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*Chapter 13
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Chapter XIII

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Vietnam

Net Commitments by Appropriation Category

(U.S. Fiscal Years - Millions of Dollars)

| | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | Total 1962-1967 | 1968 (Gross) |
|---|------------|------------|------------|------------|------------|-------------|--------------------|-----------------|
| <u>Grand Total</u> | <u>111</u> | <u>133</u> | <u>159</u> | <u>216</u> | <u>584</u> | <u>467*</u> | <u>1,671</u> | <u>400</u> |
| Development Loans | - | - | -2 | - | - | -1 | -3 | - |
| Technical Cooperation/ Development Grants | 1 | 6 | 4 | 7 | 8 | - | 26 | - |
| Supporting Assistance | 86 | 116 | 119 | 196 | 461 | 467 | 1,445 | 394 |
| Contingency Fund | 23 | 12 | 37 | 12 | 114 | -3 | 195 | - |
| Other, Including Inter- national Organizations | - | - | - | - | 1 | 5 | 6 | 7 |

* Excludes reimbursements by the Department of Defense of Supporting Assistance funds

Source: A.I.D. Operations Report

(Totals may not add due to rounding)

A. Introduction

Economic aid to Vietnam (including P.L. 480) ranged from about \$200 million in fiscal year 1963 to a high of over \$700 million in fiscal year 1966. Beginning in 1962, there were progressive changes in program objectives from those of conventional economic development to basically political and security objectives in support of the constantly increasing war effort. Throughout, there was a continuing objective of maintaining economic stability with the commercial import program as the principal tool. The political-security effort was primarily manifested in a "grass-roots" approach involving intensified and decentralized operations in the provinces to strengthen the image and effectiveness of the Government of Vietnam there in competition with the Viet Cong. A related element of our program included war relief activities, such as refugee relief and direct medical care. A.I.D. was faced with a new and unprecedented role of trying to help build a nation politically, militarily and economically -- all in the midst of a war.

In this new demanding and evolving role, A.I.D. and other U.S. Government agencies were necessarily experimenting to find what activities and methods would best support the

concomitants of counter-insurgency and political development.

And there was never time in the heat of war to fully dissect theories and prove them in pilot operations before launching into large-scale operation.

In addition to organizing a new provincial operations element of the A. I. D. program, several changes were made in the conventional A. I. D. fields of activity. For example:

a. Public Health activities were converted from advisory services on preventive medicine to an unprecedented program of direct medical care for sick and wounded Vietnamese with U. S. and other foreign medical teams.

b. Education programs were diverted from long-range development of an integrated educational system to a crash program of providing new elementary schools in the rural areas in order to gain political impact.

c. Agriculture programs dropped the experiment station-extension approach and supported large operations with immediate impact, such as fertilizer distribution, corn-hog distribution, country-wide pest control, large-scale distribution of new seeds, and more favorable prices for agricultural produce.

d. Refugee relief was converted from a small advisory-commodity effort to a large-scale joint operation of A. I. D. and U. S.

voluntary agencies using quantities of imported relief and reconstruction materials.

e. Supply management was upgraded to a modern logistics operation with hundreds of Americans in port management, coastal sealift, airlift, warehouse construction and operation, repair and maintenance, etc.

Vietnam, historically plagued by divisive tendencies, has found these exacerbated by insurgent warfare. Ethnic, religious, political and regional differences have several times led to the brink of civil war (as distinguished from coups) even while the nation was under Viet Cong attack. These are illustrated by: the Montagnard-Vietnamese mutual antipathy, the Buddhist-Catholic split, the friction among northern, central and southern Vietnamese, and the open animosity among several political parties -- some dating back to pre-Independence resistance movements. The much-publicized military-civilian competition at the national level adds yet another divisive ingredient.

Vietnam's political frailty as a nation and the approximately three years of extreme political instability immediately preceding and following the overthrow of Diem have made the administration of the aid program extremely difficult. During these years, A. I. D.

was forced to increasingly undertake more direct operations with its own personnel and initiative as governments and cabinets changed so frequently that there was seldom time to explain, negotiate and start operations with a new government before it was replaced by another. Under these circumstances, A. I. D. often provided the only effective element of management and program continuity and momentum at both the national and provincial level.

B. The Program Setting

The U. S. assistance program in South Vietnam is unlike any other. Conventional foreign assistance concepts and criteria have necessarily been subordinated to military and political considerations. Both at home and abroad the climate in which A. I. D. has had to operate has been heavily charged by controversy stirred up by the war itself. A. I. D. personnel have had to work in what is essentially an all-country combat zone.

Before Geneva

In February, 1950, Great Britain and the United States recognized the State of Vietnam, headed by ex-Emperor Bao Dai, as the legitimate government. When France concluded agreements with

Laos and Cambodia similar to the one with Vietnam, the three countries became the Associated States of Indo-China and were accorded diplomatic recognition by more than thirty other nations.

In May, 1950, the U.S. decided to give aid to Bao Dai through France, and the U.S. Economic Mission arrived in Saigon. By September, 1951, a U.S. -Vietnamese agreement for direct economic assistance was also signed. The United States gave the state of Vietnam military and economic aid totaling about \$2 billion. Military aid was granted indirectly through France from December, 1950, until late in 1954. Economic aid was sent directly to Vietnam, beginning in September, 1951.

The Early Diem Period

In 1954, with the Geneva Conference nearing a conclusion, Bao Dai, who was living in Paris, appointed as Prime Minister of the State of Vietnam Ngo Dinh Diem, a longtime nationalist and member of a family influential in Vietnam for two centuries. Despite much subsequent hindsight, Diem's appointment was well received by both the Vietnamese people and foreign observers.

After civil war and revolution, preceded by a century of colonial rule, there was a desperate shortage of administrative skills at all levels. Most of the industrial plants, particularly

textile mills, and mineral resources were lost to the North. War damage had not been heavy, except for Viet Minh sabotage of railroads and bridges, but there had been little regular maintenance. Most of the technical schools were in Hanoi. The taxes were not being collected.

The "refugee problem" had begun on a major key as almost one million northerners left Ho Chi Minh's Vietnam after Geneva gave them a choice.

The South had some advantages over the North, particularly a rice surplus and superior agricultural land, but on the whole the chances for survival did not appear bright. They would have seemed even dimmer to one who knew that rural cadres had been sent north after partition for insurgency training, and would be returning to their villages to dig up arms caches and organize what was later called the "VC infrastructure."

Meanwhile, Diem's own political future needed clarifying. Bao Dai was still absentee chief-of-state, and Prime Minister Diem's writ did not run even in some parts of Saigon.

Rise and Fall of Diem

In October, 1955, Diem solved his constitutional problem by having himself chosen chief-of-state in a national referendum.

The fact that he lost only two percent of the votes cast a permanent shadow over his right to claim an honest mandate (Vietnam is not a country given to unanimity), but he proclaimed the Republic of Vietnam, with himself as President. A constitution written under his direction was adopted in 1956. That was the same year the so-called Geneva Agreements, which had been rejected by Diem and not signed by the United States, had set for a referendum on unification.

Diem never sought to establish his government on a popular base. Instead, he utilized traditional Vietnamese and French colonial techniques of ruling from the top down, leaning on elite groups and religious minorities to govern. Local autonomy did not flourish and power settled at the province level in the hands of province chiefs appointed by the central government.

However, Diem did seem to grasp the nature of the threat to South Vietnam better than his American advisors during the late 1950's. For instance, when he favored emphasis on local militia in the rural areas to combat the rising Viet Cong insurgency, U. S. military advisors insisted on organizing and equipping the Vietnamese army to combat a massive invasion from the North similar to that experienced in the Korean war. However, for a number of years,

while the Viet Cong tightened their hold on the countryside, this pattern of aggression did not materialize and the Vietnamese armed forces were ill-equipped to deal with the insurgency. In the economic sphere he favored rural roads to give better government access to the areas being subverted by the insurgents. A. I. D. responded by financing primarily main trunk highways, following the pattern of sound conventional economic development instead of counter-insurgency.

Despite a multitude of shortcomings, in the perspective of the times the early Diem years were in many ways fruitful. Compared with the North, South Vietnam seemed to be moving toward relative peace and prosperity. However, the North began to escalate its terrorism and guerilla attack against the South, which rose sharply in the early 1960's with the establishment of the National Liberation Front. Soon after, the more accurately named People's Revolutionary Party of Marxist-Leninists (PRP) was proclaimed by Hanoi. The Viet Cong were now openly at work.

The United States reacted by establishing in 1962 the Military Assistance Command (MACV) and greatly enlarging the number of both military and civilian advisors.

The Government's major effort to solve the security problem, on which all other rural development efforts depended, was the Strategic Hamlet Program. These hamlets were communities in which the Viet Cong infrastructure would be eliminated. In the Delta area, this was done by creating completely new communities. The hamlets would be fortified and guarded by local self-defense forces and perhaps government troops to prevent reinfection. Borrowed in part from the British experience in Malaya, the Strategic Hamlet Program can claim some successes in Vietnam, and it survives to a degree under the name Revolutionary Development. However, it would have been a miracle if, even with the massive U.S. support that was provided, a government such as Diem's, in that time and place, could have succeeded in so drastically restructuring a rural society. There was no miracle.

In November, 1963, after a series of political convulsions of Byzantine complexity, Diem was deposed by military coup d'etat, and shot. The popular reaction, such as it was, appeared to be relief. However, those who had argued for supporting the regime because there was no real alternative found some vindication in the near anarchy that followed its downfall. At almost the same time, President Johnson took office in the U.S.

Government by Coup

By definition, a coup d'etat, as distinguished from a "revolution," changes leadership without changing ideas. What happened during the two years or so after Diem can be characterized as the latter. Diem had had some success in restraining the sects and the militant Buddhists, and until the last days of his regime in playing off the various military factions one against another. But factionalism and conspiracy, always endemic in Vietnam, flourished. By 1965, what existed was closer to a free-for-all than a government.

As governments came and went during 1964, it became increasingly clear to the U.S. Mission that at the present level of effort, the game was nearly up. A succession of high-level visitors from Washington, including Secretary of Defense McNamara and General Maxwell Taylor, concurred. It was in this context that the so-called American "escalation" took place. To the policy makers, it appeared clear that outside help was needed if the Vietnamese were to have the time needed to get on their feet. The alternative was to accept defeat.

After a series of Governmental changes, leadership eventually stabilized under General Ky in 1966. From this time on, at least into the summer of 1968, the story of government in South Vietnam is for the first time one of evolution. The promised Constituent Assembly elections were held in September, 1967. The Viet Cong called for a general strike, threatened to punish those who voted, and fired on the polling places. Despite everything, the voter turnout was heavier than in many American elections. In the following months elections were held for village and hamlet officials where security permitted. A Constitution was drafted and adopted, and a republican form of government, headed by a president and vice president, was voted into office in an election judged by foreign observers to meet western standards of fairness. It was somewhat blemished by the exclusion of some political factions, but a broad spectrum of political opinion was represented, and there was no suspicious unanimity. In Saigon, indeed, the victorious Thieu-Ky ticket ran behind an opposition slate. Finally, a National Assembly was elected and promptly began to display an independence that showed signs of developing into too much of a good thing.

C. Unique Features of the A. I. D. Program in Vietnam

The principal features which distinguished the A. I. D. program in Vietnam from most other A. I. D. programs might be summarized as follows:

1. Since 1961, top levels of the Executive Branch, including the White House, have been concerned with, and involved in, many aspects of the A. I. D. program in Vietnam. Matters which in a normal program might be handled at lower levels frequently ended up with the Administrator of A. I. D., the Secretary of State, the Secretary of Defense, or the President himself. Beginning in 1964, the White House established its own office concerned with the Vietnamese operations.

2. In addition, there were various interagency policy groups which affected the programs of several agencies including A. I. D. The most important was the Vietnam Coordinating Committee, and the successor Vietnam Interagency Committee, sometimes chaired by a senior State Department official in the Secretary's office, sometimes by a Deputy Assistant Secretary for the Far East, and in later years by a Special Assistant to the President.

3. The Vietnam program generally had top priority for funds, personnel, and staff attention. Although this oftentimes

proved difficult to implement, it was frequently invoked and became a pervasive and disrupting factor in other A. I. D. programs.

4. A new element of the A. I. D. program and mission organization since 1962 derived from the provincial pacification programs. Although A. I. D. had operated some provincial programs elsewhere, the size, nature, and complexity of the Vietnam program far exceeded any previous experience.

5. A. I. D. had to undertake many more "direct operations" in Vietnam than elsewhere. Normally, A. I. D. provides advisors who work with the personnel of the recipient country -- in Vietnam, U. S. personnel often served instead of Vietnamese staff. Typical examples are the fields of logistics and refugee relief, where major operations were sometimes planned, supervised and partially performed by American personnel.

6. Overriding all considerations was a requirement for results now, not later. Normal program procedures had to be modified. The Vietnam program required waivers of standard procedures and beginning in 1962, the entire range of activities which would normally constitute a project were "deprojectized"

(i. e., all of the normal rules for project activities were suspended) and were administered under A. I. D. 's non-project procedures.

7. Personnel requirements grew faster than the existing A. I. D. personnel system could supply. A special Vietnam personnel organization was set up in A. I. D. in Washington. For several years, nation-wide recruitment operations were conducted for Vietnam and hundreds of personnel were borrowed from other U. S. Government civil agencies and from the Department of Defense.

8. In 1967, a separate Vietnam Bureau was established in A. I. D. in Washington with a staff of about 450 -- the only Regional Bureau dealing with a separate country.^{1/}

D. Major Issues in the Vietnam Program 1962-1968

A major revision of the A. I. D. program began in early 1962. This was stimulated by an increasing recognition of the requirements of the U. S. Government counter-insurgency program on the part of A. I. D. top management, coupled with dissatisfaction voiced from the White House-sponsored Special Group for Counter-Insurgency regarding A. I. D. 's performance in support of counter-insurgency efforts.

As a first step, those activities which contributed to counter-insurgency were identified and given a priority status.

Secondly, the Mission was reorganized to focus attention on rural and counter-insurgency programs. This reorientation required significant personnel changes.

Any selection of policy issues during the 1962-1968 period is necessarily arbitrary. There have been literally hundreds. Those following are ones that have come forcibly and repeatedly to the attention of top levels of the U. S. Government in both Washington and Saigon:

Traditional A. I. D. vs "Counter-Insurgency" Approach

Fragmentation of Program and Numbers of U. S. Personnel

Local Currency Funding

U. S. Advisors in Provinces

Militarization of Program

A. I. D. Staffing

Rural Urban Balance Within the Program

U. S. A. I. D. Organization

Administration of CIP

What type of Health Program.

Several major issues are covered in other sections:

Land Reform -- under Agriculture

Deficit Financing -- under Economic Stabilization

Civilian Casualties -- under Health

1. The Counter-Insurgency Approach

For several years a major controversy continued as to the proper role of A. I. D. in the Vietnam counter-insurgency program. There were those who contended that the traditional A. I. D. approach to long-term economic and social development was the best contribution that A. I. D. could make to building a strong government and defense posture. Others felt that in the increasingly hot war atmosphere, this approach had to be either modified or abandoned, with greater emphasis on activities that would affect the attitudes of the peasantry toward the government.

