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UNITED STATES AID TO INDOCHINA

Report of a Staff Survey Team to South Vietnam,
Cambodia, and Laos



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FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D.C., July 25, 1974.

This report has been prepared for the Subcommittee for Review of Foreign Aid Programs of the Committee on Foreign Affairs by a staff survey team comprised of Messrs. John J. Brady and John H. Sullivan, staff consultants to the Committee on Foreign Affairs.

The findings contained in this report are those of the staff survey team, and do not necessarily reflect the views of the members of the Committee on Foreign Affairs.

THOMAS E. MORGAN, *Chairman.*

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LETTER OF TRANSMITTAL

JULY 25, 1974.

HON. THOMAS E. MORGAN,
Chairman, Committee on Foreign Affairs,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: There is transmitted herewith a report of a staff survey team composed of the undersigned staff consultants to the Committee on Foreign Affairs. The team visited sites in Indochina and elsewhere in the Far East and Pacific between April 15 and May 10.

The purpose of our mission—and the subject of this report—was to undertake an on-the-spot review of current conditions in Vietnam, Cambodia, and Laos, particularly as they relate to U.S. policies and programs of economic and military assistance to those countries.

In fulfilling this assignment, we spent 10 days in Vietnam, visiting each of the four military regions, 5 days in Cambodia, and 4 days in Laos, with corollary stops in Japan, Hong Kong, and CINCPAC in Hawaii. In each of the three countries, we met with the American Ambassadors and their staffs, Agency for International Development (AID) mission personnel, and U.S. military authorities. We also held numerous discussions with host government officials, representatives of international organizations and voluntary agencies, American newsmen, and other individuals with information to impart.

In each of the three countries of Indochina we visited, the American Embassy cooperated fully in arranging a full schedule of meetings and activities according to our wishes. Included were a number of field trips into outlying areas of the countries to view refugee camps, resettlement sites, and AID projects in agriculture and fisheries.

The results of our investigations were enhanced by briefings and meetings held in Washington, both before and after the mission, with officials of the Departments of State and Defense, AID, and the General Accounting Office, and with private experts.

To all those persons who assisted us in gathering the information which is the basis for the report, we wish to express our recognition of their help and our deep appreciation.

JOHN J. BRADY, *Staff Consultant.*

JOHN H. SULLIVAN, *Staff Consultant.*

UNITED STATES AID TO INDOCHINA

INTRODUCTION

Approximately 1½ years have elapsed since the Agreement on Ending the War and Restoring Peace in Vietnam was signed in Paris. During that period all American ground combat troops have been removed from South Vietnam, and U.S. air actions terminated over Vietnam, Laos, and Cambodia.

As a result it was possible for the President in his April 24 message to Congress on foreign aid to note that the "longest war in our history" had been ended and that no American troops were serving in combat for the first time in more than a decade.

And yet in this "postwar" era, the war rages on in Indochina.

In Cambodia, the fighting continues to be heavy as the Khmer Communists attempt to capture surrounded provincial towns and disrupt lines of communication into Phnom Penh.

In Vietnam, the level of conflict has diminished from the intensity of 1972, but continues to produce significant destruction and casualties. In 1973, for example, the Government of Vietnam suffered losses of 13,000 killed and 55,000 wounded. The other side is reported to have sustained 49,000 killed.

Only in Laos, where a coalition government has been established has there truly been a cessation of hostilities and a semblance of accord between the antagonists.

The state of continuing conflict in Indochina raises the issue of the future U.S. role in that part of the world and of the levels of U.S. aid to the countries of Indochina.

The executive branch has requested Congress to authorize enhanced levels of economic and military aid to Indochina. A significant portion of that aid is contained in the Foreign Assistance Act of 1974, which is within the jurisdiction of the Committee on Foreign Affairs.

The fiscal year 1975 request for Indochina in that bill includes:

	<i>Million</i>
Indochina postwar reconstruction.....	\$943.3
Cambodia military assistance program.....	¹ 390.0
Laos military assistance program.....	90.0
Total.....	1,423.3

¹ Figure contains supply operations costs.

With regard to continued U.S. aid to Vietnam, critics argue that President Thieu and the Government of Vietnam (1) have stifled political opposition, (2) have refused to deal with the Provisional Revolutionary Government in accordance with the cease-fire agreements, (3) have refused to permit elections with Communist participations, and (4) have failed to end hostilities. They contend that conditions can only be remedied by termination or sharp reduction in U.S. aid.

U.S. officials in Saigon disagree. It is their view that (1) President Thieu has the overwhelming support of the population and that he has been able to establish a strong political base throughout the country; (2) the political opposition in South Vietnam, which is present and active, has been unable to form any kind of a coalition which would offer an acceptable alternative; and (3) both sides are guilty of violating the terms of the cease-fire, particularly the North Vietnamese who have infiltrated over 100,000 troops and substantial amounts of equipment and supplies into South Vietnam since the cease-fire. Consequently, they believe that U.S. aid should be continued at present or increased levels.

