VIETNAM—A CHANGING CRUCIBLE

REPORT OF A STUDY MISSION TO SOUTH VIETNAM

Pursuant to

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Authorizing the Committee on Foreign Affairs to conduct thorough studies and investigations of all matters coming within the jurisdiction of the Committee

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FOREWORD

House of Representatives,
Committee on Foreign Affairs,

This report has been submitted to the Committee on Foreign Affairs by a special study mission to the Middle East, South Asia, and Vietnam conducted between February 7 and March 3, 1974.

The findings in this report are those of the special study mission and do not necessarily reflect the views of the membership of the full Committee on Foreign Affairs.

Thomas E. Morgan, Chairman.

(III)
Hon. Thomas E. Morgan,
Chairman, Committee on Foreign Affairs, U.S. House of Representatives,
Washington, D.C.

Dear Mr. Chairman: There is transmitted herewith a report of a special study mission conducted between February 7 and March 3, 1974, by the undersigned, a member of the Committee on Foreign Affairs. I was accompanied by Mr. John Chapman Chester, staff consultant, Committee on Foreign Affairs.

This report is the second of two submitted in connection with the study mission. The first, entitled “Old Problems—New Relationships”, was released on May 10, 1974, and covered the major portion of my travels through the Middle East and South Asia during almost 3 weeks last February.

This report is limited to my 3-day visit to South Vietnam, which took place from February 25 to February 28, 1974. Although my stay in that country was necessarily brief and my schedule of activities extremely tight, I did manage to meet with President Thieu and a number of ranking Vietnamese officials and parliamentarians, all of whom received me with great courtesy and cordiality. The discussions were frank, informal, and highly informative; as a result, I feel I learned a good deal about the changed conditions existing in South Vietnam since the cease-fire and the current attitudes of the country’s leadership. I also had the opportunity to visit the Mekong Delta region, where I met with a number of provincial and military officers, including the Vietnamese (ARVN) Commander of Military Region IV.

The main purpose of this report is to encourage an informed and constructive congressional debate on a subject which I fear is no longer receiving the priority attention it deserves. Both the administration and the Congress are now faced with major, indeed crucial, decisions about assistance to Vietnam. These decisions may well determine the future course of events in Southeast Asia, as well as the U.S. position there and elsewhere in the world. For that reason, it is most important, in my opinion, that there be a careful, dispassionate review of the situation as it currently exists, and serious reflection about what is actually at stake.

Because my sojourn in Vietnam was of limited duration, my comments, in the form of overall impressions, will be correspondingly brief. However, included in the appendix to this report there are several documents which I feel are particularly relevant to the issues which the committee will be called upon to consider in the months immediately ahead. I call them, more than my own remarks, to the attention of my colleagues.
Finally, I wish to express my appreciation to my host, Ambassador Graham Martin, and to members of his staff, all of whom devoted so much time and effort toward making my visit both useful and meaningful. I am grateful also to our Consul General in Can Tho, Mr. Wolfgang Lehmann, for the arrangements he made in connection with my trip to the Delta region.

Ambassador Martin is a seasoned and able diplomat—with strong convictions which he is capable of articulating with forcefulness and clarity—if he can find those among us who are willing to listen. His case, moreover, is one which deserves a fair hearing.

I trust that the information contained in this report will be helpful to members of the Foreign Affairs Committee and to Congress in our continuing consideration of U.S. policy toward Indochina.

Peter H. B. Frelighuysen, M.C.
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INTRODUCTION

It is perhaps one of the supreme ironies of the mid-seventies that a country which has been the focus of international attention—and controversy—for over a decade is suddenly in danger of being forgotten by a Congress preoccupied with domestic problems, such as impeachment, the energy crisis, and the fall elections. That country is the Republic of Vietnam.

This danger was emphasized in President Nixon's April 24 aid message to Congress:

Now that we have ended the longest war in our history and no American troops are serving in combat for the first time in more than a decade, there is a temptation to turn inward, abandoning our aid programs and the critical needs facing many of our friends in the process.

We must not succumb to that temptation. If we lay down the burden now, we will foreclose the peaceful development of many of the nations of the world and leave them at the mercy of powerful forces, both economic and political. Moreover, we will deny ourselves one of the most useful tools we have for helping to shape peaceful relationships in the most turbulent areas of the world.

The President's warning, I feel, is most appropriate. The congressional mood is indeed one of "turning inward" or away from our international responsibilities (as exemplified by the House vote last January against a routine replenishment of funds for the International Development Association), and of deep skepticism about foreign economic aid in general and security assistance, in particular.

Although I personally feel this trend is regrettable, the reasons for its existence are not hard to find. Vietnam was clearly a traumatic experience for most Americans—resulting in immense sacrifices, including over 45,000 dead and the expenditure of billions of dollars in an effort which appeared to be an unending one—a "bottomless pit," as Senator Fulbright has termed it.

The extent and nature of U.S. involvement in Southeast Asia have also been a bitterly divisive political issue at home—affecting in some degree the fortunes of three successive administrations. With the benefit of hindsight, one must concede that mistakes were made, particularly in the direct takeover of all military operations by U.S. forces in Indochina. With the ultimate withdrawal of these forces and the return of our prisoners of war, there is an understandable tendency to want to put the whole, unhappy business behind us—to cut all remaining ties to the area and to disengage ourselves both politically and psychologically from the Indochina "nightmare."

With such thinking, I fear, we run the risk of jeopardizing the substantial gains which have been made in recent months toward a deescalation of military activity (one cannot yet use the term "peace")
and a stabilization of the region as a whole. An ultimate "solution" to the problem of Vietnam, I am convinced, cannot be achieved by avoiding that problem or by directing our attention elsewhere.

It was for this reason that I specifically added Vietnam to my itinerary—which was originally organized around the Middle East and South Asia. At the time of my arrival, only one other Member of Congress had visited that country since last August: my friend and colleague, Hon. Philip Crane of Illinois, who was in Vietnam in January.¹ The fact that Saigon is no longer on the congressional circuit these days is an indication of the extent to which all of Indochina has fallen from public consciousness.

