of humanitarian programs was $40 million. It is estimated that humanitarian expenditures were $85 million in FY 1974. For FY 1975 the Administration is proposing a figure of $135 million. These increased expenditures also vary inversely with the number of persons on the refugee rolls. AID officials said that the former refugee camps would be virtually empty by June 30, 1974. In FY 1972 when only $15.5 million was spent on the refugee program, U.S. officials reported nearly 1.5 million refugees and insisted that the funds requested were adequate.

U.S. officials explain the need for this large increase in funds in terms of an expanded definition of humanitarian assistance. In FY 1975 $104.5 million of the $135 million dollar request will be used to aid "war victims."

HUMANITARIAN ASSISTANCE

[In millions of dollars]

| | Technical assistance | Grants | Basic commodities | Total |
|---|---|---|---|---|
| Refugee relief | 1.5 | 75.0 | 10.0 | 86.5 |
| Child care | 1.2 | 7.0 | | 8.2 |
| Health care | 6.3 | 4.0 | | 10.3 |
| City to farm program | | 30.0 | | 30.0 |
| Total | 9.0 | 116.0 | 10.0 | 135.0 |

The term "war victims" as used in the FY 1975 presentation includes not only refugees in the traditional sense, but also all of the presently unemployed who moved to the cities in earlier periods and who were previously employed in service industries associated with the American presence. Humanitarian assistance has come to include all persons displaced by military or economic forces resulting from the war. The major thrust of the new programs is to return people to the vicinity of their old villages or, where that is not possible, to resettle them on new or reclaimed agricultural land. We were told that a large portion of the funds requested would be used to purchase land clearing equipment, to move people, to provide subsistence until initial crops are harvested, and for capital improvements in new villages such as wells and drainage systems.

Several questionable aspects of this dollar request were pointed out to us. First, the South Vietnamese government received construction equipment valued at $57 million when the major American contractors left in 1972. We were told that much of this equipment is not being used. Second, a large portion of the cost of these programs will be local in nature and should be paid in piasters.

We had an opportunity to visit both a "return to village" (RTV) and a resettlement village in Quang Ngai province. While the people in the RTV village were slightly better off than those in the resettlement village, few of them were living much above the subsistence level. Local officials told us that only 25 percent of the people were able to support themselves; yet they all had been reclassified out of the refugee status. Only a fraction of those in the RTV group had land and none of the families in the resettlement village had received land. The RTV village had a cement-lined well and a new school erected, we were told, because it is a "show village". The resettlement village had neither.

Both villages have been subjected to frequent Communist attacks and are located in a marginally secure area. Given the number of huts in the villages, and the private comments of some villagers, there was reason to believe that the actual number of inhabitants was significantly below the 5,600 population figure cited by the local village chief. U.S. officials told us that many refugees move out of villages such as this because of their poor security and the difficulty of earning a living. In such situations local officials often continue to report full complements of refugees and continue to draw their subsistence allowances.

Some independent American observers strongly criticize the RTV program and the resettlement effort on the grounds that they are too closely related to South Vietnamese government efforts to extend its presence into contested or marginally controlled areas. Senior U.S. officials strongly deny the existence of a formal South Vietnamese policy of using refugees to secure contested areas. Based on our own observations, briefings and on conversations with U.S. officials, it is evident that this is, in fact, what often happens whether or not there is a deliberate policy.

Americans with long experience in Vietnam point out that virtually all of the arable land in secure areas of South Vietnam is already occupied. AID officials in Saigon speak of one million hectares of unused arable land countrywide and of a half million hectares of uncultivated rice land on which several hundred thousand persons can be resettled. A large portion of this land was said to be in Military Region III. Those familiar with the military situation point out that the land in question undoubtedly lies in contested or enemy held areas.

Thus far, the Saigon government has prevented or discouraged the population now under its control from moving into contested areas. If the government wishes to settle people in such areas, and at the same time maintain its control over them, offensive military operations will be required. There are a number of areas in the South in which such operations are now going on.

Some of the "unused" land which the government and AID have in mind, particularly in Military Region III, may be that which has traditionally been occupied by the Montagnards. We were told by experienced observers of the refugee program that the Saigon government has long sought to move the Montagnards out of their traditional areas and to replace them with ethnic Vietnamese.

