If the United States is to continue to assist South Vietnam to attain a higher level of economic progress, the issue of population growth ought to be reviewed at the highest levels of the GVN.

13. The International Commission for Control and Supervision (ICCS) is largely dependent upon U.S. contributions for its continued existence. It should be given careful scrutiny for its lack of internal management procedures, particularly with regard to accountability for U.S. excess equipment turned over to the ICCS following the implementation of the Paris peace agreements.

Article 18 of the Agreement on Ending the War and Restoring Peace in Vietnam provided for the establishment of an International Commission for Control and Supervision (ICCS) to supervise and control implementation of those provisions of the agreement listed in article 18, through observation and investigation of violations.

The ICCS is composed of representatives from four countries: Iran, Indonesia, Hungary, and Poland. (Iran became a member in 1973 after Canada withdrew in frustration.) The total number of personnel is 1,160, or 290 from each of the 4 countries. Their headquarters is in Saigon with subsidiary teams located throughout South Vietnam.

The Commission has been unable to perform many of its prescribed functions. The Communists have refused to permit ICCS teams into much of the territory controlled by them, particularly in the border areas through which military equipment is being brought into South Vietnam. The agreement also called for the Two Party Joint Commission to accompany the ICCS teams and the Communists refused to permit GVN representatives into areas they control. An even greater impediment is the PRG refusal to provide security for the Commission teams.

The Communists have also interfered with the operations of the ICCS. In a flagrant disregard for the ICCS, Communist gunners shot down a well-marked ICCS helicopter in April 1973, killing four members of the Commission.

Pursuant to the cease-fire agreements, the costs of operating the Commission were to be shared primarily by the four parties to the agreement who were each to pay 23 percent of the budget and the four countries who were members of the Commission agreed to pay 2 percent each to cover the remainder of the ICCS budget.

The parties and members of the Commission have not yet agreed on a budget although the Commission has been in existence for more than 16 months. Initially, and pending adoption of a firm budget, an expenditure level of $28.4 million was set and contributions levied against that figure. To date only the United States and South Vietnam have fully met their obligations. Contributions through March 31, 1974, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Million</th>
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<tbody>
<tr>
<td>United States</td>
<td>$9.2</td>
</tr>
<tr>
<td>South Vietnam</td>
<td>6.2</td>
</tr>
<tr>
<td>North Vietnam</td>
<td>2.2</td>
</tr>
<tr>
<td>Provisional Revolutionary Government</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19.3</strong></td>
</tr>
</tbody>
</table>
In the meantime the North Vietnamese have advised the Commission that no further payments will be forthcoming. The PRG is assumed to follow suit.

No contributions have been received from any member countries of the Commission and it is unlikely that any will be forthcoming. Based upon the $28.4 million figure, all member countries have monetary claims for per diem, travel, and other expenses which exceed the 2 percent which they owe. (Each member country pays its own soldiers.)

The ICCS is now broke. To help it meet its obligations through June 30, 1974, U.S. officials in South Vietnam have requested $6.3 million in addition to the $9.2 million already contributed. In response to this request the Department of State approved a contribution of $1.2 million on May 20, 1974, bringing the total U.S. contribution to $10.4 million. Further consideration is being given to an additional contribution before July 1, 1974, of up to $5.1 million, depending upon the availability of fiscal 1974 funds. This would increase the total U.S. contribution to the ICCS for the first 17 months of its existence to $15.5 million.

For fiscal year 1975 the executive branch is requesting $27.7 million for the ICCS. Of this amount $16.5 million is intended for the operation of the ICCS and $11.2 million would be used to repay the supporting assistance and contingency fund accounts for the moneys drawn from those two accounts for the ICCS in fiscal year 1974.

The survey team was informed in Vietnam that ICCS members have reported being told by North Vietnam's Le Duc Tho that he has assurances from the American Secretary of State that the United States would shoulder the burden of ICCS costs. This course of action is not altogether unreasonable if for political and diplomatic reasons the continued existence of the Commission is important to U.S. policy in Southeast Asia. Heretofore, however, there have been no auditing or accounting procedures established within the Commission to monitor the use of moneys made available. If the United States is to be the primary source of funds, it should insist upon a full, effective, and complete auditing and accounting program.

