

B. GOVERNMENT, INSURGENT AND NORTH VIETNAMESE FORCES

There is no greater mystery in Cambodia than the size of the Cambodian Government's armed forces. According to an estimate by the Military Equipment Delivery Team, the authorized Cambodian force structure ("authorized" for U.S. support), was 212,357 personnel: 197,937 in the Army, 7,408 in the Navy and 10,012 in the Air Force. The Chief of the Military Equipment Delivery Team Cambodia told us that the Cambodian Armed Forces monthly payroll strength in February 1973 was 278,430 and that effective strength was 275,700. The Defense Attaché office estimated actual strength at 261,518 and the number of "phantom" soldiers at 16,430. In Washington we were given still different figures. The Joint Chiefs of Staff briefers said that there were between 175,000 and 190,000 in the Cambodian Armed Forces, and State Department officials estimated them at 150,000.

In December 1972, the Cambodian Minister of Information announced that his government had "sometimes" met payrolls of as many as 300,000 soldiers (a fact confirmed by civilian officials of the Embassy) of whom, the Minister said, as many as 100,000 were later found to be non-existent. The Minister went on to say that the Cambodian Government had almost completed a payroll survey and had found only 180,000 real soldiers on duty.

When we asked the Chief of the Military Equipment Delivery Team for his comments on the Minister's remarks, he described them as "totally uncoordinated," and "not correct," adding that the number of "phantoms" was "less now." (Earlier, in another context, he had said that the payroll figure reported to the Embassy by the Cambodian Government in December 1972 was 292,000.) He explained to us that the magnitude of the "phantom" problem had not been "identified" until September or October 1972, implied that the Mission had then immediately taken remedial measures, and stated that "phantoms" had not been a significant problem prior to September 1972. He also said that the U.S. Mission could not have known how serious the problem was until the Cambodians established a defined force structure which they had done only recently. (In January 1972, during a previous visit to Phnom Penh, his predecessor had shown and explained to us a detailed plan of the Cambodian force structure.)

At present the United States is making available to the Cambodian Government virtually all of the local currency proceeds from both the Commodity Import Program and P.L. 480 assistance for military pay and allowances. The terms under which this support is provided were first spelled out in a project agreement signed in 1971 which required the Cambodian Government to submit monthly personnel reports and to comply with certain standards of operation.

The Chief of the Military Equipment Delivery Team (who arrived in early 1972) told us that he did not begin receiving monthly personnel reports until December 1972. Among the other provisions of the agreement which the Military Equipment Delivery Team was supposed to oversee were those which specified that the Government "provide periodic reports on the progress and execution of that part of its defense budget relating to personnel . . ." and that "actual alloca-

tions and expenditures, either from GKR (Cambodian Government) revenues or from U.S.-owned or jointly-controlled local currency for the support of the GKR National Defense Budget which do not conform to the budget will cause the final contribution to be reduced as the U.S. Government may deem appropriate." Similar provisions have been included in subsequent program agreements and, in addition, the agreement covering the Calendar Year 1972 support program contained other provisions calling for a review of Cambodian Government obligations and expenditures by the Economic Counselor of the Embassy and the Chief of the Military Equipment Delivery Team, the establishment of an accepted military pay system and the prompt refund of funds released in the event such funds "are used in a manner inconsistent with the requirements of the (Project) Agreement."

In connection with these requirements, we noted that the Ministry of Defense budget for Calendar Year 1972, which was incorporated in the 1972 project agreement, specified military pay and allowance expenditures of approximately 12.8 billion riels. The Embassy, however, has reported to Washington that actual calendar year 1972 expenditures for military pay and allowances were approximately 15.5 billion riels.

As early as our January 1972 visit to Cambodia, American officials acknowledged to us that the Cambodian Government's strength figures were "grossly exaggerated" by the inclusion of "phantom soldiers" approximating at least ten percent of the reported strength. At that time we also reported that U.S. military personnel were already "deeply involved as advisors or organizers in activities such as force planning, military budgeting, logistics and training." It would appear, therefore, that Military Equipment Delivery Team personnel either should have known, or did in fact know, that the Cambodian force structure was greatly in excess of that agreed upon by the two governments, that the Cambodian Government was exceeding the amounts provided for in the budget which was included in the program agreements, and that there were a large number of "phantoms" included in the strength figures being provided to the Embassy. Nevertheless, there is no indication that any support funds have been refused because of these violations of the agreements or that any refunds have been sought.

While we were told on this visit that the Embassy was withholding the next \$4 million installment of the U.S. contribution to the Exchange Support Fund in part because of the phantom problem, at the same time Embassy officials described this action as largely "cosmetic" and said that, in any event, as of the time of our visit no requests from the Cambodian Government for disbursements of counterpart funds for pay and allowances were pending.¹

¹ Subsequently, according to Department of State officials, the FANK payroll was reduced to 253,000 men and the U.S. Embassy released the \$4 million portion of its contribution to the Exchange Support Fund. In addition, the Cambodian Government requested on April 28, 1973, the release of 3.3 billion Riels (\$14.3 million) in counterpart funds for military budget requirements. Following the reduction in the FANK payroll, the Embassy in Phnom Penh agreed on May 23, 1973, to release 2.51 billion Riels of counterpart funds (\$10.9 million) for this purpose.

Meanwhile a new kind of payroll problem has begun to emerge. In addition to payments being made for soldiers who do not exist, many soldiers actually on duty are not receiving their pay. One recent example, which was brought to the attention of the Chief of the Military Equipment Delivery Team by other Embassy officials, involved one entire military region in which, as of the second week in April, soldiers had not yet been paid for the month of March.

By contrast, there appeared to be a fairly broad consensus among the U.S. intelligence community on the number of "KC"—or Khmer Communists, as the insurgents are now called. (The Cambodian Government objects to the term "insurgents," although it is still the official U.S. Government terminology for the Khmer Communists; indeed most Cambodian military and civilian officials seem unwilling to admit that they are no longer fighting the North Vietnamese.) The estimate agreed to in early April by CIA, DIA and the Embassy was between 40,000 and 50,000. One CIA order of battle analyst argues, however, that total KC strength, including main forces, local forces and guerrilla militia, may be as high as 250,000, a figure which CIA considers excessive.

All analysts agree that there are no more than approximately 5,000 North Vietnamese combat troops in all of Cambodia of whom probably 2,000, or at most 3,000, are targeted against Cambodian Government forces. The remaining 2,000 to 3,000 North Vietnamese combat troops are targeted against South Vietnam together with approximately 27,000 North Vietnamese support forces whose principal mission is to support forces in Vietnam but who also provide logistics support for the Khmer communist insurgents.

U.S. analysts who specialize in the Khmer insurgent movement saw what they considered to be a spectacular change in March 1972: the 64,000 North Vietnamese and Viet Cong forces in Cambodia—most of whom were estimated to be targeted against Cambodia—began to leave Cambodia for South Vietnam to participate, as it later turned out, in the spring offensive. Most have never returned or been replaced leaving, as earlier noted, only 2,000 to 3,000 targeted against Cambodian forces. Although we heard occasional references to North Vietnamese artillery support for the KC, there was no indication that the analysts who briefed us, either in Washington or the field, considered this support to be a significant aspect of KC offensive operations.

We were told that when they left Cambodia the North Vietnamese/Viet Cong turned over to the KC the job of keeping the Cambodian forces on the defensive so that they would not interfere with North Vietnamese logistic support of their forces in Vietnam. Since that time, according to these analysts, the KC have run their own program. (We were told however that many, but by no means all, KC battalions have a Vietnamese element, although in most cases it is Viet Cong, not North Vietnamese, and consists of three to five people out of a total battalion strength of between 300 and 400 men.)

In August 1972, the KC launched their first major independent offensive. The offensive had run its course by mid-November. A second offensive took place during the first three weeks in January, and a third

offensive began on February 10 and lasted most of the month. During the last of these offensives it became clear that the KC were operating in regimental size formations. The March-April offensive has been the most significant KC military activity; at the time of our visit these forces had closed, at least temporarily, all lines of communication into Phnom Penh.