Other critical comments on the refugee program focus on the failure of the Vietnamese government to deliver on commitments to clear enough land or to provide adequate subsistence commodities for the new settlers. As one official with long experience in refugee work pointed out, marginal survival in the countryside may be more desirable than life in refugee camps or in the cities, but he observed that it is difficult to describe any of the current plans as humanitarian relief. The RTV resettlements and "city to village" programs are perhaps more appropriately described as welfare programs which have the effect of facilitating the government's ability to control the refugee population.

The refugees and urban unemployed present a real dilemma to the Vietnamese government. If the people remain in the camps and cities, they present a political problem as well as a further welfare burden on an already over-extended national budget. Moving them to rural areas, as proposed, would shift the economic support burden from the national budget to the people themselves and to the natural resources of the land—presuming land is available. However, the transfer of people out of camps and the cities creates a population control problem by exposing them to contact with the Viet Cong. The compromise between military control and economic survival is the placement of war victims on previously uncultivated land in government controlled or marginally controlled areas. But these new lands require large amounts of capital investment for roads and land clearing to make them accessible and arable. The losers are the war victims themselves who seem destined to suffer no matter where they are.

* * * * * * *

The P.L. 480, or Food for Peace, Program has operated in Vietnam since 1958. In the period 1962–1973, $1.2 billion in P.L. 480 products were given to the Vietnamese government. The total value of P.L. 480 commodities delivered in FY 1974 was $245 million.

The P.L. 480 program will continue to be a major conduit for the transfer of U.S. economic aid to South Vietnam in FY 1975. Significant confusion exists, though over the probable size of the FY 1975 program. The AID Mission in Saigon provided us with a list of commodities and prices that totaled $127.1 million. We were given another list in Washington projecting much larger amounts of commodities calculated at lower unit prices. The total cost of the larger quantities estimated in Washington but calculated at Saigon's prices amounts to $195 million.

GOVERNMENT OF VIETNAM TITLE I IMPORTS FOR FISCAL YEAR 1974, AS OF MAY 5, 1974

| Commodity | Agreements | | Deliveries | |
|---|---|---|---|---|
| | Quantity (metric tons) | Amount | Quantity (metric tons) | Amount |
| Rice | 310,000 | $168,300,000 | [1] 293,955 | $161,843,650 |
| Wheat | 150,000 | 31,200,000 | [1] 77,718 | 21,588,300 |
| Corn | 90,000 | 11,700,000 | 34,303 | 4,771,047 |
| Cotton | (2) | 37,100,000 | (3) | [1] 24,498,733 |
| Tobacco | 6,400 | 16,800,000 | [1] 6,400 | 16,529,331 |
| Vegetable oil | 5,000 | 3,800,000 | [1] 5,000 | 3,620,295 |
| Total | | 368,900,000 | | [4] 232,851,356 |

[1] All deliveries not complete, therefore, might be slight change in costs and quantities received prior to end of the fiscal year.

[2] 98,500 bales.

[3] 70,469 bales.

[4] Estimated fiscal year 1974 total $245 million. Rice will be only 300,000 metric tons. Wheat deliveries will not increase. Remainder cancelled because flour/bread not selling due to low rice price, cancelled 40,000 metric tons.

*Fiscal year 1975 Public Law 480 estimates*

[U.S. dollars in millions]

| | |
|---|---|
| USAID, Saigon: | |
| Rice, 100,000 M/T (metric tons) | $38.1 |
| Wheat, 190,000 M/T | 25.8 |
| Corn, 20,000 M/T | 1.8 |
| Cotton, 100,000 bales | 25.0 |
| Tobacco, 11,000 M/T (both black and Virginia) | 30.8 |
| Vegetable oil, 5,000 M/T | 2.3 |
| Crude oil, 7,000 M/T | 3.3 |
| Total | 127.1 |
| USAID, Washington: | |
| Rice, 243,400 M/T | 160.0 |
| Wheat, 280,000 M/T | |
| Corn, 100,000 M/T | |
| Cotton, 100,000 M/T | |
| Tobacco, 8,000 M/T | |
| Vegetable oil, 10,200 M/T | |

On the basis of past experience, the $195 million figure is probably the more realistic. At the beginning of FY 1974 that year's program was projected at $176 million. During the course of the year agreements were entered into which totalled over $380 million. Following the Comptroller General's ruling regarding Section 40, deliveries were apparently cut back to the FY 1974 total of $245 million mentioned earlier, or $70 million more than originally projected. Given the present state of production in Vietnam, there is no *a priori* reason to believe that P.L. 480 will be halved to $127 million or even cut to $160 million. AID officials in Washington acknowledged that their $160 million figure was low and would probably rise, particularly if Congress did not appropriate the full $750 million aid request.