Although my visit was limited to 3 days, I managed to meet with President Thieu, Prime Minister Khiem, Foreign Minister Bac and a host of other Vietnamese and American officials, including U.S. Ambassador Graham Martin. I also spent 1 day in the Mekong Delta region, visiting the port of Rach Gia on the Gulf of Thailand and the provincial capital of Can Tho. The most striking impression I gained from this brief exposure was that the situation has changed in many significant respects, and that the United States is faced with a different set of circumstances than in the past. The report which follows is intended to call attention to these changes and to make the case for a reasonable level of military and economic assistance to South Vietnam to enable that beleaguered government to make the transition to economic self-sufficiency. It is a case, moreover, which I believe deserves a fair hearing and a full and informed debate by the Congress in the months ahead.

I recognize that present attitudes on this subject are strongly conditioned by past events. These events have produced widespread disillusionment and distrust of the administration's (indeed, any administration's) policies. For this reason, I strongly urge that all of the relevant facts—about the military, economic, and social conditions (including the controversial issue of so-called "political prisoners" in South Vietnam)—be released and given the broadest possible dissemination. I am convinced that the facts, when known and understood, will speak for themselves.

I. MILITARY-STRATEGIC SITUATION

A. SOUTH VIETNAMESE SELF-CONFIDENCE

The process of “Vietnamization” is now virtually complete. The South Vietnamese are carrying the burden of their own defense against the continuing heavy probing and harassment operations of the other side. The recent success of the ARVN forces in carrying out this responsibility—without the assistance of the United States or other armed forces personnel—has obviously led to a new attitude of self-reliance and self-confidence. This was in striking contrast to the attitudes which I encountered at the time of my last visit to Vietnam in 1963.

This dramatic change in the psychological mood of Vietnamese officials was reflected in all of my discussions—beginning with President Thieu and senior members of his cabinet to senators and deputies of the National Assembly of varying persuasions. There was a general recognition that henceforth it will be up to the Vietnamese themselves to provide for their own defense and to preserve what they consider to be their vital interests. The so-called client relationship with the United States, if it ever existed to the extent which has been alleged, is definitely a thing of the past.

This new-found confidence of the South Vietnamese in their own abilities and in their future, has led to a widespread feeling of national unity under the leadership of President Thieu. His position, ironically, seems to have been strengthened rather than weakened by the withdrawal of U.S. forces.

Public confidence in the GVN (Government of Vietnam) has been demonstrated in a series of public opinion polls conducted by the government under U.S. auspices. At the end of 1973, 82 percent of the respondents throughout the country expressed confidence in the GVN’s ability to maintain its position during the coming year, as compared with only 48 percent in February. Another measure of the GVN’s standing among the people is the large number of “ralliers” or defectors from the Communist side recorded in 1973. Our Embassy in Saigon estimates that some 9,000 Communists came over to the government during the year—roughly the same number who rallied in 1972 at the height of the fighting.

B. EXTENT OF GVN CONTROL FOLLOWING CEASE-FIRE

Despite widespread violations of its terms, the cease-fire has not been totally ineffective. Over the past year, for instance, the daily average of allied deaths was roughly half of what it was in 1969—a relatively quiet year for the war. During 1973 the level of activity and casualties on both sides declined up until the period, September through November, when the Communists stepped up their efforts, especially in the Mekong Delta, to get at the rice crop.
The GVN has fared well during post-cease-fire maneuvering; since January 1973 it has added 770 hamlets to the list of those over which it has dominant control, and it has reportedly reduced the number of disputed hamlets by well over a third. The Communists meanwhile have lost over 90 hamlets that were under their firm control at the time of the cease-fire, and 300 more that they seized temporarily in its immediate aftermath.

According to one raillery, the Communist high command is currently laying claim to control over 3 million people or roughly 12 percent of the population of South Vietnam; the modesty of this estimate is extraordinary as it conceded 88 percent of the population to the government. In fact, our Embassy estimates that the GVN has maintained "dominant access" to roughly 93-94 percent of the population since cease-fire, as against 89 percent at the time the offensive ended in November 1972. The improved security situation in the countryside was reflected in the Senate elections of August 1973, when 93 percent of the registered voters showed up at the polls—the highest percentage for any election under the present South Vietnamese constitution.

C. NORTH VIETNAMESE CAPABILITIES AND CURRENT STRATEGY

The Communists' political struggle since the cease-fire has been relatively unrewarding—with their cadre structure reduced to its lowest strength in about 8 years. This gradual but steady erosion in their position within South Vietnam is reflected in the level of terrorism which until recently has been on the decline. (Between June and November the number of incidents each month was about half the monthly total for January—1,600). The recent upsurge has stemmed from the rice war in the southern three provinces of South Vietnam and in the Delta.

Militarily, however, the North Vietnamese have strengthened their position within South Vietnam since the cease-fire and the situation remains threatening. They have, in fact, made up their armor and artillery losses during the 1972 spring offensive and now have more than 600 tanks and 300 field guns in the country. Their artillery currently is deployed closer to the city of Hue than was the case during the early phases of the 1972 campaign, and more tanks are closer to Saigon. Moreover, the Communists' air defense system has been expanded in the South, with more AAA regiments than ever before (primarily in the Central Highlands) and operational SAM sites in the Khe Sanh Valley.

A major North Vietnamese objective has been to develop a secure base of operations along the western border of South Vietnam. As a backbone for this border enclave, an in-country road system extending southward from the DMZ has been under construction since last spring. Although much of this road remains in disrepair, particularly in the north where there was heavy flooding last fall, it will become increasingly important as an infiltration corridor during the dry season, which is just now commencing. Alternative road networks also exist in Laos, extending to the tri-border area of Laos, Cambodia, and South Vietnam. Within Cambodia itself, however, the Khmer Communist's occasionally have denied the North Vietnamese free access to the interlocking road system there and consequently,
the flow of traffic through Cambodia into the southern portion of South Vietnam has been relatively moderate.