Most U.S. analysts believe that the Khmer insurgents are not a united movement but consist of a number of groups including the Khmer Rouge, the old time insurgents who are anti-Sihanoukist; the Khmer Rundos, originally and perhaps still a pro-Sihanoukist group; the Khmer Hanoians, the 3,000 to 5,000 Cambodians sent to Hanoi for training in 1954; and some miscellaneous groups including Chams and Montagnards. Despite the fragmented character of the force, they have developed an identified command and control apparatus with a high command and a clearly defined structure of regional, province and lower level commands which direct both civil and military affairs. And there has been and continues to be rapid improvement both organizationally and militarily. These groups are, in sum, coming closer together and not growing further apart. And even those who are pro-Sihanoukist show no disposition to negotiate or compromise but rather seem determined to pursue a military course.

Most U.S. Government analysts contend that the KC movement is controlled by Hanoi and reject the notion that the KC have an independent identity or objectives. One analyst takes a strongly divergent view and, while acknowledging the KC's dependence upon Hanoi for logistical support, nevertheless argues that the KC deals with Hanoi almost as an equal on internal policy matters affecting Cambodia. To support his contention, he points to numerous indications of friction between the KC and the Vietnamese similar to those which, in the past, other analysts have frequently cited to us as indications of the internal dissension and hence weakness of the communist opposition to Lon Nol.

All government analysts are generally agreed that whatever the degree of cohesion within the KC movement, Prince Sihanouk is regarded with mistrust by most elements of the movement and by the North Vietnamese as well. While all now acknowledge, in contrast to their previously held view, that Sihanouk could play a role in a future Cambodian Government, they do not believe that he would be allowed to exercise significant power. In this connection some in the intelligence community believe that the three KC "ghosts," Khieu Samphan, Hu Nim and Hou Youn, who at one time were generally believed to have been secretly executed by Sihanouk, are in fact alive and playing leading roles in the Cambodian Communist Central Committee's affairs. Whether they are the real leaders of the KC movement, however, remains unclear.

In mid-1970 the Cambodian Government organized a small clandestine military group of perhaps two or three battalions which was trained and located in Southern Laos. This operation was under the general direction of Lon Non and its activities were initially at least in part financed or coordinated by the CIA. The units in question performed poorly in combat in Laos, and U.S. sponsorship was terminated. Until recently, it was thought that there were no longer any Cambodian units in Laos. In the course of this trip, however, we

learned that [deleted]. We were also told that the Thai Government sends intelligence collection teams into Cambodia.

According to Cambodian Armed Forces statistics, there are 248 prisoners of war—46 North Vietnamese, 97 Viet Cong and 105 “sympathizers,” as they chose to call Khmer insurgents.

An old civilian prison is being converted into a new POW camp. The materials—barbed wire, pickets, a generator, and weapons and ammunition for the guards—are all funded by the FY 1973 Military Assistance Program at a cost of \$110,000. The camp, which will have the capacity of holding 400 prisoners “comfortably,” is at Koh Kong on the sea coast near the Thai border. At the time of our visit, the principal problem which was delaying the camp opening was finding 200 guards; the Cambodian Armed Forces could not produce them. The Cambodian Government has promised that an International Red Cross representative may visit the camp as soon as it is in operation. Red Cross representatives have been allowed to visit the places where prisoners were being held on only two occasions. Some Cambodian officials have said that they have had to refuse requests for such visits because the prisoners have been kept in a “temporary” installation. They say they are under no obligation to admit Red Cross representatives because the Cambodian Government did not sign the Geneva Convention. (According to the records of the Department of State, the Cambodian Government signed the Geneva convention on December 8, 1958.)

C. THE UNITED STATES PRESENCE

The Embassy keeps a daily total of all U.S. personnel in Cambodia. On April 5 that list showed 185 U.S. personnel and 78 third country national personnel in country. The 185 personnel were 57 civilian direct hire, 101 military, 19 personnel on temporary duty (10 military and 9 civilian) and 8 U.S. contractor personnel.

The 57 civilian direct hire were Embassy personnel and those working for AID and CIA [deleted]. The 101 military were: 12 in the Army Attaché office, 3 in the Air Attaché office (there is normally a Naval Attaché in the Embassy but he was not in the country that day), 68 in the Military Equipment Delivery Team, 13 Marine guards, 3 in the office of the Officer in Charge of Construction, 1 officer attached to the Political Military Section of the Embassy, and 1 Seabee. The contractor personnel were from Air America, Bell Tech and Federal Electric Corporation.

The Embassy professes to maintain tight control on temporary duty personnel in order to ensure that it does not exceed the legislative 200 man ceiling on American personnel in Cambodia. When we asked to see a detailed breakdown of the temporary duty personnel on a given day, however, Embassy officials were unable or unwilling to provide it.

D. THE AID PROGRAM

The status of economic aid to Cambodia as of April 1 was as follows: A total of \$172.05 million in AID funds had been programmed—\$20 million in FY 1971 for a reimbursable grant, \$50 million in FY 1971 for the Commodity Import Program, \$20 million in FY 1972

for a cash grant, \$16.5 million in FY 1972 for the Commodity Import Program, \$45 million in FY 1973 for the Commodity Import Program, \$500,000 in FY 1973 for refugees and \$20.5 million in FY 1973 for the U.S. contribution to the Exchange Support Fund (covering all of CY 1972 and half of 1973). Of the \$172.05 million programmed, \$138.45 million had been fully committed and \$93.65 million had been disbursed. Still remaining to be firmly committed are \$200,000 from the \$20 million FY 1971 grant, \$2.6 million from the FY 1971 \$50 million Commodity Import Program grant, \$1.8 million from the \$16.5 million FY 1972 Commodity Import Program grant and \$29 million from the FY 1973 \$45 million Commodity Import Program grant. The entire \$8 million FY 1973 grant for the Exchange Support Fund has been firmly committed but only \$4 million has been disbursed. The remaining \$4 million was being withheld, as of April 1, because the Cambodian Government has not met certain conditions including reducing the number of military personnel paid. (As noted earlier, these funds were subsequently released.)

In addition, the U.S. has agreed to provide a total of \$54.8 million in P.L. 480—\$9.2 million in Calendar Year 1971, \$35.9 million in 1972 and \$9.7 million in 1973. Of this \$54.8 million, \$30.8 million has been firmly committed and \$28.9 million has been delivered. Still to be committed are \$14.1 million from 1972 and all of the 1973 amount. The grand total of economic assistance provided to Cambodia since 1970 is thus \$226.85 million of which \$169.25 million has been firmly committed and \$122.55 million has been disbursed.

Expected contributions for the Exchange Support Fund for 1973 are U.S. \$16 million, Cambodian Government \$7.15 million, Japan \$7 million, Australia \$1 million, United Kingdom \$490,000, Thailand \$250,000, New Zealand \$120,000 and Malaysia \$10,000. The U.S. share is thus about 50% in 1973 compared to 66% in 1972.

In the past year the two central facts of Cambodian economic life were continuing inflation and an enormous budget deficit. The inflation problem is illustrated by the rise in the Phnom Penh working class price index since the beginning of the war. In January 1970 the index stood at 348 and in subsequent years it has risen as follows: to 524 in March 1971; to 819 in January 1972; and to 1144 in January 1973.

Cambodian Government expenditures have also continued to climb and to exceed revenues by a wide margin. In 1971 expenditures were 13.7 billion riels while revenues were only 4.2 billion riels. In 1972 expenditures were 32.6 billion riels against revenues of 8.7 billion riels. The budget deficit has been made up in two ways: by U.S. counterpart funds—roughly 7 billion riels in 1972 (an amount almost equal to total government revenues) and by printing money (the money supply increased 50 percent in 1972). At the heart of the budget problem, of course, has been the continuing increase in the size of the Cambodian armed forces and the corresponding increase in the cost of military pay and allowances.