In addition to monetary and budget support, the United States also made substantial amounts of surplus equipment (automobiles, air-conditioners, office furniture) available for the use of the ICCS. The exact location, condition, and quantity of this equipment is not known and efforts to conduct a physical inventory have not been successful.

U.S. officials in Vietnam should be directed to exert every effort to determine how much U.S. equipment has been made available to the ICCS and develop some system of accountability.

14. Failure of the United States to give economic aid to North Vietnam, as provided for under article 21 of the cease-fire agreements, may have had a more important effect on Hanoi's subsequent behavior than is generally recognized.

There are six different statutes which prohibit U.S. assistance to North Vietnam without prior congressional approval. However, in the cease-fire agreement signed in Paris, the United States agreed to "contribute to healing the wounds of war and to postwar recon-
struction of the Democratic Republic of Vietnam and throughout Indochina. To date, the executive branch has not requested authority to provide assistance to North Vietnam.

Failure of the United States to provide such assistance may be a factor in the refusal of the Government of North Vietnam to abide by provisions of the cease-fire in Indochina. It may also be a factor in the refusal of the Communists to permit the U.S. Joint Casualty Resolution Center to investigate the approximately 2,300 cases of U.S. personnel still unaccounted for throughout Indochina.

According to U.S. officials in South Vietnam, the North Vietnamese have on a number of occasions indicated that the United States was violating the terms of the agreement by not furnishing economic assistance to North Vietnam. This point was emphasized in a letter to the Chairman of the International Commission for Control and Supervision on April 4, 1974, when the North Vietnamese Government formally rejected the proposed budget for the ICCS and stated that:

Once again, the Ministry of Foreign Affairs of the Democratic Republic of Viet Nam reiterates its view that, when the U.S. Government is refusing to correctly implement many essential provisions of the Paris Agreement, on Viet Nam, including Article 21 regarding the U.S. Government's obligation to contribute to the healing of the wounds of war in the Democratic Republic of Viet Nam, the implementation of Article 18 of the Paris Agreement providing, inter alia, for contributions to the expenditures of the I.C. will also be hampered. Therefore, the Democratic Republic of Viet Nam feels it very regrettable not to be in a position to accept the aforesaid draft budget of the I.C.

Since article 18 of the Paris agreements provides for the enforcement and supervision of the cease-fire, the cooperation of the North Vietnamese is essential if the cease-fire is to be effective. On the basis of the above quoted letter, it would appear that economic assistance from the United States may be more important to the North Vietnamese than is generally recognized.

The North Vietnamese have serious economic problems. They have not yet recovered from effects of the U.S. bombings or from the typhoon that destroyed one-fifth of their rice crop last year. Furthermore, they are short of manpower in general and skilled management in particular. Economic and technical assistance from the United States would be of considerable value.

U.S. economic and military assistance has strengthened South Vietnam economically, militarily, and politically. This strength makes it unlikely that the North Vietnamese can win a military or political victory in the South in the foreseeable future, if ever.

The question is whether, under the circumstances, the North Vietnamese will be willing to abandon the struggle in the South in return for substantial economic assistance from the United States. If so, there may be the possibility of tradeoff between such assistance and closer adherence to the provisions of the cease-fire agreement by Hanoi, including provisions relating to the resolution of the missing-in-action question.
CAMBODIA

1. The military situation of the Khmer Republic has worsened considerably in the past 2 years.

Although Cambodia is slated to receive $110 million in "Indochina postwar reconstruction" assistance, the hostilities are far from over for that country's 7.8 million people.

The struggle between the forces of the Government of the Khmer Republic (GKR) and those of the insurgents, now largely under the control of the Khmer Communist party, is daily being waged with undiminished intensity.

Over the past several years, the Khmer Communists have succeeded in gaining control over much of the countryside and about 40 percent of the population. Many provincial capitals are surrounded; some must be resupplied entirely by air.