In addition, the North Vietnamese have stepped up coastal shipping into South Vietnam (especially via the port of Dong Ha in the Communist-occupied area of Quang Tri Province) and are continuing their buildup of 6 of the 12 old airfields scattered through their western border enclaves. Only one of these, however, at Khe Sanh, is believed capable of supporting MIG aircraft.

Finally, to complete this very sketchy summary of Hanoi's capability (based on current intelligence reporting), it should be noted that the North Vietnamese have stockpiled sufficient ordnance for 1 year of fighting at current levels.

Despite this massive infiltration of supplies and heavy equipment into the South, there is a general conviction among South Vietnamese military and civilian leaders that Hanoi is not contemplating a countrywide offensive at this time. Although the North Vietnamese clearly have the capability to launch such an offensive, it is questionable that they would be able to sustain it over the long term. (The 1972 offensive, it was recalled, lasted approximately 6 months.) Hanoi also faces uncertainty over the level of Soviet and Chinese support. For the time being, I was told, there is no evidence that Hanoi's allies are prepared to mount a "massive" resupply operation to the extent believed necessary for an all-out attack. In recent briefings to troops and cadre in the south, the Communist high command has declared Soviet propaganda broadcasts "off limits" and has accused Moscow and Peking of having cut back aid and of having opposed certain North Vietnamese objectives. Under these circumstances, a full-scale assault is not considered propitious or imminent.

Moreover, in North Vietnam itself conscription in 1973 was not on the scale of that which preceded the 1968 and 1972 campaigns. There are elements of several divisions on station in the north which could be moved south for an offensive, but as of late February there were no indications that they were being redeployed. Other intelligence indications, which were picked up just prior to the 1972 attack, were similarly lacking. For all of these reasons, as one South Vietnamese political leader expressed it, the feeling is that while the "short-term capability is there, the intention is not."

Instead, Hanoi's strategy appears to be concentrated on developing and broadening its "liberated territory" within South Vietnam and on softening up the GVN through attacks against selected targets. By such tactics, the North Vietnamese evidently hope to exacerbate the GVN's economic problems to the point of ruin, and to prepare for a major assault within 2 or more years if the Saigon government should not collapse of its own accord before then. According to the most recent intelligence, Communist policy guidelines explicitly rule out the possibility of elections, the establishment of a coalition government or a settlement which would reflect the true distribution of political power within South Vietnam.

Political considerations, as always, weigh heavily in Hanoi's military planning and decisionmaking. Historically, North Vietnamese offensives have been launched as much for psychological as for military reasons—i.e. at times when morale in the south was deemed partic-
ularly low and subject to exploitation for essentially political ends.
(The 1968 Tet offensive, which resulted in heavy losses for the Communists and the practical decimation of the Vietcong infrastructure, is a classic example of such an operation.)

This fact is well understood in Saigon, where the generally high morale of the ARVN forces and the present effectiveness of the GVN are considered major deterrents to a full-scale attack from the north. The South Vietnamese are, in fact, confident that as long as a reasonable military balance is maintained, the Soviets and Chinese will probably urge moderation on Hanoi. If, however, South Vietnam becomes demonstrably weakened and vulnerable, the “big brothers” might feel obliged to underwrite another big offensive—even if reluctantly.

I am personally impressed by the validity of this argument. An all-out offensive by Hanoi presently appears unlikely, and I am convinced that it is in the interest of the United States to keep it that way. In my view, the United States should not upset the present delicate balance by supplying either more or less than circumstances require.

If supplies of equipment and ammunition are excessive, we run the obvious risk of stimulating an equivalent move by Hanoi’s allies. If, however, we do less than is reasonable and necessary (which I feel is the greater danger at this juncture), we will be contributing not toward peace in Vietnam, but to the likelihood of renewed hostilities.

**COMMENT**

Even if the above rationale is accepted, however, I realize there is some legitimate confusion within Congress over what constitutes “reasonable and necessary”.

The Pentagon’s case, it seems to me, has not been made very effectively in recent months. In its request for a supplemental authorization of appropriations for fiscal year 1974, for instance, the Department of Defense originally made a strong plea for $1.6 billion. Subsequently, however, as this measure was being debated on the House floor, the chairman of the Armed Services Committee informed the House that after “further investigation” the Defense Department had agreed that $1.4 billion would be acceptable.

After the House rejected this scaled-down request and forced a return to the original statutory ceiling of $1.126 billion, the Senate Armed Services Committee suggested that $266 million in MASF funds were still available for use in fiscal year 1974 (since this amount should have been charged against the fiscal year 1972-73 appropriations). The General Accounting Office, however, questioned the legality of the proposed bookkeeping transfer and the point became moot when the full Senate passed the Kennedy amendment—prohibiting the transfer or expenditure of MASF funds for South Vietnam beyond those already obligated this fiscal year.

This particular sequence of events undoubtedly weakens the DOD position, as it casts doubt upon the real urgency of the original request.

In presenting such a request to Congress, there is an obvious need to provide a clear breakdown of all Indochina defense costs, to relate these costs to specific program objectives, and to present these objectives in a meaningful, convincing manner.
There is, in fact, considerable information available in support of a supplemental authorization. During an Embassy briefing which took place in Saigon at my request, the Defense Attaché, General Murray, made a detailed presentation of cost increases over the past year, which formed the basis for the DOD request. He pointed out, for instance, that costs were “assigned to requirements by prices prevailing in early 1973 when DOD’s budget proposal was first submitted to Congress” and did not take into account the soaring prices of ammunition, construction materials, and especially fuels which followed in fiscal year 1974. The resulting shortfall, he felt, was primarily the result of inflation “across the board and around the world,” not of changing program requirements.