The Cambodian Government has not proved any more equal to the economic challenges than it has to those in the military sphere. In 1971, under Sirik Matak's leadership, the Cambodian Government committed itself to a series of economic reforms many of which were ef-

fectively implemented. One serious exception, however, was the failure to carry through on an adjustment of pricing policies and subsidies to foodstuff, fuel and government enterprises, a reform which is now long overdue but which, given its potential political impact, will be difficult to implement any time in the near future.

Another serious aspect of the current Cambodian economic situation is the shortage of and inability to distribute rice. Until 1971 Cambodia was a rice exporting country. In 1972, however, rice production dropped to its lowest level since 1962. Normally surplus areas produced only enough for their own needs and Phnom Penh became completely dependent on rice from Battambang Province in the northwest. When the road to Battambang was cut in August 1972, a rice crisis developed in Phnom Penh.

To meet the immediate problem the U.S. supplied 10,000 tons of rice from Vietnam, and the Cambodian Government bought another 60,000 tons from Thailand, 10,000 tons of which were used to replace the Vietnamese rice. The U.S. Government subsequently reimbursed the Cambodian Government for the cost of the Thai rice under a waiver of section 614(a) of the Foreign Assistance Act.

Prospects for the 1973 rice crop are poor. The estimated 1973 rice requirement for Phnom Penh and certain other areas where rice cannot be obtained locally is 218,000 metric tons. Of this amount, U.S. officials expect that at least 146,000 metric tons will have to be supplied by the United States under P.L. 480 and by purchases from Thailand. Availability from both sources is limited, however, and there is the additional problem of how the Cambodians, with their very limited foreign exchange, could pay for Thai rice. The U.S. Air Force has been dropping rice to various government enclaves throughout the country. To date these drops have totaled more than 2,000 metric tons.

E. THE MILITARY ASSISTANCE PROGRAM

The program figure for the Security Assistance Program to Cambodia was \$170 million in FY 1972. For FY 1973 the figure was originally \$209.5 million but because no authorizing legislation was passed and the program operated on a Continuing Resolution Authority the program figure was reduced to \$133.3 million.

The distribution of that \$133.3 million, according to CINCPAC, was as follows (the figures in parentheses are for the originally planned program figure of \$209.5 million) :

	<i>Millions</i>
Aircraft (28.9)-----	\$7.8
Ships/craft (14.6)-----	6.5
Vehicles (15.3)-----	5.3
Weapons/spares (9.9)-----	4.2
Ammunition (104.0)-----	79.1
Communications equipment (10.3)-----	2.1
Other support equipment (7.8)-----	6.0
Supplies (13.1)-----	8.4
Other services (6.6)-----	9.5
Training (2.6)-----	4.6
Total (209.5)-----	133.3¹

¹ These totals do not represent the sum of the various line items which is, in fact, \$136.5 million (213.1), a discrepancy which was never explained to us.

The greatest reductions in money terms, then, were in ammunition, a reduction of \$24.9 million, and aircraft, a reduction of \$21.1 million. In terms of individual items of equipment, except for aircraft, the major items reduced were patrol boats (from 42 to 32), landing craft (from 12 to 7), vehicles (from 2,365 to 723), individual weapons (from 13,828 to 4,060), crew served weapons (from 3,917 to 27) and howitzers from 100 to 98).

According to Embassy officials, neither the FY 1973 reduction in the amounts available for the Military Assistance Program nor the imposition of a legislative ceiling on expenditures has adversely affected the ability of the Cambodian Government to defend itself. The basic problems are said to be that the Cambodian Armed Forces have serious leadership deficiencies and that the Cambodian soldier does not know what he is fighting for. Officials most concerned with the Military Assistance Program, however, believe that many of the shortcomings of the Cambodian officer corps could have been overcome if American military advisors had been permitted in Cambodia.

In November and December 1972 there was an accelerated delivery of various items of equipment already programmed for delivery under the Cambodian Military Assistance Program. According to the CINCPAC staff, "the requirement was initiated by the Embassy after being specifically requested by Lon Nol and Major General Fernandez" (the Cambodian Chief of Staff). The accelerated delivery project was in three parts. The first part, for which the delivery target date was December 31, 1972, was "to give FANK (Cambodian forces) increased combat capability" and "to give the GKR (Cambodian Government) a psychological boost to help rest GKR/FANK apprehensions about future U.S. support." The material involved included [deleted] armored personnel carriers, [deleted] rifles, [deleted] machine guns, [deleted] trucks and [deleted] howitzers. The second part, for which the delivery target date was February 20, 1973, was to deliver "previously programmed selected weapons and helicopters prior to any treaty or settlement which would preclude such deliveries." The material included [deleted] rifles, [deleted] grenade launchers, [deleted] machine guns, [deleted] mortars, [deleted] helicopters. The third part, for which the delivery target date was February 28, 1973, was to "provide organic logistics, command and control and combat power to already designated brigades." The equipment included [deleted] rifles, [deleted] machine guns, [deleted] grenade launchers, [deleted] mortars, [deleted] trucks, [deleted] howitzers, [deleted] armed personnel carriers and [deleted] generators.

In FY 1973, as of March 31, under the MAP Program 17,440 Cambodian military personnel had been trained in South Vietnam (13,704 from infantry battalions and companies), 2,218 in Thailand (1,968 from rifle companies), 19 had been trained at the U.S. Subic Naval Base in the Philippines, 95 had been trained in the United States and 29,430 had been trained in Cambodia—a total of 49,213 trained compared to 51,146 in all of Fiscal Year 1972.

A list of training of Cambodians in Thailand prepared by the Military Assistance Command in Thailand shows that between Sep-

tember 20, 1970 and March 30, 1973 a total of 5,790 Cambodian personnel had been trained in Thailand—28 by the U.S. Army (at an Intelligence Staff Officer Course in Bangkok), 9 by the U.S. Air Force (all AU-24 pilots), 137 by the Royal Thai Army and U.S. Special Forces together (all in unconventional warfare) and the rest by the Thai Army and Air Force. As of March 30 there were 247 Cambodians in training in Thailand—29 were being trained by the U.S. Army in Bangkok in POW interrogation, 68 AU-24 pilots, gunners and maintenance people were being trained by a U.S. Air Force Mobile Training Team at Takli, 143 were being trained in unconventional warfare by the Thai Army, 4 were in Thai Army ranger training and 3 student pilots were being trained by the Thai Air Force.

Throughout our visit to Phnom Penh we experienced considerable difficulty in obtaining responsive answers to questions relating to the Military Assistance Program. Military Delivery Equipment Team personnel appeared extremely reluctant to provide information requested and generally chose to respond to questions on the broadest possible grounds. As a result we had to spend considerable time at CINCPAC headquarters in Hawaii, where the Staff by contrast was most open and helpful, in straightening out and supplementing the information given us in Phnom Penh. A case in point was the question of excess military material provided to the Cambodian Government.

In Phnom Penh we asked for a figure for long supply and excess material given to Cambodia under the Military Assistance Program but at no cost to the program. We were told that the delivery value of materiel under the MAPEX and MIMEX excess programs was \$3,110,207, that another \$4,461,967 had been provided "in other areas," meaning aircraft, and that the delivery value of excess material thus totalled \$7,532,174. At CINCPAC we were told that these figures were incomplete, as they referred only to Army provided material, and that the total to date in FY 1973, at acquisition cost, was \$19,870,091.

The Cambodian Air Force inventory as of April 18, was 187 aircraft—both fixed wing and helicopters. This included [deleted] T-28's and [deleted] Huey helicopters. Fourteen additional aircraft were projected for delivery in FY 1973 including [deleted] C-47's, [deleted] C-47 gunships and [deleted] C-123's.