## X. OBSERVATIONS ON ECONOMIC ASSISTANCE

Including the $195 million P.L. 480 estimate the FY 1975 economic assistance request for Vietnam amounts to $945 million. Of these funds 84 percent are earmarked for imports: "basic commodities" (CIP), $380 million; "capital investment", $219 million; and P.L. 480, $195 million. While the total program is presented in terms of reconstruction and development, very little of it is committed to identifiable reconstruction projects. The heart of what the AID presentation identifies as the development portion of the program is represented by the $219 million of capital "investment" items. Within this total over $100 million is designated for projects which have a high local cost (piaster) component, meaning that the Vietnamese government will be free to use the dollar grants involved for unspecified foreign exchange purposes.

It is difficult to reach any other conclusion than that the FY 1975 program is, in reality, a continuation of the past aid strategy of supporting the Vietnamese economy with massive flows of outside resources in order to fill fiscal and trade deficits. While any aid program for Vietnam will, in the near term, require substantial imports of commodities, many independent observers believe the present program relies too heavily on the transfer of resources. Some economic planners point out that there is another way to deal with these problems, that is, by attempting to correct the structural problems in the economy which produce the fiscal and trade gaps.

A number of factors explain the past U.S. predeliction for reliance upon "gap filling" with outside resources. The war made it extremely difficult to consider any major economic reforms or long term development planning. It also produced serious economic strains which, had they not been promptly dealt with, might have undermined the Saigon government. Gap filling has specific advantages. It can be quickly implemented and is responsive to crisis management. It also produces demonstrable short term results. Because it is quantifiable and requires a minimum understanding of the structure and the economy, it is easily grasped by policy makers. Moreover, it fits well into the annual planning cycle necessitated by the Congressional authorization and appropriations process. The strategy was feasible in Vietnam during the years of American troop involvement because large amounts of aid and dollar exchange were available.

Correcting the structural deficiencies in the economy, on the other hand, is a long term process requiring the stimulation of economic growth and the reorganization of the productive base of the economy. Pursuit of such a strategy would have required a deep understanding of both the Vietnamese society and economy, something which few Americans have ever acquired. Because economic growth is destabilizing and structural change is resisted, programs designed to accomplish such objectives have strong political implications. Neither the Americans nor the Thieu Government wished to loose such forces in the context of Vietnam during the late nineteen sixties and early seventies. Moreover, there was no need to take risks as long as aid appropriations and troop spending were plentiful.

The emphasis placed on economic development in the presentation of the FY 1975 program to the Congress conveys the impression that the strategy of U.S. economic assistance policy in Vietnam is shifting. Careful analysis reveals that there is no apparent shift away from external financing in favor of inducing structural changes in the economy. The economic development programs suggested are to be superimposed on the present economic structure. Apparently not even the removal of the highly counter-productive policy of low rice prices is being contemplated. This policy ranks with the constant exchange rate policy from 1967 to 1972 as a major inhibitor of economic growth in Vietnam.

Another area of concern in the U.S. aid program in Vietnam is the planning process. Both American and Vietnamese officials say that lack of planning and inadequate coordination are major problems. There is apparently little coordinated economic planning between the U.S. AID Mission and the Vietnamese government. The AID Mission has the potential to influence economic decision making because it has the largest and most capable staff of economic planners in the country as well as ultimate control over resources for specific programs. Vietnamese economic planning and implementation capabilities, on the other hand, are quite limited. Vietnamese and foreign officials told us that economic planning in the Vietnamese government occurs on a piecemeal basis. A similar observation was made by a group of international economists in a series of reports on the Vietnamese economy. One of these reports states:

> All the ministries that have a central role to play in rebuilding South Vietnam's economy have prepared comprehensive plans covering their respective areas of responsibility . . . they (the plans) remain to be reviewed by some central body, to establish how these individual plans might fit into a comprehensive program and where the priorities lie. In fact, . . . there is yet no such comprehensive program, except for some highly aggregate, macro-economic projections which however, do not show much. . . . It is, therefore, not yet possible to speak of a Government program, but only of a large number of individual plans.