The statistics which General Murray cited in his connection were illuminating, and I asked him to submit them to me in writing. His cabled response, which subsequently reached me in Honolulu, is repeated verbatim in the appendix to this report.

One final comment: The general’s cable was first transmitted to me as a “classified” message, apparently a routine designation. When I questioned the basis for such classification, I was informed that the entire message had been “declassified” and could now be made a part of the public record. Apparently, overclassification within the Defense Establishment has become a habit, which in many instances is self-defeating. If the case is a valid one, as I believe it is, the “message” ought to be transmitted to Congress and the public. Indeed, the national security interest requires such action, where such action is appropriate.
II. ECONOMIC SITUATION

Although for the time being, the military situation remains stable, the same cannot be said for the state of the Vietnamese economy. For reasons beyond the government’s control, South Vietnam’s economy has been in decline since 1971. This downward trend has been caused by:

(a) The North Vietnamese 1972 offensive.—The intensity of the fighting which took place in the spring and summer of 1972 caused widespread damage and destruction of the existing infrastructure. As the International Monetary Fund reported in its March survey:

About 5,000 kilometers (3,108 miles) of provincial and interprovincial roads, 100 major bridges, 500 schools and 500 rural dispensaries need immediate repair.

(b) The loss of dollar earnings from the U.S. troop withdrawal.—The sudden and massive withdrawal of U.S. forces from South Vietnam during 1973 has produced an unemployment rate of 15 percent. The precipitate manner in which this move was implemented (although necessary and fully warranted under the circumstances) left the GVN with little opportunity to plan for the retraining and relocation of the people immediately affected. Added to this problem, it should be noted, was an inflation rate of 68 percent and a major reduction in the proposed level of U.S. economic assistance.

(c) Accelerating inflation of world commodity prices.—This factor has caused real imports to fall by one-third between 1971 and 1973 or by 40 percent on a per capita basis. Examples of price increases by February 1974 over prices prevailing in 1972 are:

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<th>Commodity</th>
<th>Percent</th>
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<tr>
<td>POL</td>
<td>191</td>
</tr>
<tr>
<td>Urea</td>
<td>188</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>110</td>
</tr>
<tr>
<td>Polyethylene</td>
<td>424</td>
</tr>
<tr>
<td>Rice</td>
<td>304</td>
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Moreover, South Vietnam’s economy has suffered because of continuing North Vietnamese military activity and the large NVA force levels within South Vietnam. As a result, the GVN has had to devote more resources to its defense than was desirable, thus reducing the resources that would otherwise have been available for economic and social development. Because of the failure of the North Vietnamese army to abide by the Paris agreement of January 1973, South Vietnam has had to maintain military force levels which absorb about one-fifth of its manpower and which cost slightly more than one-half its national budget.

These factors contributed to the spurt in inflation during 1973. The burden of this inflation has to a very important extent been carried
by the South Vietnamese soldier and civil servant. Their real incomes fell between March 1972 and February 1974 by about 35 percent. Despite this drop in real income and the substantial reduction of the American advisory effort, South Vietnam's Government has continued to function well and its administrative performance in many regards, such as in refugee resettlement (discussed below), has been excellent.

Despite these severe economic problems, South Vietnam's performance in the field of economic policy has been admirable. This policy has been based on free market, supply-and-demand principles—some examples of which are:

(a) A flexible exchange rate policy with frequent small devaluations has been followed in order to limit demand for dwindling foreign exchange resources and to encourage exports and import substitution.

(b) South Vietnam's exchange system was modified in January of this year bringing it essentially into conformity with IMF standards; this has enhanced its efforts to obtain economic assistance from other countries.

(c) To avoid subsidization, petroleum prices have been allowed to rise to reflect their vastly increased foreign exchange costs. At the same time, taxes on petroleum producers have been increased to curb demand. Gasoline now sells for $1.51 a gallon and kerosene for $0.90 a gallon. More kerosene is imported than gasoline.

(d) The least essential imports in the economy have been restricted by high taxes and by credit restrictions. These imports have declined by 19 percent in 1973 compared with 1972.

(e) Electricity and water rates have been raised to consumers to reflect the increased import costs of petroleum.

(f) The South Vietnam Government budget has been held relatively stable in real terms since 1971 despite serious inflation, the 1972 offensive, and the large budgetary requirements to take care of refugees and other war victims caused by the NVA invasion of 1972.

(g) Domestic taxes in 1973 were about 40 percent higher than 1972 in real terms. Receipts in January of 1974 showed still further increases in real terms.

The South Vietnamese Government has made a significant shift in its budgetary allocations. Security expenditures have declined significantly while those for health and social welfare have increased significantly. Seventy-one percent of the Government's total budget in 1970 went for security expenditures. In 1973 this percentage had been reduced to 56 percent and is projected to decline to 52 percent in 1974. Health and social welfare expenditures, by contrast, have increased from 9 percent of the total budget in 1970 to 17 percent in 1973 and to an estimated 19 percent in 1974. Obviously, South Vietnam, despite the hardships of a war imposed by the North, is making significant efforts to improve the health care and social welfare needs of its people.

South Vietnam's exports rose to $63 million in 1973 compared with $23 million in 1972, an increase of about 177 percent. The increase in real terms was about 67 percent. Further significant growth in exports is anticipated in 1974.
Among the domestic resources already being developed, for instance, is the fish and shrimp industry. Shrimps, especially, from the Gulf of Thailand are reputed to be of high quality and the demand for them throughout Southeast Asia and the Pacific is virtually limitless.

During my stopover in the gulf port of Rach Gia, I visited an impressive, modern fish and shrimp processing plant, financed by USAID. This facility served a twofold purpose: dried fish (and especially fishheads) were being ground into meal for fertilizer production, while the fresh shrimps were being frozen and prepared for export by the Saigon-based Mekong Trading Corp. Although the entire operation was just getting started and still running at a slight annual deficit, the potential for future export expansion was obvious.