The original FY 1973 program provided for [deleted] T-28's and [deleted] UH-1H helicopters. The revised FY 1973 program list shows that, with a reduction of \$21.1 million in the program amount for aircraft, Cambodia will receive, in FY 1973, 59 additional aircraft—both fixed wing and helicopters—all at no cost to the Cambodian Military Assistance Program except for \$408,000 in rehabilitation costs of some T-28's and the C-123's. In FY 1972, [deleted] T-28's, [deleted] O-1's and [deleted] C-47's were received. The total value of all these aircraft provided in fiscal years 1972 and 1973 was \$19,054,077 while the total cost charged to the program was \$1,758,646. All of these aircraft came out of excess programs except for [deleted] T-28's which were transferred from Thailand as redistributable property under a program called "Project Peace Trunk."

We asked the Military Equipment Delivery Team officers about reports that there were thousands of children in the Cambodian Army. We were told that there were perhaps 4,500 children under 16 on the payroll and that the number had probably been as high as 6,000. One senior U.S. military officer, commenting on this question, said that "the little fellows were so anxious to fight that unit commanders didn't have the heart to turn them down," but those more familiar with Cambodian ways say that unit commanders like to recruit children because they can pocket their pay and the children don't complain. The presence of children in the Cambodian armed forces led to an embarrassing episode in Cambodian-Australian relations a year or so ago. Until last year Australian advisors were training Cambodian troops in Vietnam. On one occasion an Australian journalist visiting the camp called attention to the large number of very young children among the trainees. As a result of the subsequent publicity in Australia, the Australian Government refused to train any more units which included children.

F. REFUGEES

An Embassy report on refugees in the Khmer Republic, dated February 10, said that at first most of those who fled their homes did so in order to escape the war and the fighting. In some instances, the report said, they fled to avoid allied air strikes and in others they fled to avoid South Vietnamese troops. In the last year, the Embassy report noted, a new kind of refugee has emerged from areas in which there was little fighting—a political refugee who is fleeing not from the fighting but from the enemy. In some instances, they are fleeing because they cannot find enough food. In others, they are tired of the more onerous aspects of Communist control, such as taxes and conscription quotas.

As the date would indicate, this Embassy report was prepared before the beginning of the current heavy U.S. bombing campaign. All available independent evidence indicates that the bombing and ground fighting have greatly increased the number of refugees. Some of these new refugees have come to Phnom Penh but many others have been driven deeper into KC held territory. At CINCPAC, for example, we asked for and were given a large map indicating the general location of all Cambodian targets struck by U.S. aircraft since early February. The greatest concentration of air strikes is found in those areas of central and southern Cambodia where the population is heaviest, for example, along the Mekong River, the four provinces to the south of Phnom Penh and around some province capitals. While most Cambodian authorities welcome this bombing and continually ask for more, others including some of the principal figures of the new leadership council have expressed concern over the impact of the bombing, particularly by B-52's.

Over half of all the refugees in Cambodia (286,000 of a pre-bombing campaign total of 491,000 registered refugees) are in Phnom Penh. Of those in Phnom Penh, only 3,700 were in camps at the time of our visit. Prior to February there were an estimated 200,000 official refugees who had not yet registered.

V. VIETNAM

A. THE CEASE-FIRE: VIOLENT STALEMATE

The South Vietnamese Government's estimate of cease-fire violations by the North Vietnamese and Viet Cong from January 28 through April 10 was 10,405 of which 5,098 were attacks by fire, 2,490 were ground attacks, 1,843 were harassments, 510 were infiltrations, 397 were assassinations, 53 were sapper attacks and 14 were ambushes. The U.S. has no independent check on these statistics and does not report cease-fire violations independently. American and other foreign observers to whom we talked told us that they considered these figures to be greatly inflated because the South Vietnamese tend to report even the firing of one mortar round as a cease-fire violation.

They do not, however, apply the same strict standard to themselves. There is no doubt that there have been South Vietnamese cease-fire violations, but the South Vietnamese would not admit it to us. We talked to a number of South Vietnam generals, including Military Region Commanders and members of the Vietnamese Joint General Staff, who maintained that there had not been even one South Vietnamese Government violation.

In the operations briefing by the Defense Attaché Office, we were told that the initial cease-fire activity was characterized by enemy attempts to regain positions lost in Quang Tri Province just prior to the cease-fire, to seize populated areas and key terrain, to interdict lines of communication and to conduct harassing attacks designed to limit the capability of South Vietnamese forces to react. The South Vietnamese reaction was immediate, and their use of artillery fire and tactical air "reached levels of intensity higher than that experienced during the 1972 Spring offensive." The situation then began to stabilize, although combat activity continued. It was not all enemy initiated, however. We were told that the South Vietnamese Army had "initiated several operations designed to expand areas of control to which the enemy reacted strongly," that enemy activity "has been largely defensive or harassing in nature," and that in one part of MR I South Vietnamese forces "expanded operations into historically contested areas."

As of the time of our visit the Defense Attaché Office characterized the North Vietnamese activities as generally defensive except for the continuing attacks by fire along the DMZ, on the border ranger outpost at Tonle Chan and in the Hlong Nhu area. The latter is the point on the Mekong at the Cambodian border where the North Vietnamese were attacking convoys bound for Phnom Penh from positions along the bank which they had occupied before the cease-fire.

As indicated earlier, South Vietnamese forces have continued a substantial level of activity since the cease-fire. In the immediate post cease-fire period, U.S. officials told us, firings of 105 mm howitzers were continuing at a rate which exceeded 31,000 rounds, the average daily production of this ammunition in the United States. Accordingly, the decision was made to reduce the number of shells issued to approximately 21,000 a day. Subsequently, a further decision was made to institute a Defense Expenditure Allocation limit of 9,400

rounds a day. As a result of these moves, the daily average of 105 mm rounds issued to the South Vietnamese had fallen from 55,000 a day during the two weeks immediately following the cease-fire to 24,220 during the two week period between February 25 and March 9 and to 5,312 in the two week period ending April 9.

American officials believe that the imposition of these controls had been helpful in promoting South Vietnamese observance of the cease-fire. South Vietnamese officers, however, obviously resent the controls, believing they place them at a military disadvantage. Incidentally, the figures supplied to us by the Defense Attaché Office indicated that on the day preceding the cease-fire, the South Vietnamese army had fired 235,355 105 mm rounds.

In terms of the long-range military outlook, there were two areas in which North Vietnamese activities were a source of major concern to both U.S. and South Vietnamese military officers at the time of our visit. These were Quang Tri and Thua Tien provinces in Military Region I and the area in Military Region III between Saigon and the Cambodian border. American officials told us that General Truong, the Military Region I commander, considered the situation in his region to be ominous. The North Vietnamese were building new roads in the area, expanding old ones, increasing their artillery and antiaircraft capabilities and building up their manpower levels. North Vietnam units in Military Region I were believed to be at approximately 80% strength. General Truong, we were told, expects the enemy to maintain pressure up and down Route 1 and to nibble away at the South Vietnamese defensive perimeter in an effort to confine government control to the narrow strip of coastal lowlands. General Truong is said to be counting on a strong U.S. air response if the enemy should attack again in strength in this area as he did in April 1972.

The other principal area of danger is the Binh Duong-Binh Long-Tay Ninh area of Military Region III which lies astride the traditional route of attack on Saigon. North Vietnamese forces in that area are now considered by both U.S. and South Vietnamese analysts to be stronger in terms of armor and artillery than they were last April. The South Vietnamese commander in the region told us that he expected U.S. air support to be available in the event of a major offensive.

While U.S. officials do not report on individual cease-fire violations, there has been a determined effort to report on the general situation in the country in the post cease-fire period. Foreign Service officers with previous experience in Vietnam who are, in most cases, trained in the Vietnamese language have been assigned to the Consulates General in the four military regions. They have been given freedom to report independently and have, by all accounts, done an admirable job. We certainly were most favorably impressed by what we saw of their activities and reporting.