This doctrinal and philosophical problem, with deep programming and operational implications, has plagued the Vietnam program. The problem has several facets.

a. Type of Activities

Most A. I. D. personnel have been schooled and experienced in assisting underdeveloped countries achieve economic growth and social improvement through assistance programs which are

carefully planned to develop institutions and train manpower to enable the recipient to operate and expand such activities independently. The more extreme traditionalists felt that the only things worth doing by A. I. D. were those which would strengthen Vietnamese institutions in order to enable orderly economic and social development once the military had taken care of the present emergency -- an operation in which they saw little legitimate A. I. D. involvement. By contrast, those skilled in dealing with insurgency advocated high-impact, political- and security-oriented activities with maximum flexibility and minimum financial controls. They operated from the premise that there would not be any long term in which to improve the institutions of Vietnam unless the short-term, political- and security-oriented programs were successful. The conflict between the two approaches was particularly acute in 1962-63 but continued until 1968. As the counter-insurgency program was set in motion these differences caused conflict between the major technical divisions and the counter-insurgency organization of the Mission, successively operated under the names of Office of Rural Affairs, Office of Field Operations, Office of Provincial Operations, the inter-agency Office of Civil Operations, and the present CORDS.

b. Method of Operation

Some of A. I. D. 's traditional programming and financial management principles have been suspended in Vietnam in the interest of getting the job done under wartime conditions. In some cases this has been questioned merely because of departures from the way that "A. I. D. does things, " but in other cases major principles and matters of substance are involved. Illustrative of the latter was the decision to "deprojectize" the A. I. D. program. This was intended to produce a quicker procurement of goods and services than was possible under "project" procedures. The latter were designed to insure sound management of A. I. D. programs in a peace-time situation and involved rather elaborate and time-consuming joint planning with the host government. To make the program more responsive to the needs of counter-insurgency, procedures were modified to eliminate the project planning and host country agreement prior to procurement of commodities. In effect, A. I. D. moved toward the wartime military concept of stocking commodities and recruiting personnel based on general estimates of future requirements.

Although it is more expeditious to proceed on the basis of general estimates of future needs, this often created the problem that the Government was unprepared, unwilling or unable to take

supporting action, e. g., provide qualified personnel or financing. This in turn resulted in an increased requirement for U. S. personnel to be operators rather than advisors.

Related to this was the question of financial management and the strictness of audit. The urgency of the war support operations often seemed to argue for lowering standards of financial accountability. On the other hand, the loose management associated with lack of accountability not only wastes resources but encourages corruption, a major problem which itself threatened to weaken the war effort.

The question of how closely to audit A. I. D. field counter-insurgency operations and to what standards was argued frequently. Because of the need not to interfere with urgent new types of counter-insurgency operations, the shortage of auditors even to cover work needing to be done in the major cities, and the poor security in the field for auditors, there was an initial tendency to go light on audits. As management problems became acutely apparent in provincial operations, evidence of loss of commodities and their unintended use by Vietnamese officials mounted, and Congressional investigations and criticism intensified, auditing was increased substantially. While auditing procedures had to be more flexible than normal to accommodate effective reactions to emergency

situations which deviated from plans, they nonetheless served to uncover significant misuse of funds, such as Government of Vietnam province chiefs using A.I.D. -purchased piasters to build up a pagoda or purchase a personal automobile.

In addition to relying solely on post audits, some of A.I.D.'s financial management personnel were used to advise and assist both American and Vietnamese provincial officials to avoid mistakes and irregularities in the first place. At one point, joint American-Vietnamese provincial budget teams traveled a regular circuit to the provinces to assist both in budget formulation and on procedures for streamlining fund control and disbursement.

c. Conclusion

From 1962 through 1968, there was continuous question as to the balance between the traditional A.I.D. and the counter-insurgency approach. A.I.D. had had little experience in counter-insurgency on direct operational war support (except for economic stabilization), such as is involved in Vietnam, nor was it equipped to operate this type of program. As years passed, the counter-insurgency approach increased in its ascendancy, but in 1967 the program began to return to project procedures and concepts for much of its

operations as a series of developmental activities were directed toward post-war rehabilitation.

2. Fragmentation of Program and Numbers of U. S. Personnel

A. I. D. management has been continuously plagued with these two related problems. Theoretically, all efforts should be concentrated on the few activities that contribute most to winning the war. On the other hand, virtually every field of governmental and human activity is involved in some way in the Vietnam struggle, and virtually every specialty can make an appealing case for support.

With respect to numbers of personnel, many have argued that the Vietnam program is over-Americanized to the detriment of local initiative and local political strength. The continuously increasing numbers of Americans, particularly those who dabble in internal civilian affairs of local government, provide a basis for the growth of anti-American feeling which is inimical to the war effort. A. I. D. found itself torn between its desire to hold down the number of personnel, the desire of Congress for more extensive controls and the desire of politically important groups in the U. S. for many more social programs which would require more personnel.

There have been a number of program and policy reviews aimed at eliminating marginal activities and concentrating on those which

are most important to the current war effort. However, criteria for deciding on their relative importance have been difficult to agree on.

The local political scene in the U.S. also militated against being able to cut out marginal activities or hold down staffing levels. Indeed, the priority of an A.I.D./Vietnam activity is very much a function of the personal value system and scale of priorities of the individual involved. A number of Congressmen have traveled to Vietnam and put pressure on A.I.D. for increasing the allocation of funds and personnel to activities in which they have identified weaknesses or have a particular interest. Among the principal examples: Senator Edward Kennedy and his interest in refugees, medical aid and social welfare;^{2/} and Congressman John Moss and his emphasis on more and better auditing, more and better screening and control of commodity transactions of the commercial import program, and U.S. support of land reform.^{3/}

There have also been a number of special missions sent to Vietnam by the White House, or as a result of some agencies' representations to the Washington inter-agency Vietnam Coordinating Committee. Examples are: Secretary Freeman's agricultural mission, Secretary Gardner's Health, Education and Welfare mission,

the special medical survey team of leading U.S. doctors, representatives from the Veterans Administration, etc. In each of these cases, one or more specialized activities have been highlighted as having a critical role in the support of the war effort, whether it be the promotion of forestry and sawmills, an agricultural college, a new university, new veterans' facilities, a new hospital for children, rural electrification, or television.

This problem of fragmentation can be summarized as follows. The Mission sought to establish an overall strategy with program and project priorities. However, because these necessarily became public, they offended backers of programs who found their program was not toward the top of the list. Thus, the priority approach was dropped, leaving no way to determine which programs should be supported. In the end, almost all programs were supported, placing an excessive load on the Vietnamese Government in terms of management and on the economy in terms of inflationary pressure.

3. Local Currency Funding

In June, 1962, A. I. D. authorized a cash purchase of \$10 million worth of piasters to provide the counter-insurgency operations in the provinces with adequate funding. The rigid government budget procedures did not permit timely funding of new activities. Hence, many of the activities for which the U.S. had provided personnel and

commodities were unable to function since they lacked the supporting local currency. Adequate local currency support has continued to be one of the knottiest problems.

The French left a legacy of hidebound budget and financial procedures designed to meet the needs of a colonial power requiring maximum control and insurance against financial irregularities. Essentially, it involved a pre-audit approach to all expenditures of government, meaning that oftentimes there were delays of months, if not years, in making disbursements for budgeted items. Most expenditures required approval of some ministerial authority in Saigon. Obviously, when emergency expenditures were required to take care of refugees, to purchase materials for urgent construction or to hire local officials, this procedure was a serious handicap. U.S. personnel and equipment could be immobilized for long periods of time in the provinces because the local currency was not provided to construct necessary buildings, hire trucks and boats, and pay local labor and technicians.

When the Government bureaucracy proved to be almost impervious to U.S. advice, blandishments and pressure to speed up their budgetary and disbursement operations, various devices were tried to solve this problem, at least in the short run. The \$10 million

piaster purchase was one of the first of these. Such emergency devices were considered counter-productive by some because they relieved the pressure for action by the Vietnamese and thus provided a disincentive for badly needed reform. Yet the pressures were so great for proceeding with programs and for utilizing the American personnel and equipment already on the spot that ad hoc funding measures were utilized.

After starting with the \$10 million piaster purchase, the Government was induced to set up a special counter-insurgency chapter within its own budget to make funds available directly to province chiefs without many of the conventional intervening ministerial budget allocations and financial controls. The use of the American-purchased piasters had required a counter-signature or "sign off" by the local American representative, generally the A. I. D. provincial representative. In an endeavor to keep things moving with the new pacification funding, and partly to protect the Vietnamese province chief against unwarranted criticism or prosecution under the archaic government financial regulations, the American "sign off" authority continued to be required for a time for the use of these funds. Later, the American "sign off" authority was terminated, leaving the Americans, without this leverage,

to rely on advice and persuasion to get local Vietnamese officials to perform as we felt necessary on joint activities.

Gradually, funding of provincial pacification from the national budget was enlarged and liberalized. This system, after five years of operation, has reached a very satisfactory level of speed, flexibility and accountability.

A more recent development in an attempt to circumvent disbursement rigidities was the establishment of the "Prime Minister's Trust Fund" -- now the "President's Fund." This involved U.S. agreement to allocate counterpart to this Fund and the Prime Minister's agreement to allocate a large amount back to the USAID for direct disbursement to special activities requiring expeditious funding that can be assured only under U.S. control and procedures.

A large amount of counterpart has been generated each year from the piaster proceeds of A. I. D. 's commercial import program and P. L. 480 sales. The allocation of these funds occasionally was the cause of dispute between the U.S. establishment and the Government of Vietnam and among U.S. agencies. In the early 1960's, most of these funds were allocated to the Vietnamese defense budget with conditions attached whereunder the MAAG (more recently MACV) could control their disbursement and use them as

leverage for agreements with the Vietnamese defense authorities regarding joint defense operations. MAAG and MACV were fairly effective in utilizing this leverage. The A. I. D. Mission also felt that its support of counter-insurgency, not to speak of some of its more conventional programs, required similar leverage by the allocation of counterpart to the local currency funding of A. I. D. projects (A. I. D. projects had generally had to rely primarily on the slow and uncertain Vietnamese budgetary and expenditure procedures for local currency support.) and urged larger allocations for these purposes. With recognition of the increasing importance of civil actions in counter-insurgency, the U. S. Mission Council and the inter-agency policy groups in Washington moved progressively towards sharing more of the U. S. -controlled local currency with the civilian programs.

4. U. S. Advisors in the Provinces

A new Office of Rural Affairs was set up in 1962 under a new senior staff member, who was recruited from outside government because of his earlier intimate experience in civil affairs work in Vietnam. This office consisted primarily of a group of generalists who were stationed in the provinces as A. I. D. "provincial representatives" in order to expedite the

implementation of rural programs. The office also initiated several new types of activities, such as support of the Strategic Hamlet Program, which had not previously been a part of any technical division program.

One of the key elements in the new A. I. D. approach was the positioning of A. I. D. provincial representatives in the provinces. At the beginning of 1962, an official letter request from the Mission Director to President Diem that this be permitted on a selective basis was rejected by the President, presumably because it would represent too much interference by the U. S. in local political and administrative affairs. However, on an informal basis without again raising the question, A. I. D. liaison officers were detailed to accompany the first integrated pacification operations in mid-1962. These officers remained resident in the provinces concerned for several months and rapidly proved their utility and value. The practice then gradually expanded with the full knowledge and often the collaboration of Ngo Dinh Nhu, the brother of President Diem. The Office of Rural Affairs continued for about two years in its original form, during which time provincial representatives were recruited and placed in most provinces.

There has long been doctrinal disagreement regarding the appropriate number of U.S. civilian advisors outside of Saigon and the administrative level (e. g. , province vs district) at which they should be stationed. One school of thought contends that the Government of Vietnam is incapable of doing the things that have to be done in connection with the war effort at the province and district levels, and on which U.S. investments and lives often depend. Consequently, large American staffs should be stationed in each of the forty-five provinces to actively assist or to take over and do the essential functions in a variety of fields; e. g. , refugee relief, medical care, logistics, and construction. It is further argued that the district level is crucial to counter-insurgency because it is there that the most remote outposts of the national government come into contact with the masses of rural population which the Viet Cong strive to influence and take over. Consequently, it is further contended that U.S. advisors and operators are also needed in most of the approximately 245 districts in Vietnam.

The opposing school of thought contends that Americans can never do the largely political job that has to be done at these levels. The national government must win the support and allegiance of

its rural people. It makes the national government and its officials appear not only incompetent but as vassals of the U.S. to have American advisors so obviously performing the essential functions at these local levels. Because the essential job is to induce or force the Vietnamese to become capable and self-sufficient at these levels, the U.S. presence should be minimal.

In varying forms each year since 1963 this dispute has occupied the time and attention of top management in Saigon and Washington. Until large numbers of U.S. combat troops were introduced, a middle-of-the-road position was taken whereby A. I. D. Provincial Representatives were placed in each province with one or more assistants, and district representatives were avoided.

However, after U.S. troops became involved in combat at all levels, the numbers of U.S. civilian advisors at the province level were increased and in a number of instances civilian representatives were stationed at the district level. However, because of the nature of the problems at the district level, tenuous security, and the shortage of A. I. D. civilians, the district advisory task was largely staffed by U.S. military personnel. In many cases, they worked on essentially civilian activities half-time or more, and served as the A. I. D. representatives at the district level in such

things as distributing A. I. D. -financed commodities and controlling and observing their end use.

In retrospect, most of the senior A. I. D. officers concerned believed that the initial rural affairs effort was an essential step in the right direction but that it was weak in concept and administrative expertise. It created severe problems of coordination with A. I. D. 's technical offices, placed dedicated but relatively inexperienced staff in central positions, and was not well integrated with military and other programs operating in the same area.

The original rural affairs effort has undergone a number of modifications and reorganizations, several of which are described in some detail in the separate Pacification Program section.

5. "Militarization" of Program

As the war increased in intensity and the U.S. military presence increased dramatically, first on an advisory basis and later with combat troops, it was often debated at the policy level within State, A. I. D. and inter-agency forums whether the military influence was harming civilian programs. This took several forms. One which will not be further discussed here was the criticism of both Vietnamese and U.S. tactics involving massive and often random artillery barrages and airstrikes on villages which were later found to contain few, if any, Viet Cong, but in which many civilians were

killed or injured. Obviously, such an experience would tend to alienate large sections of the Vietnamese populace, at a time when A. I. D. and the civil side of the Government of Vietnam were investing large amounts in the winning of their loyalties and "hearts and minds."

Another type of conflict arose when the interests of the large military establishment called for some particular type of action in the civilian sector which seemed to militate against the objectives of the political, social or economic effort. Examples: drafting Vietnamese technicians needed critically in civilian ministries, crop destruction as a denial technique, and forced movement of villagers as a security measure.