Controlling inflation, however, is the major economic challenge confronting the Saigon leadership. Traditionally, the government has followed a conservative fiscal policy, and I asked several key officials how they proposed to cope with the problem of "imported inflation." Would they resort to the classic method of reducing consumption at a time of high unemployment (caused primarily by the reduction of U.S. Forces)? The answer was that this is a real dilemma, but that the GVN was doing what it could by: (1) instituting a better system of tax collection; (2) raising interest rates as necessary; and (3) cutting back on imports to the extent possible—particularly such commodities as sugar and rice. Last year, for instance, sugar was being sold for $100 per bag; now, however, the price had risen to $500 per bag. The GVN, I was told, was pursuing a policy of encouraging an increase in domestic production of these commodities by all means at its disposal.

Oil.—There is hope; but the evidence is by no means conclusive as yet, that off-shore oil reserves may be exploited in the not too distant future. Preliminary surveys, particularly in the Delta region, give some reasons for optimism, but to date no bids have been let and real prospects are still unknown. Given this situation, it is apparent that domestic oil production will not make a dent in the country's import needs for some time to come.

Agricultural banks.—The government's policy is to expand agricultural banking facilities (along lines established by the Filipinos) throughout Vietnam, especially in rural areas, to encourage greater production. Each district has been urged to open a branch to handle farmers' credit needs, in areas where one is not already in existence. As a result of this effort, three times as many banks—or branches—are now operating as was the case a year ago.

Resettlement of refugees.—One of the major achievements of the GVN since the cease-fire has been the resettlement of refugees. During the 1972 North Vietnamese offensive over a million people fled to government-controlled areas (mostly from the regions around Hue and Danang). At the end of 1972, approximately 700,000 of these were temporarily located in refugee camps established by the GVN. Over the past year, 500,000 have been resettled, either in their own home areas or in newly established homesites. The government hopes to reduce the 200,000 still remaining in camps to 20,000 by June of this year. If this target is met, it will represent an accomplishment of impressive proportions.

2 Mostly Cambodians who do not wish to resettle in South Vietnam.
Conclusion

As noted above, the economic problems facing the Government of South Vietnam are urgent and potentially disastrous, despite the significant and highly responsible measures the GVN leadership has undertaken to combat them. Without an adequate level of assistance from the United States, such efforts will obviously fail to accomplish what is necessary under present circumstances.

Again, the question arises—especially in Congress—as to what is, in fact, reasonable and necessary. Past expenditures and past experience also play a significant role in the annual authorization-appropriation exercise. There is always, it seems, an endless need and an "eternal" U.S. contribution required. I understand such sentiments and the history which has led to their emergence. However, as I stated recently on the floor of the House, there is at last some "light at the end of the tunnel," if we do not "abruptly and unwisely turn off the switch." Given the immense sacrifices which have already been made—in U.S. lives and U.S. treasure (for better or for worse)—it would be particularly harmful to the entire U.S. position, both in Southeast Asia and elsewhere in the world, to turn our backs now on a situation which shows some signs of improvement.

What is necessary, in my judgment, is an adequate, relatively short-term infusion of economic assistance to help the people of South Vietnam pass through this present period of transition to self-sufficiency. The natural resources are there, incidentally, in greater abundance than those which existed for Korea and Taiwan—before the economic "takeoff" of those countries began. As the IMF observes:

"Vietnam is endowed with rich natural resources. Substantial infrastructure built for military purposes is left to be utilized, and the population is hard-working, literate, and disciplined. There exists ample land to bring into cultivation, and potential agricultural production is enormous."

To place this entire matter in perspective, let me point out that a maximum $1 billion investment in the Vietnamese economy for 1 year—and Ambassador Martin has recommended a level of $850 million for fiscal year 1975—comes to less than was spent for a 2-week period in the 1967-68 era. Economic and military assistance to Indochina at that time amounted to approximately $30 billion annually, excluding MAP funds for Cambodia. After fiscal year 1975, Ambassador Martin has projected a 50-percent cut in this figure and a reduction to practically zero by fiscal year 1977.

As President Thieu pointed out to me in our discussion, it is better to give a sick man an adequate dosage of medicine immediately—and then stop—than inadequate dribbles over a period of time.

For those who are anxious to place the Vietnam question behind them, I submit the time for action is now.

To present a fuller and more expert opinion of what is needed with regard to reconstruction and economic development in South Vietnam, there is included in the appendix to this report the full text of an article which appeared in the March 4 survey of the International Monetary Fund, entitled "Vietnam: Dimensions of the Task of Rebuilding from Years of Strife."
There is a widespread assumption, both in the United States and abroad, that the Thieu government follows a policy of active and intransigent resistance to elections and, in fact, to any form of "political settlement" with the Communists. This view is by no means confined to Communist propaganda emanating from Hanoi—and picked up by numerous militant, so-called peace organizations around the world. It is also accepted by many reputable, well-intentioned individuals and some leading news organizations—such as the New York Times. In his now famous article of February 16, Times correspondent David Shipper propounds the oft-repeated thesis that American aid enables President Thieu to "forestall a political settlement"—a charge which is vigorously denied by U.S. Ambassador Graham Martin.

Unfortunately, the precise points at issue in this dispute have been lost in a plethora of editorializing about the Ambassador’s personal “war” with elements of the Saigon press corps. In examining both the Shipper article and the Martin telegram (which, it should be emphasized, was in response to a request by the Department of State for his comments on the Shipper charges), I am convinced that the facts support the Ambassador’s position.

The fact is that President Thieu has by no means, as Shipper has asserted, “rejected the Paris agreement’s provision for general elections, in which the Communists would be given access to the press, permission to run candidates, and freedom to rally support openly and without interference from the police.” On the contrary, he has repeatedly called for definite dates for such elections. It is patently in his interest to do so, as under any impartial election—with adequate international controls and supervision—he would win overwhelmingly. In fact, no informed diplomatic observer or intelligence analyst seriously questions this contention—least of all Hanoi, which has no interest whatsoever in electoral procedures.