American military air transports are an integral part of these air-drop operations. During fiscal year 1974 U.S. airdrop sorties in C-130 aircraft have averaged 693 per month, dropping an average of 9,006 short tons of cargo.

Phnom Penh itself is an enclave, with all major roads leading to it interdicted. Its principal line of communication is the Mekong River which allows resupply of the city by convoy. In recent weeks those convoys have come under renewed pressure by the other side. Should the river be cut, Phnom Penh also would require resupply by air.

Despite repeated attempts by the Lon Nol government to open negotiations toward a cease-fire and peace settlement, the other side has shown no inclination to talk and has, instead, pressed for a military victory. Repulsed in their attempts to take Phnom Penh itself, the Khmer forces have centered their attention on provincial towns where they have met with some recent successes.

2. Beset militarily, riven by internal political divisions, and lacking a firm sense of purpose, the Lon Nol government in Phnom Penh is fully dependent for its existence on the military and economic assistance of the United States.

Its once-large reserves now all but depleted, its exports earnings low, and its economy wrecked by the war, Cambodia exists from day to day largely on American aid. If that aid were removed, the present government would fall and the Khmer Communists could well prevail within a short time.

Despite its perilous military and economic situation, there is strikingly little sense of urgency evident in Phnom Penh. Reports of high living among top military and civilian officials are prevalent. Until quite recently, Mercedes automobiles, television sets, and delicacies such as canned asparagus and Hennessy cognac continued to be imported.

Although there is conscription, the sons of top officials are said to escape military service. The students, who are an important urban class in Phnom Penh, continue their studies and disdain military life as if the capital was not surrounded.
The government has been marked by constant political maneuvering. During our visit, American officials were encouraged by the government formed by the new premier, Long Boret, who brought with him into the cabinet some gifted young professionals. The formation of a four-man ruling directorate which includes Lon Nol, Sirik Matak, Long Boret, and military chief of staff Gen. Sothene Fernandez, is also seen as a forward step. Subsequently, however, there have been new political troubles.\(^1\)

Cambodia presents the United States with a dilemma. If the United States continues to give aid, there is no guarantee that it will be used efficiently, effectively, and without corruption. Moreover, U.S. aid provides no guarantee that the Khmer Republic will eventually prevail, or even survive. On the other hand, withdrawal of aid would almost certainly doom the present government and could lead to an early Communist victory.

That eventuality would have broader implications for U.S. policy in Southeast Asia. South Vietnam would feel additional pressures from North Vietnam on its western borders. Thailand would be faced with a serious new security threat. And within Cambodia itself, a bloodbath against those who cooperated with the Americans could develop.

3. Current maximum U.S. objectives in the Cambodian conflict are a stalemate on the battlefield which—hopefully—would lead to a "Laos-type" solution featuring a coalition government in which the Communists undoubtedly would play a major role.

U.S. officials profess confidence that with U.S. material and diplomatic support the Khmer Republic's demonstration of military and economic viability will persuade their opponents to move to a political solution of the conflict.

The solution most frequently mentioned is a "Laos-type" agreement, in which the Khmer Communists would share power in Phnom Penh with GKR officials in a government of national unity, following a cease-fire.

This eventuality is dependent upon a battlefield stalemate in which the insurgents find themselves unable to gain their objective of decisively defeating the GKR; but with the GKR unable to do much more than react to Khmer Communist military threats.

U.S. officials hope that if the Communists' dry season campaign, which will end in June with the coming of monsoon rains, results in a standoff, the other side may be willing to begin talks.

Several factors put that outcome in doubt, at least for the foreseeable future:

First, their recent military successes at Oudong, near Lovek, and the prospect of cutting the Mekong lifeline to Phnom Penh, may convince the Khmer Communists that they should fight rather than talk at least until the end of the next dry season in June 1975.