However, the most pertinent aspect, for the A. I. D. program, was the need for A. I. D. to hire retired military personnel, or to use on a one-year loan, uniformed personnel detailed from the active armed services. Large numbers of retired military personnel were hired because their experience and personal qualities seemed to match the requirements of the counter-insurgency and logistical tasks with which A. I. D. was charged in the provinces. Nonetheless, the staff shortage persisted and A. I. D. frequently turned to the Army to borrow both generalists to serve as

provincial representatives and specialists, such as supply advisors and medical officers. In some cases, entire detachments were detailed to A. I. D. duty, for example Seabee teams, engineer teams, and port detachments. In the medical area (see Health section), it proved to be the only possible way to get enough doctors for A. I. D. The Secretary of Defense and the Army Chief of Staff and some of their key staff took the view that the civilian effort in Vietnam had to be strengthened if the military effort was to succeed.

The U. S. use of military personnel in civilian positions also affected efforts to de-emphasize the Vietnamese military influence in government. It was felt that an excessive U. S. military presence in normally civilian advisory positions might militate against restoring the Vietnamese civil balance needed.

Throughout the period there was frequent discussion of the fact that these injections of military personnel introduced the "military viewpoint" into a number of key positions where it was important to maintain emphasis on the political, psychological, and social effects essential to winning the war. However, since the military officers detailed to A. I. D. proved to be exceptionally sensitive to political nuances and social sensitivities and made major contributions to A. I. D. operations, the discussion never crystallized and no action resulted.

6. A. I. D. Staffing

Of equal concern was the development of an operational capacity in the Mission to assure effective implementation. For instance, direct involvement in civilian logistics operations sent numbers of U.S. personnel involved from three in Saigon and one part-time in AID/W in 1962, to a recent peak of 220 in Vietnam and 230 in the U.S. The USAID refugee relief organization in Saigon went from zero to over ninety. As the personnel requirements of the Mission mounted from a level of 200 in 1962 to a 1967 high of about 2,500 (excluding military support teams and units), a variety of devices had to be used to provide staff. Quantitatively, the principal input came from massive recruitment drives in the U.S. A personnel organization was built up in the Far East Bureau, later transferred to the Vietnam Bureau, which involved about 200 people in recruitment and processing of new personnel for Vietnam.

To provide the necessary personnel, a variety of administrative devices were used. Initially, appeals for volunteers were sent to all A. I. D. staff. Later, for key vacancies, certain needed individuals were identified and personal messages from the Administrator asked them to accept a Vietnam assignment because they had been identified as one of the best, if not the best, persons

in A. I. D. for the job. Still later, a more drastic approach had to be used - that of ordering needed personnel to Vietnam, sometimes under the threat of separation if they would not accept.

The latter could never be applied uniformly because only the best of the A. I. D. personnel in certain very scarce categories could be considered for the exacting Vietnam assignments. To arbitrarily separate these people for refusal to go to Vietnam would have been very damaging to the Agency.

Throughout all of this period, both the President and the Administrator stated repeatedly that Vietnam requirements had highest priority. This turned out to be very difficult to implement and the result was that urgent Vietnam A. I. D. operations sometimes did not get the desired and needed personnel and conversely many programs elsewhere were hurt because of the transfer of key personnel to Vietnam.

However, even the massive recruitment campaign and the "Vietnam draft" within A. I. D. fell short of staffing the vacancies in the Mission. Consequently, A. I. D. turned to the State Department Foreign Service and the Department of Defense for personnel. Not counting the 600-700 personnel loaned for long periods in organized military units, the Department of Defense, during 1964-1968, loaned 183 military personnel, mostly officers, who were placed on the

A. I. D. payroll to temporarily fill civilian positions. In the same period, approximately 400 Foreign Service officers served from one to four years on detail to A. I. D. in Vietnam.

7. Rural-Urban Balance Within the Program

Before the program was redirected toward counter-insurgency in 1962, the initial benefits of the A. I. D. program gravitated to urban areas, regardless of whether this was the long-range intention or not. The commercial import program supported industry and commerce which was largely urban based. The focus of the U. S. advisory effort was at the national ministerial level and thus it was left to the respective ministries to get commodities and improved services to the rural areas.

The 1962 reorientation recognized the need for a great deal more attention to the rural population and its problems. Not only were new operations originated by the Office of Rural Affairs but the programs of some of the technical divisions were modified to include such things as the massive program for elementary "hamlet schools" in the provinces. As the years passed, this priority became more meaningful until it reached a point where relatively little attention was given to what might be called urban problems.

A 1964 study by the RAND Corporation financed by A. I. D. took issue with this allocation of priorities and recommended more attention

prices for rice added to the deteriorating security situation; poorly motivated government workers and ineffectual leadership undermined the rural programs A. I. D. was pursuing. Nevertheless, the inflationary danger was so alarming that it was felt that rice prices had to be kept down. However, only months after the devaluation of June, 1966, it appeared that the inflation had been contained, at least for the time being. The U.S. commenced discussion with the Vietnamese Government to raise the price of rice substantially in order to gain a political impact in rural areas by increasing farmer income. This was accomplished through the following winter and spring with resounding benefit to the Vietnamese farmers and without serious detriment to the urban population which was receiving sharply increased money income due to the war boom.

8. USAID Organization

The organizational lines of authority within the USAID became complicated and often unclear since the 1962 initiation of the Office of Rural Affairs. It and its various successor offices provided a new line of authority from the Mission Director to the province level which cut across the technical division's lines of authority. The technical divisions, usually staffed by senior A. I. D. personnel, resisted relinquishing authority to the usually younger, specially recruited,

generalists who were put in the provinces as provincial representatives. For several years, the Office of Rural Affairs did not work the way it was supposed to and a major part of the A. I. D. program continued to flow through technical divisions. The new provincial representatives were largely concerned with new and special operations such as training and equipping the Strategic Hamlet cadre. The technical divisions continued to supervise their projects in the provinces, oftentimes without informing the provincial representative. This problem was reinforced on the Vietnamese side. There, too, the technical ministries had their representative at the province level, theoretically under the control of the province chief, but often more responsive to the Saigon ministries.

On the A. I. D. side, this problem was addressed in a variety of forms (see Chapter XIX) culminating in the present Civil Operations and Revolutionary Development Support (CORDS) management system. There still, however, remains the basic management dilemma where A. I. D. provides most of the funds, personnel and commodities which are used by the special, operational inter-agency CORDS organization. This still gives rise to occasional disputes between a technical division in Saigon and field representatives in CORDS as to how A. I. D. money should be spent on a technical division function at the provincial level.

The basic conflict between the across-the-board provincial operations approach of the counter-insurgency program and the operation of the technical divisions has never been fully resolved and, indeed, is common to every geographic division of functional programs. As a practical matter, strong forces have militated against the complete abolition of technical divisions. For example, Secretary of Agriculture Freeman, at the President's request, has highlighted the importance of agriculture as a field of activity and reinforced the field-of-activity approach by adding U. S. Department of Agriculture support to USAID's agriculture division. The health program, which became a major focus of public and Congressional attention, is not only a highly technical field which requires the field-of-activity approach but needs a separate identity in response to public interest and Congressional intent.

9. Administration of Commercial Import Program (CIP)

For its many large Commercial Import Programs (CIP's) over the years, A. I. D. and predecessor agencies traditionally operated in a banker's role to provide foreign exchange, and depended primarily on the forces of the market place and host government laws and actions to make them operate effectively and honestly. In most peacetime situations, particularly those administered by fairly

sophisticated recipient governments, this has worked well. For protection, A. I. D. relied mostly on post-audit spot-checks and the right to claim refunds from suppliers or the host government in case of violations of agreement or A. I. D. regulations.

A large Commercial Import Program had been administered in Vietnam from 1954 to about 1964 on this basis without too many serious problems, although there were a few well publicized "scandals." As the intensity of the war increased, the Commercial Import Program became a major tool of U. S. policy and support for both the war effort and economic stabilization. The CIP is discussed further under the economic stabilization section - this section discusses the management and administration of the CIP.

An unrealistic exchange rate, the disorder of war, administrative, political and moral chaos from rapid changes of governments, and the ever-present "shady operators" who capitalize on war situations, all seemed to converge on the Vietnam CIP and to precipitously make it a public "mess" and much-deplored "scandal." Internally, A. I. D. management was increasingly aware of various individual problems and was moving, albeit too slowly, to remedy them. Much of the slowness had to do with our inability during 1964 and 1965 to find adequate personnel to manage the program. In addition, there were

internal debates on whether we should continue to operate the Vietnam CIP in the traditional A. I. D. manner -- through private commercial channels with a minimum of government management -- or whether the U.S. should run the program or at least control it more closely. It was also argued that despite marginal imperfections which were over-publicized, the basic and critical economic objectives of the CIP were being attained, and that tighter controls would inhibit the fairly fast-moving flow of commodities urgently needed in the Vietnamese economy -- fuels, construction material, machinery, pharmaceuticals, etc. On the other hand, it seemed to those who were more operationally minded and attuned to political realities that we couldn't afford to rely on private market forces so completely and that more safeguards were needed.

Very few people in A. I. D. staff or top management understood the intricacies of the administration of the CIP and the many points at which the procedure was vulnerable to irregularities. The CIP had been traditionally administered in the Mission by one middle-level supply advisor. Although the economic aspect of the CIP was reviewed intensively in preparing the annual program presentation to Congress, its operational aspects received rather

perfunctory review in Washington, generally by people who knew relatively little about the detailed facts of commercial or economic life in Vietnam.

Some of the peculiar vulnerabilities of this program had to do with some real and much suspected diversion of A. I. D. -financed commercial imports to the Viet Cong, particularly in the area of explosives and pharmaceuticals. Although many of the lurid allegations were never proven, the potential danger was more than enough to justify tightening procedures. Also, a few spectacular examples of fraud by U.S. suppliers selling worthless items such as "battery additives" and bottled sea water to Vietnamese importers further dramatized the need for pre-audits or controls before the fact as opposed to post-audits. Other irregularities of particular concern to the Government of Vietnam, as well as the U.S. had to do with capital flight manipulated through over-invoicing on import documents.

The internal efforts of A. I. D. management to improve the administration of the Vietnam CIP was overtaken by a flood of investigations by Congress, ^{4/} by the General Accounting Office, and by the Inspector General of the Foreign Service which attracted so much public attention to a few celebrated "scandals" as to become a matter of grave concern to the highest levels.

The public and Congressional attention to this matter strengthened those within A.I. D. who favored reform of CIP management and more detailed scrutiny and controls prior to and during the commercial transactions. As a result, a separate office was set up in both Washington and in Vietnam in FY 1966 to deal with the administration of the CIP, headed by a senior A.I. D. official.

Expert staff was recruited, in large part from outside the Agency, to do commodity analysis and review the Government licensing and trade practices. A.I. D. regulations, particularly Regulation 1, and the associated Supplier's Certificate were tightened and especially tailored to the Vietnam situation. Saigon port procedures, customs clearances, arrival accounting, and post-audit were also strengthened.

The massive efforts at improving the administration of the Vietnam CIP focused the attention of top management of the potential vulnerabilities of other CIP's around the world. In early 1967 a special study^{5/} (the Tennant Report) was made of the A.I. D. overall administration of CIP's stimulated in large measure by the Vietnam experience.

10. What Type of Health Program Should We Have?

Underlying the separate section which deals with the health program and the issue of civilian casualties is a controversy which has continued since 1962 regarding what sort of a health program A.I. D. should have in Vietnam. It has gone through several phases. In 1962 the big issue was whether A.I. D. should continue with basically

preventive medicine programs or whether the programs should emphasize curative medicine because of its humanitarian aspects and political impact. The A. I. D. health people supported the preventive medicine approach, citing the long-range benefits of such things as malaria control, health education, and environmental sanitation. However, the mounting need for political impact in the counter-insurgency program and the appealing nature of medical treatment of sick and wounded people, of which all countries in Asia have many, was overwhelming. The program was modified to bring American medical-surgical teams to various provincial locations to assist hard-pressed Vietnamese medical personnel. As the war increased in intensity, there were many more civilians wounded to be cared for - one of the critical factors in deciding on this change.

This effort was steadily increased and the American investment in medical programs skyrocketed. Largely because of the conviction within inter-agency policy groups within the executive branch that these curative medical programs bolstered counter-insurgency, they were steadily enlarged during the 1962-65 period. The U.S. Public Health Service was enlisted to recruit surgical teams.

With the increasing intensity of the war, the involvement of U.S. combat forces, and mounting domestic opposition to this U.S. involvement, the medical and refugee situation became a focus of political attention in the United States. Many groups cited cases, some real --

some grossly exaggerated - of the civilian casualties caused by U.S. forces and the seemingly callous disregard on the part of the U.S. Government for treating the many sick and wounded civilians in Vietnam. This also became an international propaganda issue. It concerned not only the usual critics of the U.S. policy and A.I.D., but with the exposure of the U.S. public by television for the first time to the horror of the war, it also concerned many supporters of A.I.D. Senator Edward Kennedy, among others, was a leader in criticizing what he considered inadequate attention to civilian casualties and health matters by both the Government of Vietnam and the United States Government. These pressures induced the Executive Branch to go even further in increasing medical programs.

E. Other Aspects of the Expanded Program

As the counter-insurgency build-up proceeded, A.I.D. was concerned as to whether the program content and balance was correct for this new activity in which A.I.D. had had little experience. In addition to hiring personnel with backgrounds in counter-insurgency A.I.D. turned to the RAND Corporation for additional study.

RAND personnel has been used since late 1963. Their first report was issued in early 1964. RAND's studies and recommendations emphasized basic doctrine on economic policy and counter-insurgency, but also touched on other aspects of our program such as logistics.

Many of their views were controversial, and not all were adopted, but they provided one of the major inputs at a time when A. I. D. was groping for policy and proper program balance.

The introduction of increasing numbers of U.S. troops also created a variety of economic problems. The Saigon port problem became a major issue which threatened to strangle the Vietnamese economy and cause the A. I. D. program to break down because of the limitations on the capacity of the port to unload simultaneously the tremendous stocks of military supplies being sent in and to accommodate the ever-increasing civilian traffic which had already overtaxed the port and its obsolete facilities. The presence of the U.S. military not only helped to create this problem but military personnel provided the key measures to solve it. In addition to constructing their own port facilities, they provided large numbers of military personnel for key operations at Saigon and other ports. Some of them were specifically assigned to help A. I. D. and the Vietnamese port directorate on civilian operations.

Support flowed both ways in the early days of the military buildup. A. I. D. was able to provide several critical inputs into the military effort. For example: A. I. D. -financed dredges were transferred from inland waterways in the Delta to the Da Nang port to assist in dredging until military dredges could be brought in. Also, a number

of A. I. D. warehouses were used in the initial construction at Cam Ranh Bay. More recently, A. I. D. constructed the largest warehouse complex in Vietnam at Thu Duc, near Saigon. When it was finished it was determined that the U. S. military should take over this complex civilian Saigon port area.

In addition, the Department of Defense undertook responsibility for other war-related activities, e. g., television, certain road construction, a portion of the police program and major portions of the refugee relief and medical programs. In some instances, Defense took over the management of these activities and in other instances, it was left a civilian effort with Defense funds being transferred in an amount determined to be proportionate to the legitimate military interest.