The process of integrating these uncoordinated Vietnamese plans with the U.S. aid program was described to us by an experienced Vietnamese official. He told us that individual ministries "sell" their programs to their opposite numbers in the U.S. AID Mission and then inform their Vietnamese colleagues in other ministries that their programs must be included in the Vietnamese budget because the U.S. Mission has already approved them. The key to U.S. approval is alleged to be the ability of officials at a given ministry to develop a rapport with their counterparts in the AID Mission or with the AID liaison officer assigned to their ministry. Observers of this process note that staff changes are often made in order to ensure that a good relationship exists.

Senior U.S. officials defend current planning practices by explaining that the Vietnamese must make their own decisions on economic problems. Others point out the reality that aid dollars determine the direction and speed at which the economy moves. Many experts believe that U.S. officials working with those responsible in the Vietnamese government should establish a set of national economic priorities to guide the formulation of the Vietnamese budget and to provide rational controls over the flow of foreign dollars through the Central Bank of Vietnam.

At present no mechanism for establishing and enforcing economic priorities exists within the Vietnamese government. Control over economic policy is one of the issues around which much of the current maneuvering within the upper levels of the Vietnamese government revolves. In addition to infighting between the various civilian personalities there is the perennial problem of military versus civilian control. Although there are Vietnamese officials who have very clear ideas about what should be done to restructure the economy, the reality is that the army still runs the country and as one official remarked, "the Army knows very little about economics."

U.S. economic assistance planning in Vietnam has been dominated by the concept that the pattern of economic growth should be determined by free market forces rather than centralized economic planning. This is most markedly demonstrated in the CIP program. While the CIP program is limited to a 50 page list of approved items, the mix and amounts of individual imports is determined by market demand. Licenses associated with the CIP program are issued to control the rate of foreign exchange outflow, and do not constitute an import quota system.

American officials argue that the free enterprise system can perform the economic development function in Vietnam if the system provides the proper incentives and is allowed to operate without controls. It is reasoned that if it has not done so in the past it is because the exchange rate favored importation and marketing rather than industrial production and exports. This approach seems to ignore the fact that investor confidence is low. The insecurity resulting from the war and the tenuous state of the economy prompt the short term profit taking and capital flight which still pervade the Vietnamese scene. There is no reason to believe that massive amounts of new aid might not again be redirected overseas rather than reinvested in Vietnam.

The major exceptions to the free market approach to economic development are a foreign exchange reserve for petroleum and fertilizer and the rice price policy. The former is understandable given the critical nature of these items to the economy. The latter is regrettable. P.L. 480 rice is being used to hold the market value of rice down. This discourages agricultural production and reduces savings in the rural areas with the result that the United States now finds itself supporting agricultural credit and capital improvement programs. Thus, in the major sector of the South Vietnamese economy U.S. economic aid policy is discouraging production and the accumulation of capital.

* * * * * * *

The major premise behind the Administration's request for $750 million in economic aid is to provide enough funds to generate domestic savings so that over a longer period Vietnam might become economically self-sustaining. Many observers expressed doubts as to the likely success of such a program.

The analytical base of the $750 million program was provided to us in a preliminary study done by the AID mission in Saigon. The study hypothesized two aid scenarios. Both scenarios assumed P.L. 480 shipments at $150 million per year over the next four years and a military conflict at levels no greater than present. The first scenario limited aid over the next four years to $300 million per year at 1974 prices. Under these conditions the economic growth rate was projected at 2.8 percent, or just enough to match the population expansion. Per capita income would not increase and overall economic conditions would remain more or less as they are at present.

The second scenario envisioned two years of large U.S. aid inputs followed by two years of aid in sharply declining amounts—$700,—$500,—$250,—and $50 million a year respectively in 1974 dollars. This second scenario made the further assumption that there will be (a) a doubling of third country economic aid to $150 million per year, (b) a 750 percent increase in foreign investment from $20 million to $150 million, (c) an increase of exports from $140 million to $350 million, and (d) an increase in invisibles from $50 to $80 million. Very few of those with whom we spoke believe that these assumptions are realistic. The Mission, however, accepts them and on that basis projects an annual growth rate expanding to 6.6 percent. Given this rate of growth, Vietnam would become economically self-sufficient by 1985, i.e. some minimum level of economic aid will have to continue for the next decade.