Some points from their reports:

1. The level of military activity in South Vietnam declined in the first sixty days compared to the pre-cessate-fire period. That decline ranged from radical in Military Region I to slight in Military Region III.

2. Both sides have violated the Paris Agreement, although neither side has added significantly to its control of population or territory. Where the battle lines are vague, South Vietnamese Government forces have encroached on territory considered predominantly under Communist control, and in Military Region III they have been even more aggressive in offensive operations.

3. The balance of political and military forces has not changed.

4. Province chiefs and military commanders are skeptical, if not openly critical, of the Paris agreement which they believe was a U.S.-imposed agreement favoring the North Vietnamese. Most of these officials expect a new enemy offensive within several months.

5. Both sides are attempting to use resettlement as a tactic. The South Vietnamese Government wants to bring refugees from camps and settle them in abandoned areas. The Provisional Revolutionary Government is offering land and loans to settlers and is building homes, hospitals and schools to try to lure refugees and others out of government-controlled areas.

6. The ICCS has had little, if any, restraining effect on combat. A genuine cease-fire will come only when the Vietnamese belligerents are ready.

In the fighting since the cease-fire on January 10, through April 13, according to Vietnamese official press reports, 3,866 South Vietnamese military were killed and 1,069 were missing. On the other side, 16,704 North Vietnamese and Viet Cong were killed and 209 were captured.

According to the Hamlet Evaluation Survey, as of February 28, the enemy controlled 3.7% of all districts, 3.3% of the villages, 5.9% of the hamlets and 1.1% of the population. On April 30, 1972, at the height of the offensive, the enemy controlled 5.1% of the districts, 8.2% of the hamlets and 3% of the population.

B. THE ICCS AND THE CEASE-FIRE

The pattern of ICCS activity was summed up by one observer as characterized by occasionally successful Canadian initiatives, Polish and Hungarian obstructionism, Indonesian pessimism and frustration by all parties.

The ICCS organization provides for a headquarters element of 116 per delegation, 7 regional teams with 4 per delegation per team, 26 regional sites with 2 per delegation per team, and 12 point of entry sites with 2 per delegation per site. To defray the costs of the Commission's operation, the four signatories to the Paris Agreement each contributed 4.5 million French Francs (\$967,000) as an initial deposit. After the budget is approved, perhaps sometime in May, each of the four signatories will pay 23% of the costs and Canada, Hungary, Indonesia and Poland will each pay 2%.

Many observers expect the Canadians to pull out of the ICCS eventually, thereby removing the only source of initiative within the Commission. Until this happens, however, the Canadians are expected to

establish a strong record of their determined effort to make the Commission work.

C. SOUTH VIETNAMESE GOVERNMENT FORCES

The "authorized" levels for South Vietnamese forces approved through CINCPAC and submitted to the Secretary of Defense for approval for FY 1973 ("authorized" means the level the United States has agreed to support) are [deleted] in the Army, [deleted] in the Navy, [deleted] in the Marines, [deleted] in the Air Force, [deleted] in the Regional Forces and [deleted] in the Popular Forces—a total of 1,098,193. The assigned strength as of February 28, 1973, was 1,077,023 with most of the shortfall in the Regional and Popular Forces. The only service with an assigned strength higher than that authorized was the Navy with an excess of [deleted].

Virtually all of those with whom we talked noted, American officials with satisfaction and independent observers with some surprise, that the South Vietnamese Army appears to have performed very creditably since the cease-fire. Desertions actually dropped during December and January and, although they have recently begun to climb again, in February 1972 they were no greater than the preceding year.

D. ENEMY FORCES

The CIA estimate of North Vietnamese/Viet Cong strength as of April 15, 1973 was 253,000—142,000 North Vietnamese and 110,900 Viet Cong. Of the 142,000 North Vietnamese 80,600 were in Military Region I, 24,600 in Military Region II, 22,500 in Military Region III and 14,300 in Military Region IV. Of the 110,900 Viet Cong, 25,700 were in Military Region I, 19,500 in Military Region II, 42,400 in Military Region III and 23,300 in Military Region IV. As of January 31, 1973, total North Vietnamese strength had been 120,500. That estimate rose to 142,000 as of April 15 by adding 28,200 infiltration arrivals and 9,800 returned prisoners of war and by subtracting 5,100 in one departing division and 11,400 casualties.

The infiltration picture is confused. Before we left Washington we were told at the Defense Department that enemy tank strength had increased from between about 300 on March 31, 1972 to over 400 as of March 19, 1973; that enemy artillery had increased slightly in the same period; and that infiltration which, in the period January 28—March 19, 1972 had been about 21,000, had been about 25,000 in the same period in 1973 with about 10,000 personnel entering the pipeline after the cease-fire.

At USSAG Headquarters in Thailand we were told that since the cease-fire 9,300 North Vietnamese had begun to infiltrate—7,000 of whom were infantry—and that the net result has been that the North Vietnamese were holding their own against casualties. In Saigon we were told that 341 tanks, 27 armored personnel carriers, 173 artillery pieces and 146 anti-aircraft weapons were sent down the trail in the 1972-73 dry season; that most of this equipment was already on the trail before the cease-fire and relatively little had

arrived in Vietnam since the cease-fire; that, as far as infiltration of personnel was concerned, about 25,000 were in the pipeline at the time the cease-fire was declared; that some 5,200 (half regular infantry groups and half special purpose groups) had entered the pipeline since the cease-fire was declared; that a total of 15,100 had arrived since the cease-fire and there were no replacements in the pipeline; that last year there were between 90,000 and 100,000 in the pipeline at this time; and that North Vietnamese draft calls were down in December and January and are even lower in March. By contrast at the South Vietnamese Joint General Staff headquarters we were told that 60,000 men had entered the pipeline between January 1 and the end of March.

It would appear that in terms of personnel in South Vietnam, North Vietnamese strength, taking account of infiltration, released prisoners and casualties, is almost exactly equal to the lower range of the CIA estimate of one year ago. In May 1972 the CIA in Saigon estimate of North Vietnamese in the South was 145-165,000. In terms of armored vehicles and heavy artillery and anti-aircraft, however, the current inventory of the North Vietnamese is greater than that in the South at the time of the 1972 spring offensive. It appears, incidentally, that most of the new equipment brought south during the 1972-1973 dry season entered North Vietnam during the period of the intensive U.S. air and naval interdiction of North Vietnam in 1972.

We were also told in Saigon that all the supplies that had been stockpiled in Cambodian storage areas were used up in 1972 and early 1973 and that the kinds of supplies being brought down now were those required to maintain troops in place—food, clothing and medical supplies—not ammunition and other items indicating immediate offensive intentions. CIA analysts thus had concluded that there will be no general offensive in the next four months. In September, however, they expect the North Vietnamese to emphasize ammunition in their supply flow and if they now preposition armor and artillery, and there is no bombing on the trail so that men could be moved quickly down it by truck, by late next fall they could again be in a position to launch a major offensive similar to that in the spring of 1972.

E. THE U.S. PRESENCE

As of the time of our visit, there were approximately 8,500 official Americans in Vietnam including 50 military personnel in the Defense Attaché Office, 160 Marine security guards, 1,100 civilian direct hire employees in the Defense Attaché Office, 4,900 Defense Department contractor personnel, 125 in the Embassy, and the remainder in assorted other agencies. The number of CIA personnel was not separately identified.

With the termination of the MACV Command on March 29, 1973, a Defense Attaché Office headed by an Army Major General was created and is located in the building that formerly housed MACV headquarters. As explained in the section of this report on Thailand, the military command and control element formerly at MACV has been relocated at USSAG, the newly created military command at Nakon

Phanom Royal Thai Air Base. The Defense Attaché Office in Saigon is subordinate to USSAG.