In a broader context, the presence of the U. S. military threatened to precipitate economic instability far beyond that resulting from the large buildup of Vietnamese defense expenditures. U. S. troops required new cantonments, new port facilities, new airfields, rental housing, offices, warehouses, drivers, interpreters, and servants. U. S. military personnel spending for services and recreation injected unprecedented amounts of money into the Vietnam economy. Together, these inflationary injections of money created the major challenge for A. I. D. 's economic stabilization program.

Inter-agency consultations resulted in Defense taking a number of policy actions not normal in a wartime theater in order to help ameliorate the situation. For example, a number of measures were taken to discourage U.S. soldiers spending in Vietnam, rest and recreation areas were established outside of Vietnam and military commands and defense contractors were required to minimize local currency expenditures.

As the war increased in intensity and became more of a concern in the U.S., a great deal of top-level attention in the United States Government was focused on what more could be done in the civilian sector. A number of top-level missions were sent to Vietnam to explore specialized areas and to bring to bear the best talent available to the United States Government. Examples are: Secretary Freeman's agricultural mission; Secretary Gardner's health, education and welfare mission; Assistant Secretary Wertz's manpower mission; several U.S. medical survey teams, one involving several of the leading doctors in the U.S.; and David Lilienthal's post-war planning operation. (The latter was partially within the context of Eugene Black's Southeast Asia regional activities undertaken after the President's Baltimore speech offered post-war reconstruction help to Southeast Asia.)

After several years of relative deemphasis of development projects, new attention was given to longer term development projects

in 1967 with a view to laying the groundwork for a quick start on post-war reconstruction. Large-scale electric power, water supply and road projects were funded -- the latter primarily under Defense. David Lilienthal and his firm were retained on contract to do post-war planning and advise on the start of interim development projects. However, the intensification of the war, beginning with the 1968 Tet offensive and leading to proclamation of general mobilization, was a setback for many longer range development activities. In fact, personnel and funding allocated to such activities were being reduced by mid-1968.

To broaden international representation in Vietnam, the United States Government urged most of the other governments in the free world to provide either military or economic aid to Vietnam. A great many countries chose token efforts in the economic field in order to avoid the stigma of being involved in the controversial military effort in Vietnam.

Because of the political importance of these efforts, it was decided that A.I.D. should coordinate, facilitate, and administratively support these donations of commodities or services for civilian use. A special coordinator for free-world assistance was set up on the USAID staff. State Department representatives took most of the initiative to stimulate and arrange for the initial aid offers. A.I.D. had the job of trying to employ usefully all of the donations offered.

Some of the small token efforts were more trouble to A. I. D. than they were worth in material and economic terms. However, some of the larger and more carefully planned assistance from other countries was not only a political asset but of great assistance in the total civilian effort. The most popular form of support from other countries was in the medical and health field. Some twenty-three medical teams of various types were provided by ten countries. In all, some thirty-two countries have provided civilian aid of some sort to Vietnam.

F. Economic Stabilization

The Problem

The purpose of American aid to Vietnam has changed with conditions over the years. In the early period following the Geneva Accords of 1954, aid resources were largely directed toward reconstruction and development of the severely war-damaged economy. With the revival of insurgency since 1960, an increasing proportion of aid resources have been devoted to support the Vietnamese war effort. Nevertheless, development has never been completely subordinated, since development contributes to both political and military objectives and is necessary if the Vietnamese economy is to maintain a capability to fight the war.

The major supporting programs have been the Commercial Import Program, which financed the import of a wide range of goods, and

the Food for Freedom (P. L. 480) program, which provided for imports of such products as rice, cotton, tobacco, wheat flour, corn, and milk. Under both programs, Vietnamese importers pay into a special fund piasters equivalent to the dollar costs of the goods. These piasters are then made available for spending by the Vietnamese Government for mutually agreed purposes. These piaster receipts are in addition to customs taxes paid by importers.

The size of the two import programs has been largely determined by import demand and that, in turn, in the rather simple Vietnamese economy, was determined primarily by the level of U. S. and Vietnamese Government spending. A stepped-up level of imports was the principal tool to combat rising prices and counter political dangers of runaway inflation since the two alternatives -- high taxation or severe import rationing -- were not considered feasible. The political weakness of the Government of Vietnam and the existing corruption made increased taxation impracticable in the short term. Also, increased taxation would have had heavy political costs in the urban areas. Severe import rationing had similar disadvantages.

From 1960 through 1964, U. S. economic aid to finance commercial imports remained relatively constant. After 1964, however, the tempo of military activity increased to the point that price increases

and resource shortages loomed as a threat to the whole war effort and had to be avoided whatever the level of import demand.

Table 1 - Vietnam's Balance of Merchandise Payments (1960-1964)

| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> |
|--|-----------------------|-------------|-------------|-------------|-------------|
| | (in millions of US\$) | | | | |
| GVN Exports | 84.5 | 69.8 | 55.5 | 76.7 | 48.5 |
| GVN-Financed Imports | 43.6 | 100.0 | 78.6 | 77.7 | 95.0 |
| USAID-Financed Commercial Imports <u>1/</u> | 167.3 | 131.9 | 143.4 | 154.4 | 146.6 |
| Third Country Financed <u>2/</u> | 12.6 | 9.7 | 21.9 | 20.7 | 34.1 |

1/ Includes P. L. 480 Title I

2/ Chiefly financed by Japan and France

Source: USAID/Vietnam Annual Statistical Bulletin

The 1964 Shift

Administrator David Bell visited Vietnam together with Secretary McNamara and the State Department's Chairman of the Inter-agency Vietnam Coordinating Committee, Michael Forrestal, early in 1964. One of Administrator Bell's principal objectives was to secure agreement to an improved formula for U. S. support of defense expenditures and the economic stabilization effort. Instead of trying to determine the level and composition of imports in advance, A. I. D. urged that this be left to market forces.

After a rather shaky transition period most of the conceptual and procedural bottlenecks had been worked out by 1967-68. The new formula worked, kept inflation under control and turned out to be an improvement in the approach to economic stabilization and financing of Vietnamese defense effort.

The new approach broke the orthodox objections to deficit financing, since offsetting imports would be provided as demand dictated. Heretofore, urgent war requirements would often go unfunded if they could not be financed currently from a "balanced" budget because of the attitude and strength of the old-line, colonially-trained financial authorities. Because A. I. D. -generated counterpart and P. L. 480 proceeds had long financed most of Vietnam's defense budget, there was a tendency by many to consider A. I. D. responsible for shortfalls in the

funding of Vietnam's defense effort when the CIP generation of counterpart piasters did not produce funds rapidly enough. This backward reasoning caused tension and friction between the two governments. Both Vietnamese and senior U.S. military officials would often press A. I. D. for larger CIP programs to generate more local currency (even when this could be done only by financing luxury imports).

Beginning in 1964, the Vietnamese started massive deficit financing in the form of advances from the National Bank (NBVN).

Table 2 - Expenditures and Revenues

| (Billions of Piasters) | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 ^{1/} | 1967 ^{1/} |
|---------------------------|------|------|------|------|------|------|--------------------|--------------------|
| GVN Planned Expenditures: | 15 | 17 | 23 | 27 | 37 | 51 | 55 | 75 |
| GVN REVENUES: | | | | | | | | |
| Domestic Taxes | 6 | 7 | 5 | 5 | 6 | 6 | 8 | 12 |
| Customs Duties: | 2 | 3 | 4 | 4 | 5 | 5 | 7 | 8 |
| Miscellaneous: | 2 | 3 | 2 | 3 | 2 | 2 | 3 | 7 |
| Sub Total | 10 | 12 | 11 | 12 | 13 | 14 | 18 | 28 |
| FOREIGN AID | 4 | 4 | 7 | 10 | 8 | 11 | 20 | 30 |
| Sub Total | 15 | 17 | 19 | 22 | 21 | 25 | 38 | 58 |
| National Bank Advances: | - | - | 4 | 5 | 16 | 27 | 17 | 17 |

^{1/} Actual revenue collections in these years were slightly below the planned figures presented here. Totals may not add due to rounding.

- Source: GVN, Directorate General of Budget and Foreign Aid

The growing number of U.S. troops and their requirements wiped out the previous problem of major unemployment in the cities, but raised new problems of shortages of skilled and semi-skilled labor. As unemployment (at least among non-refugees) began to disappear, incomes and the resulting demand for goods and services went up appreciably. Inflation became a threat.

Table 3 - Saigon Retail Price Index
(Working Class Index: Without Rent)

| <u>1959</u> | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 109 | 99 | 106 | 109 | 117 | 121 | 143 | 244 | 357 |

Source: National Institute of Statistics, GVN

U.S. Troops and the Vietnam Balance of Payments

The inflow of foreign troops had an important impact on Vietnamese foreign exchange earnings and ability to finance a higher level of imports. Although income from the exports of goods continued to decline, foreign exchange earnings from sales of services, particularly to the U.S., skyrocketed. A major military construction effort was mounted to build new bases and on-site facilities. The actual work was handled largely by construction contractors who brought a large number of Americans and third-country nationals to Vietnam on their staffs, or as subcontractors. They also hired Vietnamese workers

and sub-contractors extensively. The piasters required by all this activity were purchased by the DOD from the National Bank of Vietnam with dollars.

Table 4 - DOD Expenditures in Vietnam for Purchase of Piasters
(\$ Millions)

| | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> |
|--|-------------|-------------|-------------|-------------|
| DOD Expenditures in Vietnam ^{1/} | 60 | 165 | 334 | 312 |

1/ Includes non-appropriated activities

- Source: U.S. Embassy/VN USDO

This inflow of dollars was immediately reflected in the growth of Vietnam's Exchange Reserves:

Table 5 - Foreign Exchange Reserves
(\$ Millions)

| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Year-end Official Reserves ^{1/} | 216.4 | 173.3 | 153.1 | 174.5 | 135.7 | 172.3 | 300.7 | 326.8 |

1/ Excludes Commercial Bank holdings

It was illogical for the U.S. to continue large-scale import financing while Vietnamese foreign exchange reserves grew. One obvious approach to this issue was to induce Vietnam to use more of its foreign exchange

to finance commercial imports, thus reducing the need for A. I. D. funds for this purpose -- and this was done.

Increased Imports

As a result of its increased foreign exchange earnings, the Government sharply increased import licenses financed with its own funds.

Table 6 - Value of Import Licensing with Vietnamese Foreign Exchange
(\$ Millions)

| <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 73 | 90 | 58 | 95 | 92 | 116 | 246 | 288 |

However, even this increase was not sufficient to dampen inflation.

A. I. D. -financed imports were also increased substantially through 1966.

Table 7 - A. I. D. -Financed Commercial Imports
(\$ Millions)

| <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 144.2 | 180.0 | 94.5 | 105.8 | 144.6 | 231.6 | 321.2 | 79.3 |

- Source: USAID/VN Annual Statistical Bulletin

Food for Peace Aid under P. L. 480

There was also a considerable increase in the quantity of agricultural commodities imported into Vietnam through U. S. financing during the period.

Table 8 - Food for Peace (P. L. 480) Licensing
(\$ Millions)

| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total | 9.3 | 13.5 | 27.1 | 29.3 | 42.5 | 55.1 | 95.4 | 158.7 |
| Rice | (0) | (0) | (6.4) | (0.1) | (0) | (12.1) | (31.7) | |
| Rice Licensing under CIP | | | | | (10.3) | (19.5) | (0) | (0) |

1/ As an emergency measure rice was imported under US CIP financing in 1964 and 1965.

The Rice Problem

The increasing importance of rice imports into what was traditionally a rice surplus area requires comment and constituted an important factor in the economic stabilization program. Four major factors may be singled out. One, there probably was a rate of increase in population in excess of 2.5 percent. Two, the effective manpower pool (seventeen to forty-year old age group of males) in the rural areas was sharply reduced by requirements and the pull of higher paying urban employment. Three, farming had become more and more difficult in the face of military action in rural areas. Four, there was a significant shift from rice to more profitable crops such as vegetables, of which several crops could be grown in one year in response to growing urban demand.

The rice requirement was met by large imports of American rice as a temporary measure until a joint U. S. -VN rice production program to introduce improved rice varieties could produce results. By 1968 this program was moving forward with encouraging momentum.

Capital Flight and U. S. Forces

In this turbulent and uncertain period, the value of the piaster in free markets such as the Hong Kong currency market and the Saigon black market indicated both the temptation and opportunity for capital flight.

Table 9 - Free Market (Hong Kong Exchange Rate on December 31 - in Piasters per Dollar)

| <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 97 | 98 | 87 | 118 | 132 | 153 | 171 | 168 |

- Source: USAID/VN: Annual Statistical Bulletin and monthly reports JEO/US Embassy VN

The official exchange rate for piasters in 1964 was 35 piasters to one dollar, although the effective rate for most purposes was 60:1 and foreigners in Vietnam (including official visitors) were allowed a special rate of 73:1. By 1964, this rate was far below that available to those willing to trade on the black market. It became apparent that many Americans were resorting to the black market, thus facilitating capital flight.

Special Currency Fund

Ambassador Lodge considered that some arrangement has to be made to induce Americans not to use the black market, i. e., to obtain their piasters at a rate more nearly equal to that available in the free market.

In the fall of 1965, Deputy Ambassador U. Alexis Johnson obtained the GVN agreement to a special exchange rate of 118 piasters for personal use of American personnel in Vietnam. Under this arrangement, a special piaster fund was established and U.S. personnel in Vietnam were ordered to purchase their piasters from it. The dollars thus gained were remitted to the National Bank. This special currency fund continued in existence until November 1967. At that time all official rates were unified at 118 piasters to the dollar.

While the USG benefited by the greatly increased generation of piasters for the counterpart fund at the new rate of 118 piasters to the dollar, the Department of Defense had to continue to purchase its piasters at the lower official rate of 80 piasters to the dollar. For a time, after the devaluation discussed below, a multiple rate structure was tolerated. Successive economic reforms were undertaken when considered to be politically feasible in Vietnam. However, after both devaluation and rate unification had been accomplished, the benefits of the new rate accrued to all elements of the USG.

The Economic Stabilization Program

The Government of Vietnam acceded to proposals for devaluation when it became evident that internal inflation and the free market price of the piaster made it imperative. The Government's initial opposition to devaluation was based on several factors. Vietnam was becoming more and more dependent upon imports to keep the economy functioning and a devaluation would raise the price of imports and tend to push the general price level higher. There was little chance of increasing the volume of exports after a devaluation because of physical limitations in producing export crops. The provision of services to Americans was the single most important foreign exchange earner and the volume of sales was fixed by factors other than price. In addition, devaluation was viewed as an act that would cost the Government some political support in the cities.

Nevertheless, inflationary pressures continued to build up. Despite the heavy increases in import licensing in 1965 mentioned above, prices continued to rise. In part this was caused by an antiquated, monopolistic system of licensing, which limited the total number of importers and the range of commodities that any one firm could handle. In addition, there was physical limitation. Port facilities were inadequate to meet a greatly increased flow of both military and civil cargoes.