The assumptions of increasing third country aid, exports and foreign private investment are crucial because these sources are expected to offset declining U.S. assistance levels prior to the time

Vietnamese domestic savings become large enough to be important in the context of the total economy. The assumption that Vietnam will receive $150 million in grant and loan assistance from third country sources each year for the next four years seems reasonable. Implicit in this assumption is the belief that there will be no major shifts in the domestic politics of France, Japan and West Germany. Our discussions with foreign observers in Saigon indicated a reluctance on the part of the principal donors to expand aid beyond FY 1974 levels. Some of the governments concerned have learned, moreover, that the Vietnamese government in many cases has not devised projects for the use of the non-U.S. aid already committed.

The FY 1975 figures provided in the AID chart below are very speculative. For instance, $50 million IBRD (World Bank) figure listed under loan assistance is to come from the International Development Association (IDA). IDA presently has no loanable funds and is awaiting the clearance of the IV Replenishment by the major donor nations of the world.

OTHER DONOR ASSISTANCE COMMITMENTS TO VIETNAM, 1970–75

[U.S. dollar, in millions]

| | Calendar year— | | | | | |
|---|---|---|---|---|---|---|
| | 1970 actual | 1971 actual | 1972 actual | 1973 estimated | 1974 projected | 1975 projected |
| A. Grant aid: | | | | | | |
| 1. Bilateral: | | | | | | |
| Australia | 2.3 | 4.0 | 5.2 | 15.0 | 4.0 | |
| Canada | 1.6 | 2.7 | 2.4 | 4.0 | 5.0 | |
| China (Taiwan) | 1.1 | 1.0 | 2.0 | 1.0 | 2.0 | |
| France | 5.1 | 5.1 | 6.5 | 9.0 | 10.0 | |
| West Germany | 5.4 | 7.8 | 7.1 | 5.0 | 5.0 | |
| Japan | 2.1 | 16.8 | 9.0 | 22.0 | 22.0 | |
| Netherlands | .6 | .6 | .1 | | .2 | |
| New Zealand | .8 | 1.2 | .7 | 1.0 | 1.0 | |
| United Kingdom | .9 | .6 | .1 | 1.0 | 1.0 | |
| Other | .7 | .4 | .5 | 3.0 | 2.8 | |
| Subtotal | 20.6 | 40.2 | 33.6 | 61.0 | 53.0 | 40.0 |
| 2. International institutions: | | | | | | |
| U.N. agencies | 3.4 | 3.7 | | 5.0 | 6.0 | |
| Licross including UNHCR and ICRC | 1.1 | 3.8 | | | | |
| Asian Development Bank | .1 | .1 | 4.5 | 3.0 | 3.0 | |
| Colombo plan | | | | | | |
| Sub-total | 4.6 | 7.6 | 4.5 | 8.0 | 9.0 | 10.0 |
| 3. Total, grant aid | 25.2 | 47.8 | 38.1 | 69.0 | 62.0 | 50.0 |
| B. Loan assistance: | | | | | | |
| 1. Asian Development Bank | 2.5 | 2.5 | 6.3 | 13.0 | 30.0 | 20.0 |
| 2. Japan | 5.2 | 25.2 | 10.0 | 27.0 | 35.0 | 70.0 |
| 3. France | | 2.6 | 1.0 | 22.0 | 30.0 | 30.0 |
| 4. Germany | | | | 16.0 | 16.0 | 20.0 |
| 5. Denmark and Netherlands | | | | 15.0 | 10.0 | 5.0 |
| 6. Other countries | | | | 6.0 | 8.0 | 5.0 |
| 7. IBRD | | | | | | 50.0 |
| Total loan | 7.7 | 30.3 | 17.3 | 99.0 | 124.0 | 200.0 |
| C. Total, grant and loan | 32.9 | 78.1 | 55.4 | 168.0 | 186.0 | 250.0 |

It is difficult to evaluate the realism of the export projection in the second scenario. AID officials make much of the statistic that Vietnam's exports have doubled in each of the past two years. But when it is realized that the base figure for this calculation is $12 million dollars in 1971, the statistic is less impressive. There is no reason to believe this geometric progression will continue as the opportunity for export of specialty products and easily exploitable natural resources diminishes. Furthermore, the projection is dependent on full funding of the aid request and continued high commodity prices on the world market for Vietnam's exports.