The role of the Defense Attaché Office is officially described as follows:

The DAO will handle normal attache functions, the provision of logistic and communications-electronic support to the RVNAF (South Vietnamese Armed Forces) and military assistance programming and budgeting. Operationally, it will continue the essential aspects of critical ongoing training, intelligence operations and liaison with the RVNAF Joint General Staff without engaging in "advisory" functions or direct training.

These functions will be performed by three categories of personnel. For each category a ceiling has been established by the Joint Chiefs of Staff. These ceilings are: 50 U.S. military personnel, 1,200 Department of Defense direct hire civilians and 5,500 Defense Department contractor personnel.

There are plans to reduce the number of direct hire and contractor personnel. A fact sheet which we were given in Washington stated that Defense Department direct hire civilians would be completely phased out by the end of January 1974. This paper, which was dated March 20, 1973, also stated that contractor personnel would be reduced to "about 4,000 by the end of March, to less than 2,000 by the end of the year, and to approximately 500 very soon thereafter."

We were told that it was understood under the agreement that civilians not engaged in giving military training or advice to the Vietnamese military or police units are not military advisers even if they are attached to military units or concerned with the supply or maintenance of military equipment. Therefore, the United States apparently considers there is no question as to the legality of the presence of Defense Department civilians or contractors.

[Deleted.]

The previously noted withdrawal schedule apparently was based on the expectation that there would be a real cease-fire after January 28, an expectation which has yet to be realized. How the continued fighting will affect the withdrawal of Defense Attaché Office personnel is not yet clear. It is apparent, however, that the initial withdrawal schedule has already been modified in the light of circumstances which have developed since January 28.

In our initial briefing by the Defense Attaché Office in Saigon we were told that contractor personnel then on duty numbered 4,917 (and thus were not "about 4,000" as anticipated), and we were shown a slide which indicated that the number expected to be in Vietnam after January 1, 1974 was 2,136 (rather than "less than 2,000," as indicated in the March 20 paper) and that the number remaining after July 1, 1974 would be 1,099 (while the March 20 paper had said that it would have dropped to "approximately 500" very soon after January 1, 1974). We were told in a Defense Attaché Office briefing on April 13 that the number of Air Force contractors would be 2,644 after July 1, 1973 and 1,703 after January 1, 1974. Three days later we were informed that these figures had been revised upward as follows: 2,800 remaining after July 1, 1973 and 1,926 after January 1974. The explanation given for the adjustment in the withdrawal schedule was that fighting had continued at a higher

than anticipated level, thus necessitating a higher level of support activity, and that, in the case of Air Force contractors, Vietnamese Air Force personnel "have been diverted because of operating requirements."

Nevertheless, it was our impression that the intention of all the U.S. officials with whom we spoke was to reduce the number of Defense Department personnel engaged in support activities as rapidly as possible. In this connection, one of the concluding lines in the prepared briefing at the Defense Attaché Office stated: "The DAO is organized and operating. Although it is bound to have some growing pains, it is focused clearly on the goal of self-sufficiency." Whether present intentions will be realized, and whether the "pains" referred to will be those of growth or contraction, remains to be seen. We found no evidence, however, to support the reports which have circulated alleging the existence of a "secret American Army" in Vietnam. The 50 U.S. military personnel assigned to the Defense Attaché Office seem clearly intended to perform the normal representational and reporting functions of an Attaché office.

[Deleted.]

The present Defense Attaché organization includes a "normal" attaché element; audit, support and operations and plans sections; a communications and electronics section; and three major operating elements working with the Vietnamese Army, Navy, and Air Force. The communications and electronics section role is more operationally oriented than other sections of the Defense Attaché Office. It directly supervises the contractor personnel working on a wide variety of communications systems which jointly serve the Vietnamese armed forces and all U.S. Government elements in Vietnam.

The three service elements are similar to those which previously existed within the MACV organization except that they no longer perform an advisory role and are staffed by civilian rather than military personnel. Their basic function is to administer the military assistance program, including delivery and end use checking of equipment and supplies, and to coordinate the wide range of support services provided to the Vietnamese by the Defense Department funded contractors.

The Defense Attaché Office provided the following information concerning its civilian work force. The average age level of civil service employees is 43.5 and the average grade level is GS-10. (We were told by the Defense Attaché staff that the average Contractor employee costs the Defense Department about \$50,000 per year.) Of the approximately 1,100 civil service employees now in Vietnam, only 65 are persons who were retired from the military service within the past ten years and, of these, only 6 have been retired less than three years. Similar information on the background of the contractor employees was not available.

We were told that 1,066 of the 1,200 DAO personnel would be in the Saigon area. The other 184 will be located at ten points throughout the country. Contractor personnel will be almost equally divided, at least initially, between Saigon and locations in all military regions.

The Defense Attaché Office has been given responsibility for controlling the supply of and accounting for material covered under the

terms of the cease-fire agreement. Although primary responsibility for justifying and documenting the one-for-one replacement allowed by the Agreement rests with the two Vietnamese parties, they have not reached agreement on procedures to be followed. In the absence of agreement on such basic points as the definition of restricted material, the United States has formulated its own definitions and procedures based on unilateral interpretations of the Cease-fire Agreement. As of mid-April, the only major items of restricted equipment (by U.S. definition) reported lost or destroyed by the South Vietnamese Government, and therefore the only items eligible for one-for-one replacement, have been the following: 42 trucks, 32 tanks, 22 armored personnel carriers, five 105 mm howitzers and one mortar carrier.

In the place of the CORDS organization which previously conducted a wide range of civilian and para-military activities under MACV, there has arisen an office called "Special Assistant to the Ambassador for Field Operations" or SAAFO, as it is popularly known. It performs certain residual functions of CORDS as well as some which would normally belong to AID. Explaining why it is necessary to have SAAFO, the officials concerned say that it is important for psychological reasons to maintain a U.S. presence in the field because of the shock that would result, now that military personnel have withdrawn, if all civilians were also to leave. There is an attribute of bureaucratic empire building easily discernible in the SAAFO organization. In the arcane ways of bureaucratic in-fighting, SAAFO has tried to convey the impression that they somehow have authority over the Consulates General, an idea of which they have been disabused by the Embassy, and they seem to be trying to hold on to as much of the old advisory role as possible at the provincial and regional levels.

At present, SAAFO has 170 AID personnel and 13 Foreign Service Officers—all funded by AID. (At the end of the Fiscal Year, they are projecting a drop to 147 AID personnel and 12 Foreign Service Officers.) Of the 183 presently in SAAFO, 27 are in Saigon and 161 in the various military regions.

F. THE AID PROGRAM

According to AID estimates, in calendar year 1972 the United States will have provided a total of \$551 million in direct economic aid—\$284 million through the Commercial Import Program, \$118 million through P.L. 480 Title 1, and \$149 million through AID and Defense Department project programs. The estimate for calendar year 1973, based on projected figures, is that total direct economic aid will be at least \$569 million—\$295 million through the Commercial Import Program, \$170 million through P.L. 480 and \$104 million through AID and Defense Department project programs. If piaster purchases not related to AID or Defense Department projects are included, U.S. aid was 26 percent of GNP in 1972 and will be 22 percent of GNP in 1973.

On a fiscal year basis, the estimate provided us in March for direct gross economic assistance in FY 1973 was \$649.3 million—\$83.2 million for project programs funded by the Defense Department, \$168.5 million through P.L. 480, \$310 million through the Commercial Import Program and \$87.6 million through project programs funded by AID.

The \$87.6 million in FY 1973 project programs funded by AID is composed of \$41 million in AID projects and \$46.6 million in AID financed CORDS project programs. The AID project programs are in the sectors of agriculture, land reform, education, engineering, industry, labor, logistics, public administration, public health, population, narcotics and technical support. The CORDS projects are in community development, public safety, technical support and war victims—the last of these categories accounting for \$31 million of the total \$46.6 million CORDS program funded by AID. Total budgeted South Vietnamese expenditures for refugee relief in 1972 were \$2.8 million. U.S. contributions to refugee relief in 1972 included, in addition to the \$31 million mentioned above, \$7 million in P.L. 480 aid and counterpart contributions of a minimum of \$10 million and a maximum of \$15 million depending on the eventual total of bills yet to be presented by the South Vietnamese for reimbursement.