The GVN position on this question has not, in my judgment, received the public recognition it deserves. A complicating factor, of course, is a general misunderstanding of what the Paris accords actually prescribed. As Ambassador Martin correctly points out:

"The Paris Agreement called for a cease-fire. Then was to come the delineation of the areas of control, the formation of the National Council of Reconciliation and Concord which would prepare for elections under internationally supervised control. The last thing the NVA/VC forces would ever accept is the holding of elections, for under true, impartial international controls they could not possibly receive more than 10 percent of the vote. So they have never observed the cease-fire (step one). They have never permitted the beginning of even (step two)."
discussion of the delineation of areas of control both of which are necessary preliminaries to formation of the National Council of Reconciliation and Concord, which was to prepare for the elections. Their tactic has been to insist on the items enumerated by Shipler—particularly access to the press* * *.

If the NVA/VC forces will accept definitively a specific date and international supervision, elections could be agreed upon immediately with all the freedoms covered in the Paris agreement* * *.

These are the significant points which the press in general has tended to overlook. (Although the Shipler article and the Martin telegram have been published in full in various publications, I have seen no attempt at analysis or comparison of the positions in dispute.)

At the risk of repetition, I am including both documents in the appendix to this report—for reference purposes. I think they are both worth reading by every Member of Congress.
IV. THE "POLITICAL PRISONER" ISSUE

Of all problems affecting the Thieu government, perhaps none is more potentially damaging to its international reputation than the widespread and largely unsupported charges, which have been circulated ever since the Paris agreements were signed, about the so-called political prisoners being held by the South Vietnamese authorities. Much of the international furor over this issue has obviously been Communist-inspired—through such mechanisms as the annual "Stockholm Conference", which is clearly subject to Communist organization and direction.

Much of the concern expressed over the fate of these alleged prisoners is, however, quite genuine and is based on sincere, humanitarian considerations. Religious groups, civil libertarians and prominent, non-Communist individuals interested in human rights everywhere have taken up the South Vietnamese prisoner cause (often ignoring North Vietnamese human rights violations in the process). In so doing, they have passed along seemingly authentic identifying data on individuals who are supposed to be (or to have been) incarcerated in specific locations within South Vietnam.

The Department of State and the South Vietnamese Embassy in Washington have been deluged with appeals in behalf of individual prisoners, which have assumed the proportions of a carefully contrived and directed letter-writing campaign. The original source of the data, upon which the requests are based, is less clear.

Our own Government, of course, is not in a position to request a formal investigation by a foreign government of each individual case (among hundreds of such requests)—particularly when American citizens are not involved. A lack of responsiveness, however, even to a request which is clearly impossible to fulfill, may then be interpreted as prima facie evidence that both the GVN and the USG have something sinister to hide.

One important source of these allegations, who tends to give them credibility, has been an anti-GVN, non-Communist Catholic activist named Father Chan Tin. The latter (who I might point out is free to engage in this type of activity) has charged that the GVN held 202,000 political prisoners as of June 1, 1973, and has circulated a supposed accounting of such prisoners to support his charges. Undoubtedly, many of the requests having to do with individual prisoners (referred to above) came from information supplied by Father Chan.

The U.S. Embassy in Saigon firmly and categorically denies the validity of these charges, estimating the total prison and detention population in South Vietnam to be around 35,000. This figure includes civilian prisoners of all types, not just political prisoners however defined. Every military or civilian Embassy official with whom I discussed this matter rejected the 202,000 figure as being totally out of the question, since the GVN does not have the physical facilities and capacity to handle such a number.
In fact, the most comprehensive, detailed and painstaking research on this subject appears in an Embassy airgram of December 26, 1973, to the Department of State. It is 15 pages in length, is well documented and, I find, highly convincing. This message, which was originally classified "limited official use," has since been declassified. I am including it, in its entirety, in the appendix to this report. In case I may be accused of having been "brain-washed" on this subject, I can only add that I shall be pleased to place in the Congressional Record any countervailing evidence which specifically and conclusively refutes these Embassy findings. To date, none has been forthcoming.

Two additional points should be recorded: First of all, if the Embassy's figures are reasonably accurate, as I am convinced they are, it means that proportionately—against our own population of more than 200 million—the ratio of the prison population against the total population is exactly the same as it is in the United States.

Another point to consider is the definition of the term "political prisoner." I am inclined to accept Ambassador Martin's definition:

"To me, all those imprisoned anywhere only because they are opposed by the regime which governs them are "political prisoners."" [Italic added.]

Non-Communist dissidents, for example, like Father Chan Tin, circulate freely in South Vietnam if they have broken no laws, the Ambassador points out. The moment, however, opposition turns to violence—the throwing of a grenade or bomb or other forms of terrorism—such "dissidence" is likely to be circumscribed by the authorities in power.

It is well, perhaps, for Americans to recall that in a similar wartime situation (i.e. at the outbreak of World War II) thousands of Japanese-Americans were placed in detention centers merely because they were of Japanese descent—not because they had engaged in specific acts of terrorism, espionage, or subversion. And the South Vietnamese, it must be pointed out, still find themselves in a wartime situation—in which they are obliged to take adequate measures for their own defense.

As a final enclosure to this report, I am including in the appendix an exchange of correspondence between the Secretary General of an organization called "Amnesty International" and Ambassador Martin. Again, the documents speak for themselves and need no further elaboration from me.

Although the "political prisoner" issue, like the POW-MIA issue in the United States, has been an understandably emotional one, I believe it has also been exaggerated out of all proportion by those who are determined to discredit the Thieu government by any means at their disposal. Unfortunately, many distinguished and reputable individuals and organizations have been caught up in a "cause," which sounds humanitarian, but which is, in my judgment, essentially spurious.
APPENDIX 1

DAO MESSAGE 00453, MARCH 1, 1974, FROM MAJOR GENERAL MURRAY, DEFENSE ATTACHÉ, SAIGON, TO REPRESENTATIVE PETER H. FRELINGHUYSEN

From: M.G. Murray, Defense Attaché, Saigon, March 1, 1974.
To: Congressman Frelinghuysen, TDY Honolulu.