Second, autumn 1974 holds the prospect that the Khmer Republic may be ejected from the United Nations General Assembly and the

\(^1\) Since this report was prepared, all members of the Republic Party, including its leader, Sirik Matak, have resigned from the government.
Communist delegation seated in its stead. Because of the importance of that move to their cause, the Khmer Communists are not likely to be interested in talks until after the seating issue has been resolved, and then only if they have been rebuffed at the United Nations.

Third, even if the Khmer Communist leaders adopt a more flexible posture, there are no indications that they would drop their refusal to negotiate with the present leadership in Phnom Penh.

4. U.S.-sponsored programs to shore up Cambodia's economy, including the commercial import program and the multilateral exchange support fund (ESF), have failed to bring economic stabilization and have helped fuel a black market.

In 1971 elaborate efforts were made to reform Cambodia's economic system to provide for stabilization under wartime conditions. Upon the apparent adoption of those reforms by the Khmer, the United States provided the government with a $20 million cash grant, stepped up its commodity import program, and sponsored a multilateral fund for exchange support.

Since the beginning of fiscal year 1972, the United States has provided $181.9 million in import support, and $216.4 million in Public Law 480 food imports. Through the ESF, third countries have provided an additional $17 million in import aid.

Notwithstanding this substantial economic assistance, Cambodia has experienced drastic inflation that increased prices 472 percent between January 1, 1972, and January 1, 1974. The cost of living increased 275 percent in the same period.

Interestingly, while the working class price index was increasing by 300 percent during that period, the price index of the wealthier "European" class rose only 200 percent.

Even as scarcities in basic commodities were fueling inflation, luxury goods such as automobiles, television sets, cognac and wine, and canned asparagus continued to be imported through the ESF. Only recently was an extensive "negative list" adopted at U.S. urging to prevent further imports of luxuries.

A flexible exchange system adopted in 1971 in order to "permit the maintenance of a realistic exchange rate in the face of a serious inflationary situation," has failed miserably. Today, the official exchange rate is about one-half the black market (and Hong Kong) rates.

A black market flourishes in Phnom Penh, fueled in part by goods imported under the U.S. commodity import program and the ESF.

The drastic changes in the fortunes of war which have occurred since 1971 are given by U.S. officials as the principal reason for the current chaotic state of the Cambodian economy. Reduction of agricultural and industrial production due to the conflict required greatly increased imports, for which Cambodian foreign exchange reserves were insufficient, officials point out.

While those are contributory causes, they do not adequately explain the extent of the economic disarray which prevails in Cambodia today.
5. The U.S. Mission has begun a program of assistance to Cambodian refugees. The program minimizes corruption and maximizes efficiency through the use of American and international voluntary agencies. Some new U.S.-supported refugee resettlement projects, however, raise serious questions.

Although pressed by Members of Congress since 1971 to undertake programs for refugees in Cambodia, the executive branch was reluctant to become so involved until the widespread Communist offensive in 1973 roughly doubled the refugee population to more than 1 million persons.

Working on a crash basis, USAID has furnished direct grants to international voluntary agencies, including the Catholic Relief Services, CARE, World Vision, and the International Red Cross, to provide emergency assistance in food, shelter, household utensils, and medical supplies.

From a $1.2 million level of refugee aid in fiscal year 1973, U.S. spending for such programs has increased to an estimated $20.4 million in fiscal year 1974.

Use of the voluntary agencies to distribute refugee aid, not only adheres to the 1973 mandate of Congress in the Foreign Assistance Act (section 821) but also provides the most efficient delivery of services with the least possibility of corruption—an ever present danger in Cambodia. The staff study team visited a number of voluntary agency projects around Phnom Penh and Kampong Thom and was impressed by the work which has been done. The Cambodian example indicates that such agencies continue to fill a useful role in foreign aid.

Beyond emergency assistance to refugees, however, the United States provides support for a program of accelerated refugee resettlement. Since this undertaking exceeds present capabilities of the voluntary agencies, the United States has prevailed upon the government to establish a new, independent, and autonomous Khmer organization known as the Resettlement and Development Foundation (RDF).