Since the free market rate and the official rate of piaster exchange continued to move apart, and since imports could not be increased rapidly enough because port facilities were jammed, a devaluation of the Vietnamese piaster was agreed to in June 1966 by the GVN as part of a package of economic reforms worked out with the help of the International Monetary Fund.

Prior to devaluation, the official exchange rate was 35 piasters per dollar. Most foreign exchange transactions, however, were subject to the so-called five-sevenths tax, which raised the effective exchange rate to 60:1.

This was the rate at which importers obtaining CIP licenses had to deposit piasters into the counterpart account. Under P. L. 480, the importer had to deposit 73.5 piasters to the dollar. This 73.5 rate was also applied to the purchase of foreign exchange for personal expenses by foreigners in Vietnam who were not entitled to use the Special Currency Fund.

Devaluation increased the official exchange rate from 35 to 80 piasters to the dollar. In addition, an Economic Consolidation Surtax of 38 piasters per dollar was imposed on most transactions, which made the effective rate 118:1. This somewhat odd figure was chosen to be consistent with the rate that Ambassador Johnson had negotiated for the Special Currency Fund.

Along with the devaluation, the U.S. insisted that the Vietnamese allow increased competition among importers to assure fair prices to consumers. Reluctantly, the Government agreed to liberalize import licensing and permit new import firms into the field. Moreover, the quantity of imports licensed by the Government of Vietnam with its own exchange was sharply increased. (See Table 6) This resulted in a large increase in the imports of consumer goods from Japan. These measures were successful in economic terms though they were bitterly resented by the Vietnamese importers.

Despite the increase in the cost of a unit of foreign exchange, these measures combined to dampen inflation so that hyper-inflation was avoided and the real income of Vietnamese was protected against further erosion. A much wider range of goods was available in the market place than before. Combined with almost full employment of workers and higher wages, there resulted an unparalleled prosperity that grew continuously until the Tet offensive of 1968.

Port Congestion

As indicated above, the economic stabilization program brought about a significant increase in the total volume of commercial imports. This, combined with the buildup of supplies for U.S. military forces commencing in 1965, contributed to an overburdening of Vietnam's limited port capabilities. Ships were delayed; commodities were stored

on barges for long periods; warehouses were jammed. Emergency measures to move commodities through the ports and to construct new unloading and storage facilities were undertaken by A. I. D. , the U. S. Army, and the Government of Vietnam. A. I. D. provided coastal and ocean shipping, construction commodities and technical assistance. The U. S. Army, through the 125th Terminal Command, assisted the Vietnamese Government in operating the commercial facilities in the Port of Saigon. By February, 1967, and until the Viet Cong attacks in February, 1968, port congestion had been virtually eliminated and considerable progress had been made in assisting the Government of Vietnam to develop operational capability and responsibility for the enlarged and busier ports.

Tax Measures

While taxation is normally a major tool in controlling inflationary pressures, it has already been noted that the Government of Vietnam's ability and will to wield this tool was severely limited. Nevertheless, an important part of the program of economic stabilization has been to improve the taxing capability of the Government. Training programs for tax officials, the introduction of new techniques of collection, and the introduction of new taxes have all been used. The Government introduced withholding income taxes in 1967, but not without considerable difficulty. Although the U. S. Internal Revenue Service tax advisory

team was strongly in favor, many in A. I. D. argued that its impact would fall primarily on Vietnamese civil servants, a group whose real income was already hard hit by inflation. Civil servant salaries are set by law, and hence tend to lag behind salaries in the private sector. Nevertheless, the measure was instituted. Larger businesses, including foreign corporations, were immediately covered.

Throughout 1967, improvements in the Government of Vietnam tax collections were dramatic. Efforts to collect old obligations were successfully mounted, and excise collection techniques were sharply improved.

A major issue remained with regard to land taxes. Many American advisors believed that here collections could be sharply improved, but others felt that the marginal returns would be small relative to the amount of effort that would be required. In addition, this was politically a very sensitive area. Too often in the past, a Government presence was seen by the peasants only as an increase in their taxes. The issue was resolved by the shifting of the land taxing authority to local governmental units by a decree of January 1, 1968.

The 1968 Tet offensive dealt a serious setback to the tax collection effort.

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A great deal was done by the Government in the post-Tet period. It prepared new austerity taxes on imports, a reform of the tariff structure, new POL (petroleum, oil, lubricants) taxes, and a surcharge on most domestic taxes. All of these measures except the POL tax increase and the tariff reform had become effective by the beginning of August, 1968.

(Begin CONFIDENTIAL)

As of December 1968 the inflationary potential remained the biggest economic problem confronting Vietnam. Prices rose 32 per cent in 1968 (the limit of a bearable inflation), but money supply expanded 50 percent. The resultant large overhang of unspent piasters in the hands of the people and the currently estimated 50 billion piasters (\$424 million) budgetary deficit in 1969, posed a real danger of a serious inflation with adverse political consequences.

We continued to assist the Vietnamese Government in meeting this problem through a large A. I. D. - financed commercial import program, and a PL-480 surplus agricultural commodities program. The licensing of imports financed by Vietnam out of its own foreign exchange reserves soared in the first half of FY 1969 to help meet the import demand generated by the piaster injection into the economy.

As these resources were, however, insufficient to meet the problem, the Vietnamese Government was confronted with the necessity of taking action with respect to its budget. Under our pressure, it has

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reduced its subsidy on rice imports and thus cut back expenditures. Not much more could be done on the expenditure side, because continued mobilization had the effect of raising military costs.

The focus was, therefore, on increased revenues. We propose to conclude a stabilization agreement by April 1, 1969, with the Vietnamese Government outlining the revenue steps necessary to reduce the inflationary gap to a supportable level. Agreements on our commercial import and surplus agriculture commodity programs provide potential leverage for bringing about desired stabilization actions by the Vietnamese Government. (End CONFIDENTIAL)

Evaluation

Has economic stability in fact been achieved? If price stability in Vietnam, during the period considered here, is compared with that which occurred in Korea and China under similar circumstances, the answer on this comparative basis must be yes. In Korea, during wartime, prices rose 1,800 percent yearly, in China even more. By comparison, during the three critical years, 1965-1967, price increases in Vietnam were held to 200 percent. Even more important, this was done without sacrificing resources necessary for the war effort, without destroying or seriously distorting the free market economy. There is no doubt that without the foregoing measures, inflation would have been much worse and more detrimental to the war effort.

G. Agriculture

Vietnam, like the rest of Southeast Asia, is primarily agricultural with some two-thirds of the population living on the proceeds from their farms, and with agriculture virtually its only normal source of foreign exchange.

Agricultural resources and output during the years of the French war, and the following civil strife, declined so sharply that production of rice, once the country's principal export crop, fell fifty percent. Only limited supplies of such staples as corn, tea, coffee, pepper, and fish were available. Agricultural institutions were in a state of decay and research work at a standstill. In this general pattern of deterioration, rubber was the only exception.

The U.S. agricultural program, which was drawn up after the cessation of fighting in 1955, was aimed at rehabilitation of the overall agricultural capacity of the country, the reopening of abandoned lands and the re-employment of thousands of idle farmers in their traditional form of work. Three steps appeared necessary to a successful rehabilitation program: access to lands for cultivation, improved water distribution through drainage and irrigation, and credit for simple production necessities such

as work animals, plows, and seeds.

Work was initiated on establishment of a National Agricultural Credit Agency under which a system of rural credit could be developed. Emergency credits were made available by the U. S. Mission to meet the need for getting abandoned land back into cultivation. Some of these credit funds were used to import 9,000 work buffalo from Thailand and to distribute them to Vietnamese farmers.

With U. S. help, the Vietnamese Government in June, 1955, created an Agricultural Extension Service.

The majority of nearly one million Vietnamese who fled from the north were farmers who hoped to re-establish themselves on the land. These were assisted by the U. S. Mission in getting resettled and in obtaining supplies of seed, livestock, and agricultural information.

One of the major problems retarding agricultural development was the lack of coordination in the Government of Vietnam program at the provincial level. Each Directorate representative in the province answered only to his office in Saigon, and meaningful coordination between the different activities was absent, even in closely related fields.

By the fall of 1963 the Agriculture Division placed regional agricultural officers in the four regions into which Vietnam is divided for military purposes. These four men had hardly been in position for a year when they, in turn, requested agricultural extension men for each of the provinces in their respective regions.

In the meantime, the Office of Rural Affairs started placing provincial representatives in the field. By the time this new office had changed its name to Office of Provincial Operations, the Ministry of Agriculture was reorganized, and some of its responsibilities were given to a new agency called Ministry of Rural Reconstruction, which eventually became the Ministry of Revolutionary Development.

All of these changes naturally resulted in conflicts and misunderstandings in A. I. D., between the Vietnamese in the two Ministries, and occasionally between the Americans and the Vietnamese who were supposed to be working together on the common problems.

When the new Office of Rural Reconstruction became so influential in Saigon that it was able to dictate the programs for the Agricultural Division and to issue orders to the Minister of

Agriculture, the Agriculture Division Chief left A. I. D.'

In February, 1966, President Johnson held a conference in Honolulu. At this conference the President directed Secretary Freeman to go to Vietnam with ten other agricultural experts to lend emphasis to the non-military activities in Vietnam, especially agriculture; evaluate the agriculture programs; and determine how these programs could be improved under the unfavorable conditions that existed at the time. The team was drawn from agricultural colleges, private industry, foundations, and farm associations; reported to the President that the American agricultural community had the resources to assist Vietnamese farmers, and that these resources should be put to work. ^{7/} On September 23, 1966, the U. S. Department of Agriculture agreed to conduct a part of the Agency for International Development's technical agricultural assistance program in Vietnam. ^{8/}

By August, 1968, the agricultural program had been refined to include fewer projects concentrated in selected areas. The refined program emphasized rice production and protein production.

A. I. D. 's responsibilities in the land reform program were assumed by the Vietnamese. This shift in responsibility was accompanied by a change in the name of the Ministry of Agriculture to Ministry of Land Reform and Agriculture.

A. I. D. 's agricultural efforts were retarded by three chronic problems -- lack of security; shortage of Government of Vietnam staff caused by the draft; and an inadequate Vietnamese budget, caused by war priorities.

Agriculture and Pacification

Throughout the history of the pacification program in Vietnam, agriculture has played a large role in the rationale. Winning the hearts and minds of the peasants, thus cutting at the base of Viet Cong support, has been considered the key to pacification. The pacification program has been implemented through a very large number of village and hamlet programs intended to increase peasant income by the provision of new techniques and free or subsidized agricultural inputs.

No definitive evaluation of this approach has ever been made, but in recent years there has been an increasing disposition to question the underlying assumption that this type of agricultural program can have much impact. On the one hand, many question whether security is not a sine qua non, and all too often absent, so that hamlet agriculture projects never have a chance to become effective. On the other hand, a project to increase the output of rice in a hamlet fails to deal with many of the most significant

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factors affecting the profitability of growing rice, e. g., price and market conditions in the country at large and the ability to reach the markets.

Since early 1967 a new rationale has developed. The rise in the price of rice and the development of several specialty crop areas have brought an unparalleled degree of prosperity to a large part of the Mekong Delta. Moreover, this prosperity has been closely linked to access to the major urban markets and to a high level of Government of Vietnam security. It has been widely felt that the peasant could not help but reach the conclusion that his best interests lay with the Government which created this progress.

Further, since mid-1967, when the annual program review reached the conclusion that the agriculture program lacked sufficient focus and that rice and protein should receive absolute priority, it has been possible to treat these with a systems approach. This has meant that problems both at the farm level and at the national level were recognized and both could be attacked simultaneously.

Vietnam has taken its place as one of the leaders of the "Green Revolution" in Asia. During 1968, the first year of the use of the new miracle IR 8/5 rice seeds developed in the Philippines, over 100,000 acres were planted -- a phenomenal achievement. Harvesting

now underway of the first planting shows yields of more than 2 tons per acre, well over double the normal yield of 4/5 of a ton per acre from local varieties.

The Vietnam Government has established a target of 500,000 acres for 1969 for the new varieties. To achieve proper yields, fertilizer use is expected to continue to establish new record levels.

In November 1968, the Vietnamese Government, after months of urging by American officials, also took action on rice prices designed to encourage the expansion of the domestic production of rice. This was done by drastically reducing the subsidy on imported rice. Domestic rice immediately rose in price, and the glut of rice in the Mekong Delta began to move faster toward the Saigon market.

Chicken raising has become the latest miracle in Vietnam. Prompted by prices of over \$1 per pound in the Saigon market, commercial chicken production has spread rapidly.

Imports of day-old baby chicks brought in from East Asian countries soared from 2,000 chicks weekly at the beginning of 1968, to over 200,000 weekly in November, 1968. Vietnamese business groups are planning the establishment of hatcheries in country.

Rural prosperity was severely damaged with the Tet and subsequent attacks on the cities in 1968. Striking at the cities and the transport routes that served these major market areas, the effect has been to destroy access to the market for significant

periods of time and to raise the cost of transportation, thus lowering farm prices significantly.

Agricultural Marketing Policy

The primary concern has been with price policy for rice, but other matters relating to rubber and protein have been the subject of U. S. study and recommendations.

Concern with rice price policy grew as the Mission became aware that many of the applicable technological production improvements would not be accepted by Vietnamese peasants unless the return was quite attractive, and this in turn depended on the product price. The rapid inflation starting in 1965 was not paralleled by an increase in the price of rice. As a result of this and a number of other factors, rice production declined. Imports of rice from the United States made it possible for the Government of Vietnam to eliminate price uncertainty and extreme seasonal variations, although they also served to keep the price down. Although it may have been desirable from an overall viewpoint of labor scarcity to have farmers leave the land and go to work at the higher paying jobs in the cities or to switch to more profitable crops such as vegetables, the rice import requirements grew so rapidly that a worldwide

shortage of rice seemed imminent. It thus became important by 1967 to stem the decline in output; to do this, a significant price increase was essential. A large increase was accepted in early 1967, and additional increases were accepted in principle in 1968, although they had not been carried out by the middle of the year.

Commerce, including trade in rice, and protein foodstuffs, is subject to official price ceilings and to a number of controls on transport and sale. Research into the impact of these controls indicated that they were almost universally bad, failed to achieve their stated objective, produced corruption, and raised the cost of living unnecessarily. A second major thrust of agricultural policy has therefore been to remove the thicket of national, provincial, district, and urban controls. Unfortunately, the Government has a strong etatist tendency, the control system has created vested interests, and attempts to remove the controls often brought a shower of public criticism. Hence, reducing the control system has proved extremely difficult, although it remains an important policy objective.

Land Reform

Land reform was a high priority Vietnamese program starting

in 1955 with the passage of the basic law on tenancy, followed by the law expropriating large holdings in 1956. Together with the acquisition of a large amount of formerly French-owned land in 1958, these acts provided the basis for a major program of redistribution and regulation of land holding. With U. S. assistance, progress was made in implementation until 1960 when increasing violence made administration of these acts more and more difficult. At the same time, possibly because of the growing difficulties, the Government became disenchanted with the program; President Diem declared that the land reform was complete, and the land reform function was downgraded from a Ministry to an office within the Directorate General of Land Affairs in the Ministry of Agriculture. During the period, American assistance was phased out.