The most controversial of these assumptions is that dealing with foreign private investment because it necessitates the extension of coverage by the U.S. Overseas Private Investment Corporation (OPIC) to South Vietnam. Should such coverage be extended and significant investment flows result, it would mean that U.S. private investors would provide dollar exchange flows in the form of direct investments. If the investments are lost as a result of acts of war or expropriation, OPIC or, in other words, the U.S. Government, would absorb the losses. At present, South Vietnam has only one permanent U.S. industrial investment, Foremost Dairies. Foremost set up its plant to service a Department of Defense contract. How attractive Vietnam would be to other firms when and if political risk insurance becomes available is unknown.

The size and nature of the proposed FY 1975 Vietnam economic aid program are a function of a number of factors. First, the program reflects the intention of the Executive Branch to support the current military and political policies of the present Vietnamese government. That government's top priority is, of course, self-preservation which it seeks to ensure primarily by means of a large and costly military establisment and highly centralized internal political controls. Within the Vietnamese government economic decision making and development planning are, to a large extent, subordinated to military and political considerations. Insofar as is possible, given the exigencies of the military situation and the internal policies of the Thieu government, the U.S. aid program has been designed to provide economic solvency through budgetary and foreign exchange support in a manner which will also contribute to economic growth and reconstruction.

An appreciation of this fact is essential to an understanding of the FY 1975 Vietnam aid program because U.S. officials, in Saigon and Executive Branch presentations to the Congress consistently convey the impression of a different set of priorities. This is illustrated by the tile of the aid request—"The Indochina Postwar Reconstruction Program." The war goes on, however, and promises to continue for the indefinite future. This reality determines the program's principal requirements and it severely constrains the feasibility of the economic development, reconstruction and humanitarian aspects of the proposed program.

Given these facts the FY 1975 request must be judged in the first instance on the basis of whether it is necessary and desirable in terms of U.S. interests to continue to support the government of South Vietnam. The considerations involved in this question are well known and require no elaboration here.

If support for South Vietnam is adjudged to be in the U.S. interest, then it is appropriate to consider whether the cost of the FY 1975 program is reasonable, whether it is sound and, perhaps most importantly, whether it can produce what it promises. We encountered little doubt that the amounts requested are more than adequate to meet Saigon's primary needs but we encountered almost universal skepticism about the prospects for rapid or sustained economic growth given the serious existing structural and resource deficiencies of that economy.

If the Congress chooses to continue economic aid to Vietnam, the two scenarios mentioned earlier suggest the implications of alternative levels of funding. Neither provides any assurance that the United States can extricate itself entirely from supporting the South Vietnam economy. The first scenario suggests an indefinite continuation of aid. The second holds out the hope—and given the magnitude of the assumptions it can be called no more than a hope—that economic aid could taper off more rapidly if the Congress would allocate more money now.

The Administration's program assumes that the present hierarchy of military, political and economic priorities will be perpetuated. A number of knowledgeable observers argue that it is the size of Vietnam's military establishment that constrains economic development. They point out that one million men under arms is too great an economic burden for the South Vietnamese to carry, even with substantial military aid, and that even the more restrained American government assessments of South Vietnam's ability to increase its productivity are unrealistic. One U.S. official with whom we talked summarized the consensus view very succinctly stating that, although there is talk of the South Vietnamese striving for self-sufficiency, this will only be possible when lower levels of military activity permit a reduction in the size of the military establishment.

It is difficult to imagine how such a change can be brought about. Many observers, including some U.S. military officials, believe that Saigon could effect significant savings through a restructuring of its armed forces and a moderation in its aggressive defensive posture. At the same time they recognize that the possibility of making such adjustments is greatly constrained by the reality of the North Vietnamese threat and the political leverage of the South Vietnamese generals.

## XI. THE FUTURE

Hanoi appears to have opted for a policy—over the next year at least—of reconstruction at home while leaving open the possibility of a resumption of large scale military operations in the event of a deterioration of the internal situation in the South. Few, if any, of the more experienced observers with whom we spoke expect the North Vietnamese to relent in their efforts to dominate the South. Indeed, many of these observers believe that Hanoi would be more, rather than less, likely to attack should Saigon appear to be gaining significantly in strength.