This report is an attempt to provide the committee with an independent assessment of the situation in Indochina as it relates to U.S. aid. The report is divided into three parts, one for each of the three Indochina countries visited. In each the major findings and conclusions are stated in a sentence or two, with several paragraphs of background and explanation following.

VIETNAM

1. As long as the current level of hostilities continues in South Vietnam, its survival depends upon substantial economic and military assistance from the United States.

The presence of the substantial military threat posed by the large number of North Vietnamese troops in South Vietnam, and their demonstrated willingness to use those forces in offensive operations, require the Government of South Vietnam to maintain a military establishment of 1.1 million which is disproportionate to its population or resources.

This places an almost intolerable burden on an economy that is already weakened by years of war, the Communist invasion of 1972, and the loss of almost \$235 million annually as a result of the U.S. troop withdrawal.

There were great hopes when the cease-fire became effective in January 1973 that peace would enable the Government of South Vietnam (GVN) to make the transition from a war-survival-type economy to one of reconstruction, development, and eventual self-sufficiency.

Those aspirations have not been realized. For, in addition to a continuation of the war, the year 1973 was economically disappointing. A sustained business recession, accelerating domestic inflation of about 50 percent during the year, and a dramatic increase in world prices of fertilizer, foodstuffs, and petroleum combined to depress the economy. The physical level of imports fell to 65 percent of the peak year of 1969, in spite of a 3.5 million growth in population.

Unemployment has increased and incomes have declined.

As a result, South Vietnam faces a difficult time economically in 1974-75.

The political position of the Government of South Vietnam has been strengthened since the cease-fire, largely as a result of political support and economic and military assistance provided by the United States. And in spite of a substantial military threat in the South it is unlikely that the North Vietnamese can win a military victory. Rather it is likely that the Communists will probe for political and military soft spots and attack selectively while attempting to disrupt the economy of South Vietnam which is the area of greatest danger to the political stability of the Saigon government.

The war may, therefore, have entered a new stage; i.e. a battle for the economy of South Vietnam. If the level of hostilities does not increase, the Government of South Vietnam will be able to devote more resources to reconstruction and development, thus improving its chances of winning this phase of the war.

Success, however, depends upon external assistance. Since adequate assistance from other countries is not likely, the major share of the resources, economic and military, will have to be provided by the United States. The question is, How much and for how long?

2. Notions of "economic self-sufficiency" for South Vietnam and a virtual end to U.S. economic aid programs by 1977 appear unrealistic and premature, even if aid funds are significantly increased for the next 2 years.

Some U.S. authorities in Saigon, including the U.S. Ambassador, believe that South Vietnam is on the verge of an economic "takeoff" similar to those which have occurred in South Korea and Taiwan.

In order to launch South Vietnam's economy, they have strongly recommended a massive infusion of economic assistance from the United States, totaling about \$850 million during each of the next 2 years. By fiscal 1977, they contend, Vietnam's economy will be strong enough to permit the United States to phase out economic aid almost completely.

In fact, the U.S. Ambassador told the study team that he would not object to a legislated automatic cutoff of economic aid to Saigon for fiscal year 1977, if sufficient funds were forthcoming from Congress in the prior 2 years.

This optimistic projection is based on a variety of factors: Vietnam is relatively well endowed with natural resources, particularly timber and fisheries—with a prospect of oil. The population is generally hard-working, highly motivated toward literacy and education, and disciplined by Asian standards. Substantial infrastructure left from the war remains to be used. The country has many rich rice-growing areas with prospects for export sales.

Granting the many conditions favorable to growth in South Vietnam, the "takeoff" theory must be questioned on several grounds:

(a) To the extent optimism is based on the discovery of oil in or around Vietnam, it is highly speculative. Even if oil is found, at least 5 years could elapse before petroleum exports become a significant foreign exchange earner.

(b) To discuss the economy of South Vietnam without reference to the security situation is impossible. An economic spurt would require that hostilities be considerably reduced from current levels. Such a development is not now in prospect.

(c) The population growth rate of Vietnam is roughly 3 percent annually. At that rate there are 600,000 new mouths to feed annually. One projection indicates that within 6 years, even with planned enhanced agricultural production, the Mekong Delta region will be able to feed only its own people, with little left for the rest of Vietnam or for export.

Realistically, it would appear that rapid economic self-sufficiency for South Vietnam is not likely. As a matter of fact both the Agency for International Development in Washington and the World Bank estimate that substantial foreign assistance will be needed over the next 5 or 6 years.

According to the data contained in the fiscal year 1975 Congressional Presentation Book, AID estimates that it may be possible to phase out grant-type economic assistance in about 5 years.

A recent World Bank mission report on "The Current Economic Position and Prospects of the Republic of Vietnam" also concludes that South Vietnam will require substantial grant assistance for the foreseeable future.