Many Vietnamese and Americans who were involved with the program felt that the Government had made a dangerous error in abandoning further reform efforts and blamed reactionary advisors around the President and opposition within the U. S. Mission. The Mission's desire to get on with land reform never completely died and it maintained an active interest in developments. With the arrival in 1963 of Ambassador Lodge, the U. S. Mission began a

re-examination of the land reform question and a search among the alternatives for a set of measures which would contribute to winning the war. While the tenure situation did not, on the basis of available data, appear to be nearly so bad as in a number of other underdeveloped countries, it was also widely felt that the Viet Cong had made substantial political capital out of their own minuscule reform efforts; that no South Vietnamese Government could afford the inadequate land administration machinery it then had; and that pacification would benefit from application of the existing law and completion of the programs begun in the mid 1950's while a careful search for additional measures was undertaken.

The fall of Diem in November, 1963, at first appeared to offer new opportunities to open a dialogue on land reform and to revive a moribund program. However, further deterioration of security in the countryside, crumbling of the administrative machinery, and chaotic changes at the top level in Saigon meant that very little could be done, despite the commitment of successive leaders to the idea of further reform.

Greater political stability since 1965 and the development of representative institutions have been followed by greater interest in

basic reforms have permitted the Government to devote increased attention to tenure policy. With U.S. encouragement, Minister of Agriculture and Land Reform Ton That Trinh and his successor both put land reform as one of their two priority programs and have evolved a program calling for distribution of lands remaining in Government hands, regulation of rental rates and conditions in conformity with the law, and redistribution of lands to be acquired through a voluntary sales program.

A. I. D.'s principal action in recent years has been to sponsor a series of consultant studies, to maintain one or more high-level land reform specialists on the A. I. D. staff, and to mount a pilot project to test land redistribution procedures in An Giang province. The latter was supported by specially designed aerial surveys and a contract with the U.S. Corps of Engineers on land classification, mapping and surveying.

Nevertheless, since 1965, there has been a hot debate as to what else the U.S. should do about land reform. The crux of the land reform issue was what it might contribute to the war effort. Because the Viet Cong had used land reform as a propaganda issue and, in some instances, passed out bogus land titles and gone through the motion of themselves administering land reform in areas which they controlled, it was feared that this was a

major vulnerability of the Government with respect to winning the support of the rural masses.

Reliable data on land holdings, landlordism, tenancy and other aspects of land tenure were unavailable. A. I. D. maintained that the logical next steps were: completing the existing land reform program initiated in the 1950's, refining our knowledge about the actual state of land tenure and the peasants' reaction to it, and remedying the almost total lack of capacity on the part of the Vietnamese Government to administer any of the various U. S. Government proposals.

It was further felt that this was uniquely a Vietnamese problem and that, except for technical advice and some services such as aerial photography and the provision of cadastral survey equipment, it would be counter-productive to try to inject American personnel into the actual implementation of a land reform program. It was also the general consensus that the administration of land tenure matters could not, in the foreseeable future, be adequately managed by the Vietnamese National Government, and that it needed to be decentralized to the local level, probably the village, where local circumstances could be properly taken into account.

Among the political aspects, considerable evidence was cited

that discontent with land tenure was not among the most important of the grievances and felt needs of the peasantry. Also, the earlier land reform programs had eliminated all of the really large landlords so that the maximum permitted holding of roughly 240 acres meant that most of the so-called landlords who would be adversely affected by a new and more extreme program, were really local middle-class citizens who represented the bulk of village leadership. At the same time, the supply of capable local leaders in the villages and hamlets for the New Life Hamlet program was considered much more critical to the war effort than land reform. Hence, to dispossess and alienate these local leaders, without there being any competent or reliable alternate leadership in sight, would be counter-productive to the total counter-insurgency program.

But all of the foregoing should be modified by the compelling realization that no one involved in these high-policy discussions of a very complex socio-politico-economic matter in a far-off foreign land really was knowledgeable about the problem. Those who had spent years in Vietnam on agricultural, economic, and, sometimes, specifically land reform matters, were the ones who emphasized most our critical lack of knowledge.

Ultimately, A. I. D. and the Mission in Saigon were vulnerable to criticism for inaction, despite the fact that they and the Government were preoccupied with many other pressing matters and unable to administer a substantially larger program, given the shortage of trained personnel and insecurity.

This was such an appealing issue in its simplified form that a great many earnest and interested parties, including high officials in the Executive Branch and several Congressmen, were convinced that this was indeed a crucial issue of highest priority to countering the Vietnam insurgency and ultimately winning the war. Various Congressional reports alluded to it and Congressman Moss' Subcommittee on Government Operations issued in early 1968 a strong indictment of the U. S. Government and the Government of Vietnam for not having done more along these lines.

In each of the meetings since 1966 held between the Presidents of the United States and of South Vietnam, advancing land reform has been a priority matter of mutual interest. A Joint Communique issued from the Honolulu Conference February 8, 1966, included an understanding that steps would be taken to accelerate land reform. The United States agreed to give its full support to measures of social revolution including land reform. At the Manila Summit

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Conference, October 25, 1966, the Vietnamese Government declared that "land reform and tenure provisions will be granted top priority," and at the Guam Conference, March 21, 1967, the revision of land reform policies and tenure provisions were discussed. Again, at the Honolulu Conference, July 20, 1968, President Thieu reviewed the progress made by his government toward a more equitable distribution of land.

(Begin CONFIDENTIAL)

The Vietnamese Government has been moving toward a greatly broadened land redistribution program. This important step was prompted both by interest in this subject at the top of the Vietnamese Government, and discreet American use of a financial carrot.

President Thieu on New Year's Day, 1969, publicly established a goal of 1 million hectares (about 40 percent of Vietnam's rice lands) to be redistributed in 1969. While it appeared doubtful that this target could be reached, Thieu was correct for political and psychological reasons in establishing it.

On January 2, 1969, the Cabinet approved the principle of a program of voluntary transfers from landlords to tenants. The Minister of Agriculture was asked to draft legislation immediately for implementation of this program in 1969. The Prime Minister also instructed him to study preparation of a law lowering the land

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retention limit from 100 hectares to 3 to 10 hectares (according to the region or province in Vietnam) for implementation in 1970 with respect to those lands not transferred under the voluntary purchase program.

The U. S. Government has told the Vietnamese Government that it would be prepared to provide \$30 - 50 million (of which \$10 million in FY 1969) in extraordinary financial assistance to facilitate the adoption of greatly broadened land transfer programs. We have made it clear that our assistance would be conditioned on a comprehensive program backed by a legislative mandate.

The problem of administrative implementation remained to be worked out to assure that this massive program could be carried out. The Vietnamese Government has wisely decided to delegate considerable authority for its execution to the village level. It was also considering a variation of the very successful U. S. -Taiwan Joint Commission on Rural Reconstruction to supervise the implementation. (End CONFIDENTIAL)

H. Public Health

The Agency for International Development began a small, developmental health effort in Vietnam in 1952 as part of the mission to Indo-China. Medical training was sponsored in the Hanoi, Saigon, and Phnom Penh medical schools. Malaria control was the main effort in the preventive medicine area. Following the dissolution of Indo-China and partition of Vietnam in 1954, a small public health effort, with the same program, continued in South Vietnam. With the 1962 emphasis on counter-insurgency, the traditional advisory role was abandoned and A.I.D. established its first direct assistance medical element.

From 1963 to 1964, the A.I.D. health program in Vietnam was directed towards two major components, medical/dental education and health development. The latter included rural health, malaria eradication, nursing education, health worker training, public health activities, and limited clinical medical support in the form of surgical teams. The emphasis was upon rural health and public health at the village and hamlet level.

By late spring of 1965 the security situation had deteriorated to the point where it had become almost impossible to effectively manage, control, direct, support and supply rural Vietnam.

To make a bad situation worse, about eighty-five percent of the 7,000 rural health workers had received no pay for six months because of internal bureaucratic problems. This fact, coupled with increased draft quotas, rising cost of living, and the danger attendant upon going into the rural areas, was rapidly depleting the trained work force.

The facilities available to the Vietnamese consisted of approximately sixty hospitals varying in size from thirty-five - 1,500 beds, almost all of which were built in the late 1800's and early 1900's. Ninety percent of them had no running water, little or no power, and no waste disposal. Rural health facilities for 236 districts consisted of 163 maternity-infirmary-dispensaries, although not all of them were in use. There were in excess of 2,500 villages, each one supposedly having a maternity dispensary, but actually there were only 342 in existence. Over 6,000 hamlets required health stations, but it was not known how many were available and operating.

Medical equipment throughout the country was totally inadequate. Most of the equipment in the hospitals, and other facilities, was a mixture of very old French items mixed with more modern

donations from numerous countries -- creating extensive maintenance problems.

The medical supply situation was also in bad shape. The fill-rate, even where the foreign teams were located, was at a maximum of twenty percent. No supply catalogue, no standard items, and no consumption data were available.

There were severe problems in supply distribution. All stocks were located in Saigon, medical supplies often fell in the hands of the Viet Cong and the interdiction of the roads caused transportation problems.

Insofar as the United States and the free world's assistance were concerned, A.I.D. had advisers in medical/dental education, nursing education, public health, preventive medicine, communicable disease control, public health nursing, malaria eradication, sanitation, medical logistics and medical equipment maintenance. There were four United States surgical teams, four Philippine surgical teams, one Australian, and one New Zealand surgical team actively working in the larger hospitals. A paramedical training center was being assisted. A health education service,

producing educational materials, was functioning at a low level. There were two nursing schools, one in Saigon and one in Hue. Each had a one-year course and a three-year course, but there were no education advisors at Hue because of political unrest.

A redirection appeared to be necessary in the face of mounting war, dwindling resources, inability to get at the "grass roots," and the general feeling of apathy which existed. The new approach agreed on was to conduct aggressive health activities in accessible areas, taking advantage of tactical advances and increasing security. At the same time an attempt would be made to build civilian health logistics systems. The program would continue to operate within the framework of the Government of Vietnam and only in exceptional instances would any direct U.S. action be taken and this subject to the approval of the Vietnamese authorities. However, the new approach would no longer simply provide advice and commodities, it would "do" the job where necessary.

The tactics and objectives spelled out in the summer of 1965 did not conform to the institution building, developmental role of A. I. D., but were part of the new counter-insurgency strategy

designed to convince the populace that their government was trying to help them.

In response to these conditions, the A.I.D. health program expanded in an effort to fill the gap between medical needs and available resources. While aid to the established Vietnamese public health programs was continued, an expanded program of direct medical care to individual patients was incorporated into the overall counter-insurgency effort. By January, 1968, A.I.D.'s health program was directing and/or supporting approximately 1,500 medical and paramedical workers. (600 direct hire, 500 free world team members and 400 military team members.)

Despite extensive training efforts for a decade, Vietnam in 1968 was woefully short of physicians. Of the 1,200 Vietnamese doctors, more than 700 were in the army and fewer than 200 served at the Ministry of Health Hospitals. The United States and eleven other free world countries provided forty-eight medical teams to work with the hard pressed Vietnamese physicians.

These teams plus the A.I.D. direct-hire health staff provided:

| | |
|--|-----|
| Physicians | 231 |
| Nurses | 240 |
| Medical Technicians and Admin. Support | 430 |
| Medical Supply and Equip. Specialists | 187 |

Malaria Eradication

The malaria eradication program, organized in the mid-1950's as a part of a worldwide program to combat malaria, was notably successful in the first years of operation. Between 1958 and 1961 the incidence of malaria infection was reduced from 7.2 percent to 1.5 percent. However, the lack of security in recent years has resulted in the postponement of the original goal of total eradication. The program is now conducted as a holding action, designed to maintain a low level of incidence until such time as total eradication is possible.

Surgical Teams

In the development of health services the A.I.D. Public Health Division soon came to recognize the requirement for expanded support of the province hospitals, particularly in those provinces where the civilian populace was experiencing casualties from the insurgency. The support for selected province hospitals took the form of surgical teams consisting of a surgeon, an assistant surgeon, an operating room nurse, a surgical ward nurse, a nurse anesthetist and a laboratory/x-ray technician. The first

such team was committed to the town of Can Tho in the summer of 1962, and soon after these teams were established in Nhatrang and Danang. This program projecting eight teams, four U.S. and four third-country, in the province hospitals foundered on the logistic system and the built-in jealousies of the various Ministries through which the program had to be coordinated. The three teams at Can Tho, Nhatrang, and Danang survived in spite of the system.

Military Province Hospital Assistance Program

Continuing to recognize the need for further development and expansion of the medical capability at the provincial level, the United States committed increasing amounts of military medical resources to the A.I.D. Program. In May, 1965, the Secretary of Defense directed the military departments to develop a medical program utilizing U.S. military mobile medical teams. A detailed plan was developed for the purpose of providing expanded health and medical service for the civilian populace, developed jointly by A.I.D. and the Military Assistance Command, Vietnam (MACV). This service became known as the Military Provincial

Hospital Assistance Program. Composed of three medical officers, one medical administrative officer and twelve enlisted men (one medical records clerk, one laboratory technician and ten medical technicians) the teams were based in province hospitals and worked for the provincial chief of medicine. As of June, 1968, twenty-four teams were serving.

Care of Civilian Casualties

A great deal of attention has been given to the subject commonly referred to as "civilian casualties." The issue of "civilian casualties," as distinct from the actual medical problem, was largely made in America, and in part grew out of opposition to overall U.S. policy in Vietnam and concern for the suffering of the Vietnamese civilians. Unfortunately, however, an admittedly bad situation was so exaggerated by some critics that the whole problem got badly out of perspective, and a great deal of energy was expended by A. I. D. officials both at home and abroad in responding to the barrage of accusations.

It is true that by the best Western standards the Vietnamese hospitals were often primitive and overcrowded, but the same could be said of the homes most of the Vietnamese patients came from.

The number of patients that could not be treated adequately proved to be rather small. The multitude of burned children pictured by the media simply did not exist. Also, improvement of Vietnamese rehabilitation facilities, the opening of military hospitals to civilian patients, and establishment in Saigon in 1968 under an A.I.D. contract of the Children's Medical Relief International Center, helped to relieve the situation.

The issue over civilian casualty statistics was fairly well resolved when, beginning in January, 1967, a reporting system set up with A.I.D. assistance began providing monthly admission figures from all provincial hospitals. The reports specified the number of patients submitted with war-related injuries, and gave subtotals for women and children. How many other injured civilians are unable to reach a hospital is still unknown. But in late 1968, it appeared that the care of civilian casualties, while remaining a very serious medical problem, was much less of a public issue.

Volunteer Physicians

The Volunteer Physician program has been and continues to be one of the most successful aspects of the civilian health program in Vietnam. In response to President Johnson's appeal to the American medical community for assistance in meeting the greatly expanded need for physicians in Vietnam, an unexpectedly large number of doctors volunteered to serve in Vietnam without compensation.

As a pilot project, a one-year funded grant was made to People-to-People Health Foundation to recruit and manage a program of Volunteer Physicians for Vietnam.