American officials in Washington and Saigon believe, based on a set of assumptions which most independent observers find overly optimistic, that the South Vietnamese can surmount their present economic problems and face the North with increasing confidence and stability. This reasoning assumes that U.S. military aid to the Saigon government will continue indefinitely at near present levels in constant dollars. Many of these same officials also believe that, over time, the leadership in Hanoi will become increasingly "pragmatic". They argue that the North Vietnamese are faced with increasingly solid resistance in the South they will concentrate on reconstruction and development in the North and possibly, in time, settle for a tacit cease-fire. A major element in this reasoning is the belief that Hanoi cannot be certain of large scale open-ended military support from China and the Soviet Union. In the absence of such an assurance, it is believed that Hanoi is not likely to launch a major attack against the South.

There is another school of thought, which includes many American officials, with grave misgivings about the South's ability to overcome its economic problems even with American aid in the amounts requested. Those who hold this view argue that time is on the side of the North in both military and economic terms. They reason that Hanoi, despite its own economic problems, can maintain and even increase its present pressure against South Vietnam. As long as large and powerful Communist forces remain poised in the South, they say, Saigon will be compelled to maintain its costly military establishment. Moreover, uncertain security conditions will continue to impede significant economic growth. As long as this is the case, South Vietnam will continue to be heavily dependent upon U.S. military and economic assistance.

While South Vietnamese civilian officials readily acknowledge the seriousness of their economic problems, this recognition is not reflected in their planning and decision making. With a few exceptions, South Vietnamese officials tend to view their economic problem as a function solely of how much assistance the U.S. Congress will provide. The government appears unwilling, or perhaps considers itself unable, to face the political consequences of asking the vested interests within its own society to assume a greater share of the economic burden of the war or to ask its own people to accept greater sacrifices. If sufficient outside aid is forthcoming, they need not do either.

On the basis of what we were able to observe, very little realistic planning for economic growth has gone on either within the Vietnamese or U.S. government. Most experienced economists believe that a genuine development program for South Vietnam would require a much longer time period than the program described to the Congress, perhaps as long as ten to fifteen years.

Equally little thought appears to have been given to the problem of how the South Vietnamese government could adjust to aid levels lower than those requested by the Executive Branch. Suggestions that South Vietnam consider diverting more resources from the military to the civilian sector of its economy are generally dismissed by U.S. officials as too risky. No one with whom we spoke believes President Thieu would voluntarily opt for such a shift of emphasis or that the United States is likely to urge him to do so.

Left to their own devices, the parties to the Vietnamese conflict appear unlikely to make any progress toward a lasting settlement. President Thieu appears determined to resist all efforts to negotiate the political issues left unresolved by the Paris Agreement and the North Vietnamese are insistent upon an approach to political evolution designed to maximize their ability to undermine his regime. Thus, the present military confrontation seems likely to continue. No one expects the Saigon forces to expell the North Vietnamese and most observers doubt that the Communists will, in the near term, acquire the decisive edge required to defeat the South militarily.

Given their seemingly irreconcilable differences and their mutual mistrust it is—and probably always was—unrealistic to expect the two Vietnamese parties to make the Paris Agreement work. The more likely prospect is that the war will go on as long as the outside powers continue to provide the necessary resources. For this reason, many observers now believe that, just as the original Agreement was brought about from the outside, the great power sporsors hold the key to further progress toward a real cease-fire or a political settlement. The approach to this problem most frequently advanced by those with whom we spoke would involve an agreement among the United States, the Soviet Union and China to reduce drastically the flow of military assistance to their clients. While the nature of the current military situation, particularly the existence of large Communist stockpiles in the South, might require asymmetrical constraints, the prospective costs and risks to all concerned of continuing the current military confrontation suggests to many the need for a renewed effort to find a lasting solution to the problems of Vietnam.

We could detect no evidence in Saigon of active policy initiatives eminating from Washington directed at a solution to the problems left unresolved by the Paris Agreement. What we saw and heard, including conversations with senior officials, suggested to us that our present policy toward Vietnam is directed to the maintenance of the status quo at a time when Washington's attention is directed elsewhere.

In the absence of such efforts, there seems to be, at best, little prospect of anything but a continuing military struggle and, assuming that the maintenance of South Vietnam remains a U.S. policy objective, a continuing requirement for U.S. economic and military aid.

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