Managed by a group of seemingly dedicated Cambodian businessmen (some disinclined from their industries by the war), RDF is seeking to resettle 5,000 families this year on sites near Phnom Penh and Kampong Thom. It is not likely to reach that goal because of difficulties it is experiencing in getting implementing legislation through the National Assembly and security problems.

The study team learned that, unlike Vietnam, the land on which the refugees are to be resettled would remain in the hands of the original owners. The settlers will pay a token rent for the duration of the conflict and then presumably could be forced to move again with the land reverting to the landlord. In the meantime, the RDF—with U.S. financial aid—will have spent large sums on dikes, houses, roads, and other improvements. Those benefits will potentially accrue to the landowners, rather than the refugees.

This raises the serious question whether resettlement should not be linked with a program of land reform in Cambodia.

Another serious question involves the security of the relocated families. Sites near Phnom Penh and Kampong Thom are considered to be in “safe” areas, but have proven to be vulnerable in the past. Refugees located south of the capital have been forced to flee once before and their houses were destroyed by the insurgents. Our visit to
Kampong Thom occurred several days after unarmed workers plowing land for refugee farms were attacked, the foreman killed, and four American-supplied tractors driven off.

6. The Lon Nol government has not begun to meet its obligations under the Geneva Convention by transferring Vietnamese prisoners of war to the now-empty POW camp built and equipped by U.S. MAP funds.

Although a signatory of the Geneva Convention on Prisoners of War, the Cambodian Government has yet to meet its treaty obligations with respect to the estimated 400 to 500 North Vietnamese and Vietcong prisoners which it now holds.

The International Committee of the Red Cross has made repeated representations to the Khmer on behalf of these men, only to be told that the Vietnamese prisoners are being held “temporarily” until they can be transferred to a proper POW camp. Some prisoners have been held in “temporary” status for months.

Since last October a POW camp built and equipped by U.S. military assistance funds has been available for occupancy on Ko Kong Island in the Gulf of Siam. A camp commandant and some 100 security guards have been located there for some months, without a single prisoner.

The GKR rationale for not using the camp—which would be subject to ICRC inspections—has varied. Initially, it claimed that it did not have transportation to take the POW’s to the Ko Kong camp. When the ICRC offered to provide transportation, the government claimed to fear lack of security in the camp vicinity, though the area generally has been a quiet one.

Although the United States has urged the GKR to use the camp and abide by the Geneva Convention, further representations may be warranted if only to assure proper utilization of U.S. MAP funds. Moreover, it does not help the United States to obtain an accounting for Americans missing-in-action when a U.S.-aided government refuses to abide by its obligations under the Geneva Convention in dealing with North Vietnamese prisoners.

7. The cost of U.S. military aid to Cambodia has escalated rapidly during the past year, particularly because of greatly increased ammunition expenditures.

In fiscal 1973, U.S. military assistance to Cambodia totaled $181.7 million. With the cessation of U.S. bombing missions over Cambodian territory, use of ammunition by the Khmer armed forces, known as the FANK, increased dramatically.

At the same time, the cost of certain types of U.S.-supplied ammunition was increasing sharply because of general inflationary pressures.

As a result, the cost of Cambodian MAP for fiscal year 1974 may be more than triple that for fiscal year 1973. To the $125 million furnished from MAP funds in fiscal 1974 must be added a special drawdown of Defense Department stocks of $250 million pursuant to Presidential determinations of December 24, 1973, and May 13, 1974.

Some cost reduction could be achieved by curbing excessive ammunition expenditure by FANK, a frequent problem with ill-disciplined and static defense-minded troops. Military officials in Cambodia and
at CINCPAC appear concerned about the problem and are attempting remedial efforts.

Those measures, however, fall short of the "across-the-board" cuts in ammunition deliveries which were successfully instituted by the United States in South Vietnam as a means of curbing excessive ARVN ammunition use.

Since almost $300 million of the $362.5 million MAP programed for Cambodia during fiscal year 1975 will be for ammunition, a cut in those costs—now running between $800,000 and $1 million per day—would be effective in producing savings.