The program, which increased to a constant strength of thirty-two physicians, which was maintained by rotating volunteers for approximately two months each. Many problems were encountered, not the least of which was the cultural shock of going directly from the modern American environment to the primitive medical situation in Vietnam. Ten of the thirty-nine provincial hospitals built by the French as early as 1899 were rehabilitated by A.I.D., but the lack of modern facilities even in these ten was, at least, initially shocking. Inevitably some adverse publicity resulted.

At the conclusion of the pilot project phase of this program, the administrative/recruitment responsibilities were gradually transferred to the American Medical Association, which had assisted with the project from the beginning.

Medical Logistics

U.S. and Free World medical personnel began arriving in Vietnam in 1965 to assist in providing adequate health care to the Vietnamese civilian population in the provincial hospitals. As their numbers increased during 1966, the demand for medical supplies and equipment increased sharply. It became apparent that the existing medical logistical system could not adequately respond to this increased demand for supplies and shortages of medical supplies occurred in many of the province hospitals where U.S./Free World Aid medical personnel were located. In order to alleviate this situation, a medical logistical augmentation program was initiated by U.S. A.I.D. in 1966.

Significant progress was made in the procurement of medical supplies and equipment under the Department of Defense/A.I.D. Agreement of July 18, 1966. Under the Agreement, U.S. A.I.D. procures supplies from U.S. Army's medical depot on Okinawa.

The shorter leadtime and pipeline increased the stock level at the central depot so that the system was able to meet between sixty-five to seventy percent of the countrywide demand from stocks on hand, versus about twenty percent in early 1966.

Surgical Suite Program

The Government of Vietnam Ministry of Health Hospital system was long recognized as (initial health survey done in 1957) inadequate to support the surgical care needs strained by the war situation. To correct this inadequacy several steps were taken by the Government of Vietnam with the assistance of the U.S. Government. Twenty-eight surgical units were built throughout South Vietnam. They included two operating rooms, recovery room and central supply.

Surgical Facilities Renovation Program

Because the surgical suites alone were an inadequate solution a second program, begun in 1965, expanded the surgical facilities at ten major sites to include the operating room suites. It also upgraded wards, emergency rooms, outpatient clinics and utilities systems. However, because of war priorities, problems of coordination between A.I.D. and the Navy construction agency, and delays in U.S. A.I.D.'s Public Works Division caused a two year delay in

this urgently needed program while the foreign surgical teams arrived to work in the existing inadequate facilities.

Public Health Services

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The Medical Appraisal Report of 1967 emphasized the importance of undertaking an expanded program in public health preventive medicine as soon as possible. The investigating team stated that much of the disease in Vietnam is preventable. Moreover, they were confident that if an expanded effort was undertaken and integrated with the clinical program, most of the Ministry of Health's hospitals would soon have an adequate number of beds for the civilian populace.

I. Logistics

Logistics, more commonly known in A.I.D. as supply management, has been a vital function in forms relatively new to A.I.D. Supply shortages and equipment maintenance problems plagued the A.I.D. program earlier, but became so acute in the counter-insurgency program as to require dramatic action. The growth in emphasis can be roughly judged by the following figures on personnel build-up:

| | <u>A.I.D. /VN Logistics Personnel</u> | | | |
|-------|---------------------------------------|-------------|-------------|---------------|
| | <u>1962</u> | <u>1965</u> | <u>1967</u> | |
| | | | Civil | Military |
| USAID | 3 | 35 | 220 | 160 |
| AID/W | 1- | | 230* | Many indirect |

*Includes 140 for GSA's Support Operation in San Francisco

Paradoxically, although supply problems were of grave concern to almost every element of the Mission, there was a great deal of resistance to the installation of a centralized logistics office and the introduction of more effective supply management techniques. The basic management problem, common to both USAID and the Government of Vietnam, involved the desire on the part of USAID technical divisions and the Government of Vietnam technical ministries to each continue to operate its own supply function rather than to have it consolidated into one central office staffed with logistics specialists. In fact, the Public Health and Public Safety divisions continued to have a separate supply system, in conjunction with their Vietnamese

counterpart ministries.

Particular emphasis was given to the creating and the strengthening of Vietnamese supply management capabilities and organizations. However, to "get the job done," many functions were performed directly by U.S. staff for several years. (See Policy Issues.) The provincial supply system was a prime example of this. By late 1967, with great difficulty, a warehouse was set up in each province under the supervision of an American, even though legally, title to the supplies involved was invested in the Government of Vietnam. During the 1968 Tet offensive, this system proved to be a huge success in avoiding critical supply shortages and hardships despite major disruption of security and transportation.

The critical maintenance problem which resulted in hundreds of pieces of expensive A. I. D. -financed and other equipment being dead-lined throughout Vietnam, was the initial focal point for enlarging and improving supply capabilities. A Central Repair Parts Depot was set up in early 1966, enabling the Government to bring more effective spare parts supply and maintenance service to all.

As the magnitude of A. I. D. 's logistics problems mounted, increasing reliance was placed on support from the U.S. Department of Defense. Some examples follow:

1. In early 1966, because of shortage of commercial ocean shipping and extreme congestion of Vietnam ports, A. I. D.

joined the Defense Transportation System (DTS) and utilized, on a reimbursable basis, the services of Department of Defense for (a) inland rail shipping and port loading, (b) ocean shipment via MSTS vessels, and (c) offloading and transportation to the first warehouse in Vietnam. Although a few bulk Commercial Import Program (CIP) commodities were also shipped via MSTS, the difficulties of integrating commercial procedures with those of Department of Defense were so great that most CIP commodities continued to flow through commercial channels.

2. The Army supply system was used to procure, store, and ship to Vietnam, all of the medical supplies required by the huge United States Government-Government of Vietnam medical program for civilian care.
3. The U.S. Army Logistics Center, Japan, was utilized by A.I.D., on a reimbursable basis, for the supply of spare parts and the provision of technical advisory teams to improve logistics systems.
4. The provision of military airlift, where needed within Vietnam because of security problems and urgency of operations, was arranged with Department of Defense at the White House level. This was an essential supplement to about thirty civilian aircraft provided under

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A.I.D.'s Air America contract. This arrangement for military airlift of 1800 tons of A.I.D. commodities per month proved to be a rather classic case of the seeming inability of two U.S. agencies to get together on procedures. This formal arrangement never worked well, although large amounts of military air support provided on an informal basis at virtually all echelons, particularly at the province level where military and civilian personnel usually supported one another in a variety of informal ways.

The scope of logistics problem by the buildup of supplies that flowed through the Port of Saigon. This port, which normally handled about 1.5 million tons of cargo a year, was forced to discharge 4.0 million tons in 1966, and 4.8 million tons in 1967. This sudden buildup, which started in late 1965, caused complete port congestion. This in turn resulted in an accumulation of demurrage on ships waiting to berth and increased congestion surcharge rates on ships carrying cargo to Vietnam. To solve this congestion problem, A.I.D. in conjunction with the U.S. military took several concerted actions:

1. Initially (1964-1966) A.I.D. recruited its own port specialists.
2. As the problem mushroomed, the U.S. military in July 1966 was made the executive agent for the U.S. Government in dealing with the Government of Vietnam on operation of the Port of Saigon.

3. Equipment and supplies such as cranes, material handling equipment, warehouse trailers and mechanical lifts were brought in by USAID to expedite the handling, segregation, temporary storage and movement of materials through the port.
4. The U.S. military built new port installations on the Saigon River to increase the number of deep water berths by five.
5. USAID installed 28 buoys for anchorage of ships carrying bulk cargo, leased tugs and barges from Manila and purchased barges for use by the Saigon Port and the up-country ports.
6. USAID funded a coastal vessel program to assist in moving materials from Saigon to up-country ports if deep draft berthing facilities were non-existent.

The years 1966 and 1967 were critical ones for Vietnam. They demanded quick, hard decisions on problems of transport, cargo clearance, warehousing and distribution that would stagger any country's capability, particularly one fully engaged in a shooting war. The flow of supplies into Vietnam during this period kept the economy of the country stable, met the pacification needs and weathered the serious setback of the Tet offensive.

J. The Revolutionary Development Program in Pacification

"Pacification," as the term is used in Vietnam, is a complex of military, economic, social and political efforts to extend or restore Government control. As a part of pacification, the Government of Vietnam's Ministry of Revolutionary Development is charged with carrying on civil programs aimed at winning for the Vietnamese Government the confidence and loyalty of the rural population, which comprises some three-quarters of the people of South Vietnam. Revolutionary Development is a technique -- the latest of many -- for the creation of conditions under which normal government functions can be established.

Pacification is based on the concepts of security and political action. Security, the destruction of the Viet Cong military and terrorist forces is primarily the job of the military, paramilitary, and police forces of the Republic of Vietnam and their Free World allies. Political action aims at removing the causes for violence, in part by identifying and isolating the Viet Cong infrastructure but more importantly by eliminating the real grievances which they exploit.

Rural Political Action up to 1963

French pacification efforts in rural areas were started in 1952

and continued until the end of the Indo-China war. After the French left Vietnam there were continued Vietnamese efforts at pacification. The early programs placed emphasis on resettlement of refugees from the North, but as Viet Cong terrorism became more of a factor in rural life, emphasis swung toward efforts at village security. From these activities the strategic hamlet-type programs emerged.

American assistance was provided in these early programs through the old line Government ministries. With the institution of the Strategic Hamlet Program in 1962, however, the U.S. Mission activated a Rural Affairs Office as a direct supporting agency for the Government's pacification programs. In late 1962 this new Office of Rural Affairs had representatives in selected provinces.

From 1963 to 1968

In 1963, the Rural Affairs Office concept was carried over into the New Life Hamlet Program. This was basically the Strategic Hamlet Program renamed (to remove its identification with Diem) and reoriented as an effort which in principle responded to the people rather than imposing a program on them from above.

The program ran into difficulties because of worsening

administrative inefficiency following the November, 1963, coup. Government instability and the rapid shifting of political alliances among military and civilian groups demoralized the civil service and created an increasing group of "suspect" individuals, i. e., persons whose services could not be used because they had been part of some previous government. The rapid turnovers also increased the corruption problem. To complete the picture, the Viet Cong pressed the attack against the post-Diem governments, which were unable to provide the necessary security in the rural areas.

Several local or regional variations of the New Life Hamlet Program were tried during this period. These were often referred to as "oil spot" concepts. During 1964, large-scale planning exercises for improved pacification programs were carried out; repeated changes of governments and regulations, however, caused much delay and waste of effort. Together with the proliferation of cadres and conflicts within the U. S. Mission these changes in planning reduced the program to confusion. In the last half of 1965, with the appointment of Ambassador Lodge, the assortment of schemes and organizations was re-examined and consolidated as the Rural Reconstruction Program.

The Rural Reconstruction Program, whose American title

was soon changed to Revolutionary Development Program, represents the latest development of the Strategic Hamlet concept. The original security and control approach has evolved into a goal of security, political organization, improved administration, and economic-social development. The original use of regular government functionaries or hired workers to carry out development has been changed to special recruitment and training of "Revolutionary Development Cadres" to carry out the entire rural political action program.

The three steps in pacification are a military offensive to expel important enemy units from an area; a securing phase in which military forces maintain a protective presence while the Revolutionary Development Cadres re-establish security, a dialogue between people and government, and elementary social-economic improvements; and a "nation building" phase in which more ambitious development activities are carried on by Vietnamese ministries.

To qualify for selection, a hamlet must meet the following standards: (1) sufficient population to make expanded development feasible; (2) sufficient economic potential to warrant expanded development; and (3) a defensible location where adequate security can be provided.

The U. S. supported the Strategic Hamlet Program through its Office of Rural Affairs at the time of Diem's overthrow.

There followed a period of internal disagreement on the role of A. I. D. Provincial Representatives. After several years of trial and error this disagreement was resolved in 1966 when the office was redesignated Office of Field Operations. Despite rapid turnover in administrative personnel, Field Operations successfully supported the large expansion of A. I. D. Provincial staff required to implement the American part of the Revolutionary Development Program.

At the same time, the other U. S. agencies dealing with pacification were expanding. The Joint U. S. Public Affairs Office (JUSPAO) had doubled its program, and OSA (the Office of the Special Assistant to the Ambassador -- a CIA function) had much enlarged the size of its program as well. (OSA was responsible for training and maintenance of the Revolutionary Development Cadre program with some technical support from A. I. D.) The Vietnamese Province Chiefs were thus faced with pressure from three different civilian advisors as well as the military (MACV) advisor. As the size of programs expanded, conflicts increasingly appeared between U. S. agencies, each of

which had its own chain of command. An effort was made to counter these conflicts by appointing a Deputy Ambassador to coordinate all Revolutionary Development support both with the agencies concerned and with the Vietnamese Government. It soon became apparent that staff coordination was not adequate to integrate the programs of different agencies. It was decided that a single chain of command on the civilian side was required, and at the end of 1966 the Office of Civil Operations was established to exercise control and administration of field elements.

The Office of Civil Operations included elements from A. I. D., OSA, and JUSPAO (in size order) and established a single line of command from headquarters in Saigon down to the Provincial Representative, who was the head of the (civilian) Province Team and exercised control over all civilian assistance programs except for certain intelligence functions of OSA. This organization proved effective in preventing conflicts and increasing coordination well before the close of the six-month "trial period."

Tentative staffing patterns for an integrated organization were drawn up in early 1967 and the organization itself was established in May, 1967, as Civil Operations and Revolutionary

Support (CORDS). This organization was responsible for American support to Revolutionary Development under the direction of the Military Assistance Command, Vietnam (MACV) and was headed by Ambassador Robert Komer, Deputy for CORDS under General Westmoreland. It included both the civilian programs which were under the Office of Civilian Operations (OCO) and the military advisory teams at Province and District levels. (U. S. combat troops in Vietnam are not part of the advisory effort and are not affected by this integration.)

CORDS is predominantly a management system. Each component agency contributed funds and personnel and continued to provide administrative support for its employees in CORDS. Roughly three-quarters of the civilian strength of CORDS was contributed by A. I. D.

With the integration of the MACV advisory teams a single Province Senior Advisor was appointed to direct the consolidated Province Team.

Province Senior Advisors posts were approximately evenly distributed among civilian and military personnel. Military personnel clearly predominated at Saigon and the four Regional headquarters, and greatly outnumber civilians at Province and District level.

The Revolutionary Development Program has encountered a number of problems in operation and follow-up. Some are in performance; some due to enemy action; and others due to the "crash" expansion of the Revolutionary Development teams and techniques. This rapid expansion was recognized as a calculated risk at the time it was undertaken. The direct purposes of pacification -- establishing a certain amount of security, completing development projects, and stimulating economic life -- were attained to various degrees under the various pacification programs -- although the long-range goal -- extinguishing the Viet Cong insurgency -- still remained.

K. The Public Safety Program

The Public Safety Division (PSD) advisory and technical support to the Government of Vietnam is related largely to the Directorates of Police, Rehabilitation and Telecommunication under the Minister of Interior. The principal function of PSD is to advise and assist these directorates to become self-sufficient in civil policing and law enforcement, security, communications, and prisoner rehabilitation. While the war continues, the police also have a counter-insurgency role.