(DAO message 00453)

Per discussions on 27 Feb. in Saigon, the following is for your information.

The fiscal year 1974 RVNAF MASF program was based on quantities required to do specific jobs; requirements were moderate and reflected cease-fire assumptions concerning low level of activity that did not occur.

Costs were assigned to requirements by prices prevailing in early 1973 when budget proposal submitted; congressional authorization and appropriation based on these requirements and costs.

In period between costing of program and receipt of funds, worldwide inflation took its toll; most spectacular example is fuel. Initial program reflected a 45 percent reduction in fuel consumption, based on a real cease-fire environment. These modest fuel requirements were costed at 15 cents per gallon for mogas, 13 cents per gallon for diesel, 21 cents per gallon for avgas, and 13 cents per gallon for jet fuel, but now, after receipt of funds, prices are 40 cents (169 percent increase) for mogas, 40 cents (210 percent increase) for diesel, 45 cents (114 percent increase) for avgas, and 37 cents (185 percent increase) for jet fuel; in spite of efforts to reduce consumption, the requirement costs have risen from $48.8 million originally programmed, to $87.5 million.

Ammunition is most important of all requirements. Price increases vary with items from 13 percent to 95 percent. The nine most important items, that is, about half the ammunition program, would have cost $142.7 million at programmed prices, but present cost, due to inflation, is $178.2 million (24 percent increase).

Similarly price increases have afflicted other program items; for instance, frequently used batteries have risen in cost by 51 percent, and last year jungle shoes were bought in Korea for $1.90 a pair. Today we can't find anyone in Korea, Vietnam, the United States or elsewhere, who will supply jungle shoes at even $4.00 a pair.

A M16 barrel and sight assembly has increased by 32 percent, a 76mm tank gun tube by 52 percent, a 105mm howitzer tube by 38 percent.

Bulk construction material has also not been spared. For example, the cost of wire rope rose from $331 per reel to $555; paint from $26 per five gal. pail to $38.50; cement from 99 cents per 94 lb. bag to $3.80; and reinforcing bar from $37.60 per ton to $100.00.

The money appropriated will not deliver the quantity of goods initially intended. When summed, the pieces add up to stunning totals.

The resulting shortfall is not so much the result of changed requirements, although there is some of that as in any program, as it is the result of inflation across-the-board and around-the-world. In less inflationary times, it was always possible to balance off the impact of the inflation of one item by reprogramming from some other area where the requirement is not as pressing, or simply by spreading the cost over the whole program, so that the reduction in quantities delivered would be small enough not to jeopardize achievement of the basic objective. Now, the magnitude of the problem and the generality of price increases in all lines leave no leeway for any local reprogramming. The money-vice is more vicious than an enemy onslaught, and in fact induces one.

The problem is basically inflation, not changing requirements, nor poor planning. When prices rise and the purse does not increase, fewer goods can be obtained; when the achievement of a mission is based on a lesser quantity of real goods and the goods are not available, then achievement of the mission suffers. No one intends a ditz result, but inflation will ensure it.
The nature of the war and the economic base in Vietnam have been such that nearly all operating supplies have been provided by MASF through direct military supply channels, but many of these items can be produced in Vietnam—combat rations, field equipment, barbed wire, batteries, and pharmaceuticals. These items and others are now being purchased in Vietnam under the in-country procurement program that began in the last days of the American troop withdrawal. The initial infusion of demand created the capacity within the Vietnamese economy to produce these items; the source of supply has been Vietnamized.

At the same time the economic capacity to pay for the items is developing, the program created employment and demand for local raw materials where there was none before; multiplier and linkage effects increase aggregate demand and income throughout the economy. Increased income leads to increased taxes which enable the GVN to pay for the items in the future.

In addition to developing a Vietnamese source of supply and the capability to pay for the goods, the program provides the initial boost to get new industry off the ground. Battery manufacturers produce also for the civilian market in replacement of what used to be imported.

A firm that produced sandbags for us now makes denim trousers for the civilian market. Others are being readied to move out into export markets. In all of these cases, our initial boost creates increasing capacity that will permit the progressive reduction of military assistance.

Cuts in military assistance result in the termination of this program that was beginning to bear fruit, leaving aside the logistic problem created by not having the goods. This problem will exist whether the item is obtained locally or in the United States. Every cut in local procurement means that much less impetus to the development of the economic base, which is the only way to reduce military assistance without compromising our other objectives.

In-country procurement Vietnamizes the source of supply at the same time that it expands the economic base. To continue to do so it needs continued strong MASF support as its catalyst.

The slash in the fiscal year 1974 program caused diversion to higher priority requirements of $44 million of the $57.7 million programmed for in-country procurement. This adversely impacts on the economy, the development of Vietnam’s industrial development, and the GVN’s future self-sufficiency.

We have more facts if you need them. Good talking to you. Relish your interest.
The lengthy war in Viet-Nam has had a severe impact on its economy, especially after military activities intensified in the mid-1960s. The war, not only disrupted production and distribution, but also created enormous sociological and economic problems, particularly evident in the displacement of a large part of the population.

Since 1964 about one sixth of the previously cultivated areas have been abandoned for more than ten years, and an estimated 5 million people have been registered as refugees out of a total population of about 20 million. About 5,000 kilometers (3,108 miles) of provincial and interprovincial roads, 200 major bridges, 500 schools, and 500 rural dispensaries need immediate repair. Waterways and irrigation systems have been damaged or neglected.