Because of the cut-back in AID funds as a result of the Continuing Resolution Authority, the Exchange Support Fund and the Economic Development Fund have not been started and the commercial import program has been reduced from \$310 million to \$223 million. AID officials hope to begin the Economic Development Fund in FY 1974 if sufficient funds are authorized.

The \$83.2 million in the Defense Department project program consists of \$56.8 million in various projects having to do with logistics, highway improvement and civil aviation, and \$26.35 million in such Defense Department funded CORDS programs as public safety, telecommunications, national police, rural development, the rallier program and Air America.

U.S. aid to Vietnam in calendar years 1972 and 1973 considerably exceeded Vietnamese Government revenues for the same period. In calendar year 1972 revenues were \$343 million while direct U.S. economic assistance for calendar year 1972 totaled \$551 million. Revenues for 1973 are expected to be \$335 million, and direct U.S. aid in calendar year 1973 will be at least \$569 million. The percentage of the South Vietnamese budget directly offset by U.S. economic aid is also considerable. In calendar year 1972 the direct offset was 30 percent and in 1973 it is expected to be 28 percent.

The Vietnamese Government continues to run heavy deficits in both its national and foreign exchange budgets. In calendar year 1972 budget expenditures were \$844 million against total revenues (including direct U.S. aid) of only \$669 million for an accounting deficit of \$175 million, or a real deficit of \$294 million if U.S. direct aid is excluded. It is now estimated that calendar year 1973 expenditures will reach \$970 million and that revenues will amount to only \$624 million (including \$289 million in direct U.S. aid) for a deficit of \$346 million. If U.S. counterpart is excluded, the deficit would be \$635 million.

The Vietnamese Government's most serious economic problem at the moment is the imbalance in its foreign exchange budget. Foreign exchange expenditures in calendar year 1972 were \$755 million while earnings from exports, invisible receipts and U.S. piaster purchases amounted to only \$332.6 million. Despite a significant proportional increase in anticipated export sales in calendar year 1973 (from \$23.3 million to \$40 million), increased world prices and freight rates,

coupled with declining U.S. piaster purchases (down from \$228.9 million in 1972 to an anticipated \$108 million in 1973), will result in total anticipated import expenditures of \$829 million. While most of the balance of payments deficit in calendar year 1972 was offset by U.S. financed commodity imports and P.L. 480 amounting to \$401.5 million, even with the increase in the total of these two U.S. programs in 1973 to \$465 million there will remain a deficit of \$152 million. That deficit will apparently have to be covered by a draw down on the government's foreign exchange reserves which amounted to only \$230 million at the end of March 1973. During the first quarter of calendar year 1973 this situation was resulting in a \$17 million monthly draw down on the U.S. commodity import pipeline and a \$12 million monthly foreign exchange reserve draw down.

Based on an analysis of the balance of payments situation in mid-March 1973, the Embassy reported to Washington that the South Vietnamese Government was faced with a major balance of payments crisis. It argued that unless additional FY 1973 funds for Vietnam could be found, a point of "acute danger" would be reached by summer, 1973. At current licensing rates, for example, the Commodity Import Program pipeline would be down to \$15 million by the end of June, 1973, if no new funds are made available, and foreign exchange revenues would be far below the \$200 million considered to be the minimum desirable.

During the first quarter of 1973 the rate of inflation reached 26 percent, almost double the rate of the past two years, and the Embassy believes that if any meaningful increases are made in government expenditures for social and reconstruction programs and if previously deferred salary increases are granted the inflation problem will be further compounded. What the Embassy apparently seeks to avoid by advocating increased U.S. assistance in Fiscal Year 1973 is the imposition of import control measures. In the Embassy's view, a reduction of imports would adversely affect government revenues and since there is no immediate prospect of reducing defense expenditures (now around 50 percent of the budget, even if direct U.S. budget offsets are taken into account) the effect would be a larger budget deficit and more inflation. Furthermore, the Embassy argues, import controls would inevitably lead to black market speculative activity and capital flight.

As of late April, when we left Vietnam, an active effort was underway in Washington to find new ways to put more dollars into the Vietnamese economy. Among the possibilities being explored was some means of increasing Defense Department procurement in Vietnam. Given the withdrawal of American troops and the heavy requirement for supplies, equipment and contractual services available only in the United States, however, it seemed doubtful whether this approach would be fruitful.

In 1972, Vietnam received \$20.3 million in soft loans from Japan, the United Kingdom and the Asian Development Bank and \$36.4 million in grants from Australia, Canada, Republic of China, France, Germany, Japan, The Netherlands, New Zealand, the United Kingdom, the United Nations and the Red Cross.

In 1973, the Vietnamese expect a total of \$50.1 million in foreign assistance (both soft loans and grants) from donors other than the

United States. Of this total, they expect \$20 million from Japan, \$7 million from the Republic of China, about \$6.5 million from France, about \$6 million from Australia, \$3.5 million from West Germany, \$3 million from Canada, and lesser amounts from other donors. In addition, they expect specific reconstruction, development and humanitarian assistance in addition to the \$50.1 million in regular on-going economic assistance. Figures supplied to us by the Embassy indicated that during 1972 South Vietnamese import purchases from some of these donor countries were as follows: Japan—\$97.6 million; Republic of China—\$22.8 million; France—\$26 million; Australia—\$.9 million; and West Germany—\$9.6 million. By contrast, United States commercial exports to South Vietnam were \$20.5 million.

To date there has been very little reconstruction of facilities damaged during the 1972 fighting. In many areas security conditions have made it impossible to begin reconstruction. About 615,000 refugees were still in camps as of mid-April. Many other refugees have come out and returned to their villages and their return, combined with the fact that the American withdrawal has caused about 100,000 Vietnamese workers to lose their jobs, has caused a serious unemployment problem.

According to the Embassy the present 1973 Vietnamese budget includes only \$7 million for relief and reconstruction activities. Before the magnitude of the current crisis became apparent, it had been hoped that this could be increased by another \$12 million but even this may not now be possible unless the additional funds are provided by the United States.

It would appear that if the Vietnamese economy is to be supported at its present level, and if politically unpopular internal economic measures are to be avoided, gross United States economic assistance to Vietnam in Fiscal Year 1974 will have to be increased substantially beyond the Fiscal Year 1973 level of \$649.3 million—probably to around \$800 million. Even this figure, however, would not provide for a significant reconstruction program, although it is possible that certain components of the existing program could be re-named to give them the appearance of reconstruction aid.

Enroute to Southeast Asia we met in Paris on March 26 with the U.S. representatives to the U.S.-North Vietnamese Joint Economic Commission. They described the talks as an exploration of the general possibilities of an aid program in North Vietnam and, keeping the conversation on a very general level, described the North Vietnamese position in the talks as follows: there has been no political posturing by the Hanoi delegates who instead have spoken of "healing the wounds of war" and of the U.S. "moral commitment;" the North Vietnamese are "not positive" on multilateral aid, consortia or any other arrangement which would involve intermediaries; they are "leery" of reporting requirements and obviously wish to ensure that they are fully in charge; thus far there has been relatively little indication from the North Vietnamese of their specific needs other than expressions of interest in shelter, food and repair of industrial and port facilities. Points made by the U.S. delegation during the talks were described as follows: we have not taken a fixed position on the mechanism of the aid program but have talked of "joint technical

task teams;" we have stressed our interest in post-war reconstruction and have said that a program cannot be submitted to Congress while fighting is going on; and we have pointed out that the North Vietnamese could absorb more aid if there were de-mobilization.

Subsequent to this conversation, we learned that in the four Commission sessions that had taken place before our visit there had in fact been extensive discussion of a [deleted] and that on March 23 the U.S. delegation had reported to Washington that it had reached agreement with the North Vietnamese on [deleted].