Organizationally, PSD was a U.S. A.I.D. Division in the U.S. Mission, until it was incorporated in the Civil Office of Revolutionary Development Support (CORDS) under MACV in May 1967. The PSD effort began in July of 1959 and superseded a police advisory effort conducted by Michigan State University under an A.I.D. (then E.C.A.) contract.

Dollar support of PSD assistance totalled \$70,417,000 through fiscal year 1967. The fiscal year 1968 program is \$24.8 million. In terms of advisory assistance, advisors increased from forty-seven in November, 1963 to 194 by the end of 1967.

The paramilitary nature of police work in Vietnam is shown by the heavy casualty rate. From the beginning of 1965 to April, 1968,

National Police casualties were 520 killed in action, 876 wounded, and 194 missing. Over the same period, five U.S. advisors were killed and four wounded.

The civil security structure advised by PSD initially consisted largely of the Civil Guard, plus a conglomerate of municipal police organizations and other security units. There was no unitary structure to serve in coalescing national efforts against the Viet Cong threat until the Directorate of National Police was established on June 27, 1962, by national decree.

In 1960, the Civil Guard was transferred from the Ministry of Interior to the Ministry of Defense. This shift removed the organization from the advice and assistance of PSD and placed it under the Military Assistance and Advisory Group. Since the Civil Guard was the largest civil security force in Vietnam, its basic military orientation and training under military auspices greatly lessened the civil policing capabilities of South Vietnam.

It was in this context that the Chief of the Public Safety Division proposed in March, 1964, a "National Police Plan" for Vietnam. The plan called for a nationwide police structure to provide standard law enforcement and police services, plus an extensive police and paramilitary counter-insurgency capability and a waterborne police force.

From a force level of 19,000 in 1964, the National Police increased to 52,000 by the end of 1965 and to 60,000 by the end of 1966. In 1967, the force level reached 70,000. The 1968 goal was 86,000.

One of the major changes in the National Police was a program designed to deny mobility and material assistance to the Viet Cong by controlling the movement of goods and persons.

The first action under this program, carried out in June and July of 1964 in the seven provinces surrounding Saigon, was operation Hop-Tac, a joint military/civil effort. Operation Hop-Tac demonstrated the practicability of fixed and mobile police checkpoints in controlling population and material resources. In October, 1964, a national decree was issued placing the responsibility on the National Police for controlling the movement of all critical national resources, including manpower.

An integral portion of the population and resources control is identification of the populace. In 1957 legislation was passed requiring all persons eighteen years old and older to obtain and carry an identification card. Beginning in 1959, with subsequent registrations at various intervals, the National Police have registered and issued national identification cards to more than 7,600,000 Vietnamese. In 1963, registration was declared completed with

the exception of approximately one million persons under Viet Cong control and about 25,000 persons reaching the age of eighteen each month. However, the Viet Cong were able to duplicate cards, records were not well kept, and the efficiency of the system was never high.

In 1967, it was decided to set up a completely new National Identification System. When completed, the identification system will provide for a central national repository of fingerprints, photographs, and biographic data. It will be one of the most complete national identification systems in the world, and one of the most badly needed.

In 1959, the Public Safety Division assumed responsibility of a former Michigan State University communications advisory effort to provide communications support to civil security efforts. The concept included the establishment of a single integrated civil security telecommunications network under a Combined Telecommunications Directorate (CTD). In 1961, the CTD was given the added requirement to implement a system of radiophone communications between villages and districts. This system, called the Village-Hamlet System, established a major communications system of more than 10,000 radios. By 1963, it included 2,190 radios; by the end of 1968 it should have 34,000.

Since 1963, the emphasis of PSD telecommunications has been

toward improving the reliability of equipment and decentralization.

In 1964 a major decision was reached to procure a line of Very High Frequency -- Frequency Modulated Radio equipment for use by the police in each province to aid their increased role in counter-insurgency efforts. Since 1964 the CTD has provided the major communications support for the U.S. A.I.D. effort in the field.

L. The Refugee Program

Refugees were the first big social problem confronting the new Republic of South Vietnam, and today they are a major drain on the country's resources and administrative capacity.

Until late in 1965, neither the Government of Vietnam nor A.I.D. were formally organized to administer a refugee program. Beginning in 1954, when Operation Exodus, financed by France and the United States, met the challenge of transporting and receiving nearly a million refugees from North Vietnam, refugees had been cared for on an ad hoc basis. Reception and temporary care were left to the Government of Vietnam Ministry of Social Welfare, and resettlement to the Ministry for Rural Construction; but refugees were not identified as a specific problem. A.I.D., in keeping with its advisory role, also made no budgetary or

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organizational provisions for refugees. The war in this period, while often intense, was on a relatively small scale. Refugees were not yet generated by American military actions.

An A.I.D. Refugee Coordinator later attributed Saigon's "inadequate response" to weakness, over-optimism, and philosophical misgivings. The Minister of Social Welfare took the position that providing unaccustomed amenities to simple rural folk might create a dependent class of professional refugees who would lose all self-reliance and never go home again.

While finding some merit in this argument, A.I.D. advisors pressed the Government to take a more positive social attitude. Besides the humanitarian aspect, they felt that the refugee population gave the government a chance to show its value to rural people, and thereby contribute to Revolutionary Development, while neglected refugees would be vulnerable to subversion. It is also fair to say that pressure from the American home front, particularly Congressional, was a significant influence.

President Thieu has come to attach a high priority to the refugee problem. Pacification plans include specific guidance on it, and President Thieu has been discussing it in all of his pacification inspection tours in the provinces.

(Revised January 1969)

Administration

In October, 1965, the U. S. Mission established the Office of the Refugee Coordinator. Soon after, following the Honolulu Conference in early 1966, the Government of Vietnam established within the Office of the Prime Minister, a Special Commissariat for Refugees (SCR).

In eighteen months, the SCR developed into a relatively well-organized government department, with a 1000-man field staff and thirty mobile refugee relief teams. Eventually, refugee affairs were assigned to the Ministry of Social Welfare and Refugees, and in 1968 another shift created the Ministry of Health, Social Welfare and Relief. In the combined Ministry, the refugee program was given top priority and more personnel. Consolidation also made it possible to handle as social welfare cases de facto refugees (such as those in the cities) who do not qualify technically for refugee payments.

The present Vietnam Minister of Health, Social Welfare and Relief, who assumed office in late spring of 1968, has pursued a vigorous approach toward the refugee problem. He has been completely cooperative with American officials working in this area, and travels extensively to the provinces to prod his own subordinates on it.

Vietnamese and American personnel working on refugees have been substantially expanded. Training programs conducted with

American assistance have improved the capabilities of the Vietnamese in this area.

Data on each of 815 refugee camps have been processed through a computer system. Censuses of refugees, both in-camp and out-of-camp, were in progress to improve the accuracy of these data. Both Vietnamese and American officials were beginning to get reasonably complete information on all refugee camps.

This makes it possible to prepare a specific plan dealing with each temporary camp: resettlement, if security permits; upgrading, if the site of the camp is appropriate to such action; or, abandonment where at least a temporary means of livelihood is infeasible.

Planning Problems

The Refugee program in Vietnam has been particularly difficult to administer because refugees are usually a byproduct of military action. Without advance knowledge of military plans, civilians do not know where the next influx of refugees will come from, nor how many there will be. In "search and destroy missions", for example, civilian casualties are minimized by evacuating an entire village or even area (e.g., Zone D, north of Saigon) and airlifting the inhabitants to temporary camps outside the battle zone. These

new refugees then become the responsibility of the Ministry of Social Welfare and Refugees. In the absence of advance planning, the result has often been that refugees have not been properly cared for. Resultant criticism of U.S. advisory efforts by the press and by Congressional observers has been severe.

Many U.S. civilian officials and representatives of the voluntary agencies working with refugees took the position that either the military should forwarn them when operations were expected to generate refugees, or if the necessity for secrecy ruled this out, should themselves be responsible for the early stages of refugee care. The issue has never been formally resolved, but recent developments have made it less acute. In 1967, search and destroy missions generated large numbers of refugees, especially in I Corps; but in 1968, such missions have been greatly reduced in number and scope. Meanwhile, in December, 1967, MACV's "Combined Action Plan for 1968" instructed military commanders to give, security restrictions permitting, Government of Vietnam and U.S. officials advance notice of military plans which might generate refugees, so that reception areas can be prepared and supplies pre-positioned. The plan also assigns specific responsibilities to military commanders to assist in both the initial and later care of refugees.

Corruption

The problem of official Vietnamese corruption, of which so much has been said over the years, has been particularly acute in the refugee program. This is not surprising. It is inherent in refugee activities that when the need for help is greatest (for instance, just after a battle), the working conditions are the worst. Usually (the Tet offensive was an exception) the refugees are in the provinces where transportation may be difficult, security uncertain, and the province chief calls the tune.

A Senate Subcommittee report issued in 1968 charged that seventy-five percent of resettlement allowances and fifty percent of refugee commodities never reach the refugees. U.S. officials rejected these percentages as much too large -- as averages. However, A.I.D. advisors have long pressed for Government of Vietnam reforms; and there has been a school of thought that advocated as the only real solution U.S. control of its refugee assistance, from origin to distribution. Proponents of this view have argued that the welfare of the refugees is too important to be influenced by political considerations, and that among the Vietnamese, only those who profit by corruption would object. The counter-argument stresses overall U.S. policy of respecting

Vietnamese sovereignty and building national capability, and also the problem of providing the necessary American personnel.

In practice, U.S. control has been somewhat extended, and both U.S. and Government of Vietnam control procedures have been tightened.

Because of staff shortages, it is not always possible to have a U.S. representative present at every distribution. However, the authority given the U.S. representatives to check and countersign the distribution lists has substantially improved control over distributions and payments. A recent check of records for \$1.6 million worth of project and relief commodities revealed a less than one percent loss from port warehouses to province warehouses. All releases from province or Ministry warehouses must now be countersigned by a U.S. Government representative.

Conflicting Statistics

After the Geneva Accords in 1954, some 900,000 North Vietnamese (predominantly Catholics) chose to resettle in South Vietnam. Unlike many later refugees, they usually came as complete families, sometimes as whole hamlets or parishes. They came on their own initiative, with their own secular and religious leaders, in an interval of peace, and represented a cross-section of Vietnamese society.

While they represented an immediate problem for the government, they were also an important political and economic asset, and on the whole they were successfully assimilated.

Leaving aside the Tet offensive of 1968 (which added greatly to the confusion), one finds estimates ranging from less than one million Vietnamese with refugee status to as many as four million. A.I.D. considers the lower figure to be fairly accurate as of the end of 1967. The four million figure (a quarter of the whole population) is explicable only as a cumulative total that includes the 1954 influx from the North, and that assumes "once a refugee, always a refugee."

What is a "refugee" in Vietnam? The status of those in formally designated refugee camps is clear enough; nor should there be serious question over including those living outside of camps who are receiving refugee allotments. But should displaced persons who have more or less settled into a new life, but who still needs assistance, be counted as refugees, or transferred to the social welfare rolls? What about urban residents driven out of their neighborhoods (there were about 800,000 at the peak of the Tet attacks)? Many of these return in a few days; others must await new housing; but if they are classified as "refugees" the total refugee population on a given day may skyrocket.

Refugee officials have chosen to cope with this last problem in semantics by adding an "evacuee" category and listing refugees and evacuees separately. But the broad question of definition remains unanswered, to the detriment both of program planning and program image.

Care for the Tet and Post-Tet Evacuees

The 1968 Tet offensive forced several hundred thousand urban residents out of their homes, and created new problems for the Government of Vietnam and its American advisors. However, the problems of these "evacuees" are being met more successfully than those of the older refugee groups.

The number of Tet evacuees which in March had reached a peak of over 800,000 nationwide (including 170,000 in Saigon) was reduced by June 30 to 172,000 nationwide. All of the Tet evacuees in the Saigon area had returned to their homes, had rebuilt their homes or had been rehoused in temporary housing. Their speedy re-establishment was aided by the government's "triple ten" program under which families in need of rehousing were issued ten bags of cement, ten sheets of roofing and cash to repair or rebuild their homes. In Saigon, 13,000 families who were victims of the Tet offensive were eligible for this program. By June 30, ninety-five percent had received their plaster payments and roofing and eighty-nine percent had received their cement.

M. The Chieu Hoi Program

The Chieu Hoi (Open Arms) program is an amnesty program operated by the Government of Vietnam. It was organized by the Government of Vietnam in 1963 at the suggestion of officials of the U.S. Government in Vietnam, and is based in part on the anti-Huk program in the Philippines and the British-sponsored defection program in Malaya.

Essentially, Chieu Hoi is an offer by the Government of Vietnam to welcome back with "Open Arms" any individual who has served the Viet Cong in a political or military capacity, including members of the North Vietnamese Army.

The program is administered by the Ministry of Information and Chieu Hoi. Although it is basic to government success in the counter-insurgency effort, the program was supported somewhat reluctantly by the Government of Vietnam, because it did not at first see the necessity for this effort and questioned the practicality or desirability of "soft" treatment of the enemy.

A.I.D. funding for the Chieu Hoi program in fiscal year 1967 was \$778,000, and the cost per returnee was \$125. In 1967, as attempts were made to reach those less easily influenced, the cost per returnee rose to \$350 and total A.I.D. funding was \$1,438,000.

For fiscal year 1969, funding responsibility has been transferred to the Department of Defense.

After the Honolulu Conference in 1966, the Government of Vietnam agreed to grant higher priority to Chieu Hoi and gave the program enhanced Cabinet status under the Ministry of Information and Chieu Hoi. However, A.I.D. officials questioned the wisdom of administrative decisions that made the Vietnamese Information Service (VIS) responsible for psychological operations supporting Chieu Hoi and reduced salaries of some Chieu Hoi personnel below those paid by the Vietnamese Information Service.

A more serious and persistent problem has been to persuade Vietnamese that have remained loyal not only to trust those who did not, but to offer the returnees special privileges. There has been scepticism, shared by some Americans, about the sincerity of the defectors. These reservations have not prevented vigorous prosecution of the program, but they have inhibited the final and crucial phase: reintegration of the returnee into South Vietnamese society. Those who choose to join a Chieu Hoi military unit or serve as military scouts have had a chance to prove themselves; but the majority who choose civilian life have often had trouble in obtaining required official papers and finding jobs.

For those returnees who, because of the war-time situation, cannot return to their village, the Government of Vietnam constructs resettlement villages.

From 1964 to 1967, the total number of returnees increased substantially except in 1964, a year of political turmoil after Diem's fall.

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| 1963 | 11,248 |
| 1964 | 5,411 |
| 1965 | 11,124 |
| 1966 | 20,242 |
| 1967 | 27,178 |

However, since the start of the Viet Cong Tet offensive in January, 1968, and its aftermath, the overall returnee rate has dropped on the average of seventy-five percent. It should be noted that although the rate is considerably lower, the returnees include many higher ranking officers. Also, many of those defecting have done so in groups. In a number of incidents these groups have come under the leadership of their superiors.