Assuming Vietnam export gains of 20 to 30 percent per annum, the World Bank report concludes that "it will be 1980 before a foreign aid level much below the \$670 million mark anticipated by the Government for 1974 will be consistent with a reasonable amount of economic recovery and growth * * * but it seems clear that South Vietnam will need, in the next few years, at least, more external support than the \$560 million that was available in 1973, if much progress on the reconstruction-cum-development front is to be achieved. Vietnam presently lacks creditworthiness for aid on anything but the softest possible terms."

3. A reasonable amount of economic recovery and growth can be funded in Vietnam for substantially less than is being requested for fiscal 1975.

For fiscal year 1975 the executive branch has requested \$750 million for South Vietnam. Originally, the fiscal year 1975 foreign assistance request was to have been \$600 million. Before the preparation of the draft congressional presentation and prior to submission of the legislative request to the Congress, the U.S. Embassy in Saigon asked for an additional \$250 million for South Vietnam based upon the theory that a massive short-term infusion of aid would result in an economic takeoff. Subsequently, Hon. Daniel Parker, Administrator, Agency for International Development (AID) and Robert Nooter, Assistant Administrator, Bureau for Supporting Assistance, AID, undertook a survey of the situation in Indochina. The fiscal year 1975 program for South Vietnam was then increased from \$600 to \$750 million.

The funds are to be used as follows:

VIETNAM PROGRAM SUMMARY

[In millions of dollars]

	Fiscal year 1973 actual	Fiscal year 1974 estimated	1st fiscal year 1975 proposal	Final fiscal year 1975 proposal	Difference between 1st and final
Indochina postwar reconstruction.....	312.3	399.0	600	750.0	150.0
Humanitarian assistance.....	40.0	85.0	105	135.0	30.0
Reconstruction and development.....	29.7	15.0	100	227.7	127.7
Food and nutrition.....			200	185.0	-(15.0)
Industrial production.....			150	155.0	5.0
Transportation and miscellaneous.....			45	47.3	2.3
Commercial import program.....	226.2	234.0			
Technical support.....	16.4	15.0			
Development loans.....		50.0			
Population planning and health.....	(.8)	(.8)		(1.0)	

In addition it is estimated that non-U.S. assistance from Japan, France, West Germany, Australia, and the Asian Development Bank will approximate the 1973 level of \$80 million.

According to the World Bank report, the Government of South Vietnam anticipates about \$670 million external assistance in 1974. This is \$80 million below the amount requested by the executive branch and includes assistance from other donors. It is therefore possible that the requested figure could be reduced by \$160 million to \$590 million—without serious repercussions to the economic stability of South Vietnam.

At the same time, such an aid amount would not entail some of the potential risks of substantially larger amounts; that is, it would not increase Vietnam's dependency on outside aid and thus reverse the "weaning away" process, nor would there be a problem of the useful absorption of the funds in the Vietnamese economy.

4. To offset any adverse political implications of a significant reduction in requested economic aid to Vietnam, the Congress might wish to consider a 2-year authorization.

The U.S. Ambassador to South Vietnam believes that the levels of U.S. assistance are a significant signal to Hanoi about the firmness of American commitments to the Government of South Vietnam.

According to that view, if the levels of U.S. aid are increased substantially over fiscal year 1974 amounts, it would tell the North Vietnamese that the United States remains unwavering in its support of the Thieu government. They may become discouraged enough to cease hostilities. On the other hand, if aid requests are cut substantially by Congress, there is danger that Hanoi will read weakness of resolve and be emboldened to an all-out attack.

This kind of logic and linkage is troublesome. The United States should never put itself in a position in which the levels of its foreign assistance programs are synonymous with the degree of its commitment. The United States would be no less committed to South Vietnam at an aid level of \$590 million than it would be at \$850 or \$750 million.

Since the "signals" argument is likely to be used in opposition to any substantial congressional reductions in aid to Vietnam, the Committee on Foreign Affairs might consider recommending to the Congress a 2-year authorization of economic aid to Vietnam.

A 2-year authorization would have several advantages:

(a) It would offset the argument that Congress by substantial reductions in the administration's fiscal year 1975 request for South Vietnam would embolden the North Vietnamese and retard the ultimate end of the war.

(b) It would signal the North Vietnamese that the United States is not preparing to "walk away" from South Vietnam in the near future.

(c) It would permit more comprehensive, medium-range economic planning on the part of Saigon.

5. Consideration should be given to permitting the Overseas Private Investment Corporation (OPIC) to guarantee some U.S. private investment in South Vietnam, but with a ceiling on individual investments.

If the United States is going to continue to provide economic and military assistance to South Vietnam it makes no sense to exclude incentives for private American companies to invest in that country. The stimulation of private investment is needed to help South Vietnam's movement toward economic self-sufficiency as well as to cushion reductions in grant assistance programs.

There is substantial interest in South Vietnam on the part of several U.S. investors who would like to use OPIC's programs, providing such programs were available.

France and Japan have instituted programs to provide investment insurance on a limited scale in South Vietnam. It is incongruous that