Should other efforts to reduce excessive ammunition expenditures fail, U.S. military officials would be well advised to initiate in Cambodia an ammunition percentage cut similar to that which was applied in Vietnam.

8. The law and intent of the congressionally established ceiling of 200 Americans in Cambodia has been violated daily by the U.S. Mission in Phnom Penh.

Section 656 of the Foreign Assistance Act, adopted in 1971, states that the total number of American military and civilian officials "present in Cambodia at any one time shall not exceed two hundred."

It is clear from the legislative history of section 656 that the Congress sought to restrict numbers of American officials working in Cambodia as a means of limiting the extent of U.S. involvement in that country. To that extent, the implementation of the ceiling has been successful.

Despite the plain wording of the law, and its obvious intent, however, an average of 215 to 222 American military and civilian officials are daily at work in the U.S. Mission in Phnom Penh or elsewhere in the country.

The rationale provided by the Embassy is that not more than 200 American officials are present in Cambodia overnight, although the Embassy admits, however, that more than that number are "present in Cambodia at any one time" during working hours. Embassy officials do not interpret this practice as contravening the law.

In order to insure that no more than 200 official Americans are present overnight, the Embassy has initiated a procedure called "headspace." Administered by the deputy chief of mission, headspace sends personnel out of the country by nightfall to make room for TDY people coming in. In many cases individuals, deemed expendable for a limited period of time, travel to Bangkok for several days' inactivity, collecting per diem for each day out of Cambodia.

No estimate of the cost of this procedure was available at the Embassy. It must, however, be expensive since the total includes air fares, per diem expenses (both for those going out and those coming in), and normal salary for days not worked.

The Congress may wish to consider remedial action in order to bring Embassy practice in Cambodia in compliance with the law.2

2 Since the return of the study team to the United States, the committee has been informed that remedial action is being taken by the U.S. Embassy in Phnom Penh.
9. Although no evidence was found that U.S. Mission personnel are giving tactical military advice in combat, Americans are involved in advising Cambodians on major aspects of military policy, management, and operations.

Five separate acts of Congress since 1970 prohibit the United States from acting in a military advisory capacity in Cambodia. From time to time, press accounts have alleged violations of these injunctions by U.S. military personnel.

As a result of its investigations, the staff survey team could find no evidence that Americans are acting as combat unit advisers with the FANK. Members of the Defense Attache’s Office (DAO) regularly go into the field to gather information. While there, their actions—or even their questions—may have some impact on the actions of Cambodian field commanders. There is no indication, however, that this practice has been systematized or is being used by DAO personnel with the intent of violating the law.

It is clear, however, that American officials have not hesitated to give the Cambodians advice on military matters ranging from command structure and training to management and logistics.

Much of this U.S. involvement flows from the massive deliveries of American military equipment.

In order to insure proper end use of equipment, the United States has found it necessary to help the Cambodians to develop ports to receive the equipment, repair roads and bridges on which to move it, train personnel to operate it, build housing for trainees, establish supply systems for efficient distribution and reorder, create facilities for maintenance and repair, and educate them to run the logistics and other systems.

This has resulted in constant, wide-ranging communication between Americans and Cambodians, with the Americans telling Cambodians what to do.

Finally, the American Ambassador is energetic in carrying out what he perceives to be his mission. By his own admission he does not hesitate to give strategic military advice to Lon Nol or tactical advice to subordinate military commanders. It is his interpretation of existing laws that Congress did not mean to preclude “advising” at the level at which he performs.
LAOS

1. U.S. military and civilian officials in Vientiane appear to be making good faith efforts to comply with the terms of the cease-fire in Laos, to facilitate the peace, and to aid the new Provisional Government of National Unity.

Since the February 1973 cease-fire accord in Laos, hostilities have virtually come to an end and a new coalition government—the Provisional Government of National Unity (PGNU)—is beginning the work of moving from wartime concern to peacetime reconstruction and development.

The United States has endeavored to facilitate this transition by supporting the political solution that is evolving.