G. THE MILITARY ASSISTANCE PROGRAM

Military assistance to Vietnam is a MASF (Military Assistance Service Funded) program included in the Defense Department Budget. The authorizing legislation states that the funds are to be made available to "Vietnamese and other free world forces . . . on such terms as the Secretary of Defense may determine," thus giving the Defense Department far broader discretion in the use of funds than that contained in the authorizing legislation for the regular Military Assistance Program.

From FY 1966 through FY 1973 the amount of assistance provided under this program, as reported to Congress, was \$7.396 billion plus excess equipment and supplies with an acquisition value of at least \$761 million. The projected program for FY 1974 is \$1.56 billion.

In Fiscal Year 1973 the MASF program for Vietnam totalled \$2.26 billion, consisting of \$1.4 billion for the Army, \$68.6 million for the Navy, \$786.3 million for the Air Force, and \$1.5 million for the Marine Corps. Of the overall total, \$1.03 billion was spent to provide operating and maintenance support for the Vietnamese armed forces and \$1.23 billion for the procurement of equipment or "investment" items.

The \$1.4 billion Army portion of the MASF program consisted of \$68.8 million for military personnel support (primarily food), \$573.0 million for operating and maintenance costs, and \$759.5 million for investment items including \$724.7 million for ammunition. The Navy portion of the MASF program totalled \$68.6 million consisting of \$54.9 million in operating costs (of which \$20.9 million was for the Vietnamese Naval Supply Center) and \$13.7 million in investment costs.

The \$786.3 million program for the Vietnamese Air Force in Fiscal Year 1973 consisted of \$456.3 million in investment costs (including \$265.9 million for aircraft), \$330.0 million in operating costs (of which \$144.9 million was for air munitions) and \$21.7 million for training costs. In addition the Air Force turned over facilities worth \$261 million to the South Vietnamese Government.

In connection with facilities turned over to the South Vietnamese, it should be noted that Article 6 of the Vietnam Cease-fire Agreement and Article 9 of the Cease-fire Protocol required the dismantling of all military bases in South Vietnam "of the United States and of . . . other foreign countries."

In fact, the U.S. Government transferred whatever title it had to the last remaining U.S. bases before the signing of the agreement. Although according to U.S. officials this point was not clarified during the negotiations, they consider that it was clear from North Vietnamese statements concerning such issues as points of entry that the North Vietnamese did not expect the dismantling of major installations such as Cam Ranh Bay and Ton Son Nhut.

Before Projects "Enhance" and "Enhance Plus," under which the delivery of military assistance equipment was accelerated before the Paris agreement was signed, the South Vietnamese Air Force had 51 squadrons with 1,248 aircraft. These accelerated deliveries provided approximately 600 additional aircraft of which some 280 were helicopters and 230 were fighters, including a large number of F-5A's borrowed from Korea, Iran, and the Republic of China.

To support the increased inventory of more than 1,800 aircraft, the South Vietnamese Air Force will require training in the United States for over 800 pilot trainees to bring the pilot inventory up to authorized strength. Training in the United States will also be required to train pilots to fly the F-5E aircraft which will be given to the Vietnamese to replace the borrowed F-5A's introduced into Vietnam.

On the subject of the replacement of F-5A's by F-5E's, a question has been raised within the Executive Branch as to whether the more advanced F-5E can be considered a legitimate replacement for the F-5A in view of Article 7 of the Cease-fire Agreement which requires that the replacement be "on the basis of piece for piece of the same characteristics and properties. . . ."

At the time of our visit there were 283 contracts in force with U.S., Vietnamese and third country contractors having a total value of \$240 million for the provision of a variety of support, training and management services. These contracts, like all other support activities, are funded under the MASF program. If current projections hold, the number of service contracts in force after January 1, 1974, would be reduced to 64 with a value of \$16.3 million. These figures, however, do not include communications-electronics contracts which may be rather sizeable, and they may not reflect recent lengthened projections of the duration of substantial support to the Vietnam Air Force.

VI. FUTURE PROSPECTS

The future course of events in Indochina seems to turn on the question of whether the twenty-five year struggle among the Vietnamese, and the corollary conflicts in Laos and Cambodia, will be pursued by military means or whether a political resolution is possible. In theory, the "Agreement Ending the War and Restoring Peace in Vietnam" provided a framework for such a transition. At this point, however, there appears to be little prospect that peace will be restored by political means, given the apparent continued determination of Hanoi and the Provisional Revolutionary Government to displace the existing political structure in the South and given the South Vietnamese Government's adamant refusal to afford either the Communists or the non-Communist opposition any meaningful role in political life.

If the United States thought that the leaders in Hanoi would abandon their lifelong objectives or that President Thieu would be willing to risk the tenuous security won for him by the United States, we may have miscalculated badly. The North Vietnamese may also have miscalculated, of course, underestimating the ability of President Thieu to consolidate his power and overestimating the ability of the Provisional Revolutionary Government to improve its political standing.

As events have turned out, the Provisional Revolutionary Government's prospects for some meaningful political role seem to be diminishing as the Thieu Government presses its advantage. The United States, despite its stated support for a process of political reconciliation, is in no position to press President Thieu on political matters, having had great difficulty in obtaining his agreement to terms which made possible the return of the American prisoners and his endorsement of our assertion that U.S. objectives in Vietnam had been achieved. Thus, the Provisional Revolutionary Government and the North Vietnamese may see no alternative but to renew the military struggle. For the fundamental balance in South Vietnam is between a government with larger armed forces, an established administrative structure, and a potentially strong economy whose distortions and corruptions are offset by massive American aid, on the one hand, and an adversary with spacious base areas, a good infrastructure, a powerful ideology, a non-foreign image (even though its principal supporters are North Vietnamese), iron determination and the support of a dedicated ally in the North. The unknown factors in this equation remain, as ever, whether President Thieu's control is really as firm as it appears to be and how long the North Vietnamese will be able to sustain their extremely costly effort.

At the moment, the balance seems to favor the South Vietnamese Government, especially when the deterrent of American air power is added to the equation. But the North Vietnamese may well calculate that the United States will not intervene again in Vietnam with air power, except in the case of a massive North Vietnamese offensive which placed the South Vietnamese Government in a position of extreme danger. There are all sorts of choices available to the North Vietnamese short of such a drastic step, of course, and a kind of warfare somewhere between low-level harassment and a full-scale offensive may thus be the most likely prospect in Vietnam over the next year.

In Laos, communist forces are in such a strong position, and the government forces are so enfeebled, that the North Vietnamese may be able to leave their Pathet Lao allies to their own devices, retaining of course their use of the Ho Chi Minh Trail. The first sign that they had made such a decision would be the formation of a Provisional Government of National Union.

It has always been said that without foreign forces the Lao factions could work out their own destiny in a characteristically undefined Lao way. They might have done so in 1962 when the dividing lines between the government and Pathet Lao territory were about what

they are now, or at any time since, but they were never given a chance. They may well have it now.

In Cambodia, it is difficult to imagine a political settlement which would not accord the insurgents a significant, if not controlling, political role and even more difficult to imagine a military victory for government forces, especially one which would deny the North Vietnamese their lines of communication into South Vietnam. The Khmer insurgents are growing in strength and confidence and moving from success to success. The Phnom Penh government, although it has the arms, seems to have neither the resolve nor the skill to contain them. If they cannot, their own fate will be sealed and the balance in South Vietnam could be substantially affected. The insurgents, like other armies, need supplies and equipment which the North Vietnamese, aided in turn by the Soviets and Chinese, are providing. At some point those who are sustaining the Khmer insurgents may find it in their own interests to seek a negotiated settlement in Cambodia rather than to continue to support a war which might jeopardize their other interests, in particular their relations with the United States. But until that point is reached, it is difficult to see how the war in Indochina will end definitively for any of those involved, including the United States.