Owing mainly to disruptions of agricultural production, the rate of real economic growth has slowed down, averaging 2 per cent per annum during 1966–72, compared with 7 per cent during 1961–65. Over time, the major structural effects of the war have included an overexpansion of the services sector, the discouragement of agricultural output and exports as well as substantial and rising budget deficits, and a heavy dependence on imports and foreign aid. By the early 1970s, per capita imports amounted to US$40 and the inflow of foreign assistance to US$30 per capita. The budget deficit and the fundamental disequilibrium on external accounts (exports accounting for 8 per cent of imports) explain why priority in recent years had to be given to short-term stabilization policies.

The authorities now face the urgent tasks of reconstruction and rehabilitation of the war-torn economy and the creation of appropriate conditions for redeploying into agriculture and industry a large part of those previously employed in the service sector. The task is aggravated by the still critical security situation in the countryside, the weak balance of payments position, the precarious budgetary situation, and a rapid pace of inflation.

AGRICULTURE AND INDUSTRY

Viet-Nam has a total area of 171,691 square kilometers (66,290 square miles), of which 16 percent is cultivated. Up to the early 1960s, agriculture was the main source of employment and the major foreign exchange earner, rubber, rice, and tea being the three principal export products. With the intensification of military activities in the 1960s, agricultural output was adversely affected and exports of agricultural products declined sharply; in fact, since 1965 Viet-Nam has been a large importer of rice as well as of other basic foodstuffs.

In the last three years agricultural output has failed to show any significant gains; this is particularly true for rice. The 1972/73 rice crop was virtually unchanged from 1971/72 because of unfavorable weather conditions, insecurity, and reduced use of fertilizers due to higher prices. In the second-half of 1973, low rice stocks and difficulties experienced by the Government in procuring rice, mainly as a result of hoarding by farmers in anticipation of higher prices, created rice shortages in Saigon and a surge in free market prices. In early 1974, the rice situation had improved with the coming of the new crop to the market.

Manufacturing activity in Viet-Nam is still little developed, accounting for less than 10 percent of net domestic product. Activities in the traditional agroindustries stagnated in the 1960s, but several new industries were established including food processing plants, textile, pulp and paper factories, animal feed mills, a cement plant, and plastic factories. The stepped-up military operations of 1972 adversely affected industrial production, which by mid-1973 had not re-
gained its levels of the early 1970s. In addition to the security situation, a variety of factors have tended to depress the investment climate, including the reduction in purchasing power of most sections of the urban population, shortages of skilled labor, and rising costs of imports.

With a view to promoting industrialization, the Government had taken a number of measures, including the establishment of industrial parks and export processing zones, financial assistance to enterprises, and a new Investment Law introduced in 1972. The provisions of the law aim at boosting domestic investment and at attracting foreign capital by providing investors with a five-year tax holiday; government guarantees of sufficient foreign exchange for imports of machinery and raw materials; and freedom of profit transfers abroad; also, in the case of foreign investment, there is a guarantee of no nationalization.

FISCAL AND MONETARY POLICY

The war has also adversely affected the budget situation. During 1967-72, military expenditures accounted for approximately 60 per cent of total expenditures on average, but their share has been declining gradually since 1969. During the last few years, most civilian expenditures and nearly 60 per cent of total expenditures represented wages and salaries of government personnel; as a result, the share devoted to economic development was negligible. Domestic revenues accounted on the average for less than 60 per cent of total expenditures during 1967-72. Although large receipts of foreign aid counterpart funds covered a substantial part of the deficit, recourse to the National Bank was substantial. Government borrowing has been the main expansionary factor of money supply.

In an effort to improve the budgetary performance, the Government initiated an extensive tax reform in late 1972 aimed at (1) simplifying the tax system by unifying all taxes with similar characteristics; (2) minimizing the number of rates applied under each tax; and (3) basing most of the new taxes on an ad valorem basis. Among the main taxes introduced were a special consumption tax and a value-added tax. The latter, introduced in July 1973 at a rate of 10 per cent on most economic activities, was substantially modified in August 1973 when transactions directly involving the consumer were eliminated from the coverage. Efforts have also been made to improve tax administration, reduce tax evasion, and accelerate the payment of tax arrears. Nevertheless, the 1973 fiscal deficit amounted to 55 per cent of total public expenditures. After deduction of foreign aid, the remaining deficit represented nearly 30 per cent of the stock of total liquidity at the beginning of 1973.

In the 1974 budget plans both expenditures and revenues will increase by about 20 per cent over the 1973 levels. The two main features of planned public expenditures for 1974 are increased allocations for development and the continuing high military burden. The share of development expenditures is expected to rise from 8 per cent in 1973 to about 10 per cent in 1974, while that of military expenditure will continue to fall, to 45 per cent; in the course of the year, some 47,000 men out of the present 1.1 million will be released in the normal course of demobilization and a further 100,000 men will be demobilized when security permits.

In spite of the Government's large recourse to the banking sector, monetary expansion in 1972 and in the first ten months of 1973 was much smaller than in the previous two years, when it averaged 20 per cent a year. Money supply rose by 9 per cent in 1972 and by 13 per cent during January-October 1973. In 1972, the growth of money supply was restrained by a rapid increase in quasi-money holdings, which doubled in response to the sharp upward adjustment of interest rates in May-1972. As the pace of inflation accelerated in 1972, real interest rates became negative and the growth in quasi-money slowed down. The effect of the large increases in bank credit to both the Government and the private sector in 1973 were partly offset by a substantial decline in foreign exchange reserves. At present, there are practical difficulties in controlling the operations of the financial institutions through the existing instruments of credit controls as they are complicated and not always coordinated. An initial review of the efficacy of the present instruments will be undertaken shortly on part of the technical assistance provided by the Fund.

BALANCE OF PAYMENTS AND INFATION

With the intensification of the war in the mid-1970s, export receipts declined sharply, mainly as a result of rapid declines in rubber exports and the phasing out of rice exports after 1964. By the early 1970s the value of exports amounted to 25 per cent of their level in the early 1960s and to less than 5 per cent of imports.