The American Ambassador, the defense attaches, the AID Director, and their staffs appear genuinely dedicated to making the accommodation between the Communist Pathet Lao and the Royal Lao Government work.

U.S. actions in pursuance of that objective include the following:

The 18,000 Lao and Meo irregulars who had operated largely under American control are being demobilized or integrated into the regular Royal Lao Army.

U.S.-financed and directed Thai "volunteer" forces in Laos, which totaled some 18,000, have been withdrawn to Thailand. The last group of Thai left Laos on May 22.

The DAO's office in Laos, which once numbered 213, was being cut back to 30 U.S. military by the end of June. The reduction was being accomplished ahead of schedule and was completed on time.

This policy of military disengagement and cooperation with the PGNU is not without risk.

Some observers look for a total Communist takeover in Laos by 1976. Others fear that, as has occurred before, the coalition will be destroyed by right-wing military officers backed by conservative politicians and businessmen.

While the study team was in Laos, a government crisis appeared in the offing. The King had announced that, as is the custom, he would go to Vientiane to formally open a session of the National Assembly, a body which the Pathet Lao does not recognize as legitimate.

The Embassy was careful not to involve itself in the issue, preferring to let the Lao parties work out a solution. A crisis was averted when both sides agreed that the National Assembly should not be convened this year.

The Embassy view that "there is an immense desire on all sides to see the new government work" proved correct—at least in the first test of the coalition's viability.

(28)
2. As a result of the cease-fire, the military assistance program for Laos can be reduced substantially.

The executive branch request for fiscal year 1975 military grant aid to Laos totals $90 million including supply operations, which is more than the $78 million furnished in fiscal year 1974 while the fighting was going on.

The program was developed before the cease-fire and the coalition government. Despite the changed circumstances, the Department of Defense had not requested the DAO in Laos to submit downward revisions in program needs.

Thus, the Congress is being asked to authorize the full amount even though it is widely recognized that the cease-fire has made possible substantial savings.

In a preliminary estimate, U.S. military officials in Laos suggested that up to $21 million could be saved on operation and maintenance costs, ammunition requirements, and air contracts.

A "barebones" budget, sufficient to keep the Royal Lao Army functioning, may require $25 to $30 million. Provision of some new items of equipment, maintenance of overseas training programs, and improvement of RLA capabilities in selected areas would require additional funding up to a total of $50 million.

U.S. officials in Laos said they could "live with" a fiscal 1975 program at the latter level.

Regardless of the size of the program, contingent U.S. military assistance to the Royal Lao Armed Forces is necessary to maintain the balance which supports the coalition. Further, U.S. programs help implement an orderly demobilization of the RLAF to a peace-time level, while avoiding economic, political, and social problems which could result from an overly rapid reduction.

Once demobilization has been accomplished, continued reductions in military assistance for Laos should be possible.

3. The Pathet Lao members of the provisional government have made clear their interest in continued foreign economic assistance to Laos. It is in U.S. interests to help provide such assistance.

If the concept of Indochina postwar reconstruction assistance has any validity, it is in Laos where a cease-fire prevails and efforts are going forward to repair the damage of war and begin the task of economic development.

For fiscal year 1975, the executive branch has recommended a program of $55.2 million, some $15 million more than the fiscal year 1974 program. It would be spent in three basic areas:

(a) Humanitarian.—About $13.3 million would be devoted to humanitarian assistance, principally in the permanent resettlement of refugees.

(b) Reconstruction and development.—Repair of highways and access roads will have priority; together with agricultural development, construction of a water control project, and the erection of a dike to prevent the flooding of Vientiane. Total spending would be $22.4 million.

(c) Stabilization.—Funding of $17.5 million is being requested for economic stabilization support, most of it to be expended through the multilateral Foreign Exchange Operations Fund (FEOF). Although
created in 1964 to offset wartime inflationary pressures, FEOF will still be needed, according to AID officials, to combat continued budget deficits and inflationary pressures.

Although the FEOF is a "capitalistic" device for promoting economic stabilization, the PGNU's foreign minister, a Communist, supports the use of this tool of economic policy. He has also indicated the continued desire of Laos for foreign assistance from Western nations, including the United States.

So long as aid is welcome in Laos, and contributes to stability in Indochina, U.S. officials in the area believe that assistance should be continued. The United States plays an important role as a guarantor of the Laotian cease-fire agreement. Any pullback of aid which resulted in economic crisis in Laos would likely endanger the coalition.

4. **Although the FEOF has contributed to preventing a runaway inflation, it should be phased out as soon as possible.**

USAID officials state that the FEOF has supplied essential supplementary resources and helped to maintain reasonable economic stability in Laos.

From 1965, when FEOF went into effect, until 1971, the increase in the Vientiane cost of living was only 7 percent per annum. In recent years, worldwide inflationary pressures have produced greater increases (27 percent in 1972 and 43 percent in 1973)—but runaway inflation, such as in Cambodia, has been avoided.

At the same time, FEOF has been the target of considerable criticism because it has permitted wealthy Laotians to obtain luxury items from abroad. Store windows in downtown Vientiane are filled with merchandise which the average person clearly cannot afford to buy.

Some observers believe that social discontent has been aided and abetted by FEOF. The Communists can point to the conspicuous consumption by an elite—consumption which the mass of Laotians who cannot afford FEOF-imported goods simply cannot match.

There is merit in this argument. It suggests that FEOF should be phased out as soon as possible, or that the United States should withdraw its support from it while letting other nations continue it if they choose to do so.

USAID funds thus saved could be put to use in development efforts which would permit the money to be channeled to the poor majority rather than to the rich minority.

5. **Many refugees in Laos have been, and are being, resettled on a temporary basis because of a reluctance to return to their original homes in Pathet Lao areas; U.S. support of those resettlement programs raises serious questions.**

Unlike in Vietnam and Cambodia, refugees in Laos—numbering some 370,000—have never been in camps. Those dislocated by the war, principally Meo and other hill tribes, have been temporarily relocated in relatively safe areas where they have built new villages and practice their traditional "slash and burn" agriculture.

Because of severe overcrowding, the mountains and the valleys in these regions are rapidly becoming denuded of trees, the soil is becoming depleted, and dangers increase of the ultimate creation of a wasteland. The United States has expressed concern about Laotian economic development. As detailed elsewhere in this report, the United States has undertaken limited economic assistance to Laos and has promised to continue this assistance. The United States is, however, taking a careful look at its role in Laos, and at Laos's future as a partner in Indochina.
US Aid officials are counting on many of the refugees to return to their homes in Communist-held areas as conditions in the relocation areas worsen, despite the people's misgivings about such a move.

In the meantime, the United States will continue to provide food, other relief supplies, and medical care to many refugees who are not self-sufficient. As many as 115,000 refugees may still require relief aid by the end of fiscal year 1975.

As a result of a tour of relocation areas near Ban Xan and Long Tieng, it is clear that substantial inputs of U.S. financial support continue to be made in the region in the form of roads, fish hatcheries, medical clinics, schools, and other facilities.

The program, however, raises serious questions:

(a) Is it wise to expend resources in developing a region which can ultimately be the permanent home of only a portion of the refugees currently located there?

(b) Will many of the mountain people return to their former homes, as predicted, or will they continue to subsist in their present locations until agricultural and ecological disaster overtakes them?

(c) In the long run, will the many U.S.-sponsored improvements to the relocation regions accrue to the benefit of the refugees or to the military officials of the districts and provinces involved?

Because of many imponderables, firm planning for Lao refugees is extraordinarily difficult. Nevertheless, more thought should be given to the most efficient use of U.S. funds in obtaining permanent resettlement of the majority of refugees as soon as possible.

This may require negotiations and joint planning with the Pathet Lao to create conditions necessary to permit large-scale transfer of Meo and other tribespeople to their former areas. The use of an international agency to coordinate such an effort—thus permitting the United States to maintain a "low profile"—also would seem desirable.