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STATEMENT OF
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AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE

March 26, 1968

Mr. Chairman and Members of the Committee, I appreciate the privilege of appearing before this Committee today to present the FY 1969 Vietnam Program of the Agency for International Development. Our effort in Vietnam is the largest and most intensive undertaking in one country in the history of A.I.D. This is an unprecedented program combining direct support of a war effort and relief of human suffering along with an attempt to achieve "nation building" and economic development in the midst of war.

The detailed program for FY 1969 described in the Congressional Presentation Book was prepared before the recent VC counter-offensive. The amount requested for Vietnam for FY 1969 is \$480 million which is in the same general magnitude as the \$470 million previously estimated to be required for FY 1968.

I returned last week from South Vietnam where I visited twelve provinces. It is still too early to assess the full impact of the VC Tet offensive on either the FY 1968 or the FY 1969 program. Quite possibly the changes required in the FY 1969 program will be modest. With respect to the

FY 1968 program, it is already clear that the demand for relief and rehabilitation supplies such as cement and roofing will be substantially higher than originally projected. The great majority of the owners of the more than 70,000 dwellings destroyed during February in urban areas are receiving ten bags of cement, ten sheets of galvanized roofing, and a modest piaster cash payment equivalent to between \$42 to \$95 to help in reconstruction. The requirement for such rural investment items as small power pumps and sewing machines will be far less than previously expected. The temporary drop in the demand for consumer investment goods was illustrated in my conversation with a merchant in a provincial capital in the Delta who told of his treadle sewing machine sales having dropped from approximately 15 a day pre-Tet to some 2 or 3 a day in recent weeks.

As you know from earlier testimony, the A.I.D. funds are used in Vietnam for four principal purposes:

First, maintaining economic stability and controlling inflation. The largest part of the A.I.D. program is the Commercial Import Program, estimated at \$220 million for FY 1969. Materials brought in under this program have enabled industrial production to increase by more than 40 percent and fertilizer use to more than double since early 1964.

Second, alleviating the economic and social consequences of military operations. Nearly a million refugees and evacuees will receive

assistance in FY 1968. In 1967 nearly 4 million people, including nearly 50,000 civilian war casualties, received medical assistance from the A.I.D. supported Free World medical personnel serving in Vietnam.

Third, assisting the Revolutionary Development Program to provide security and growth in the rural areas and win the active support of the people for the Government. In 1967 A.I.D. provided assistance for some 25,000 self-help projects in the rural areas and support for the 70,000 man National Police.

Fourth, supporting national development programs. These programs are intended to generate a sense of national cohesion and dynamism over the next several years through economic and social progress and reforms. By the end of 1967 local elections had been held in over 1,000 villages and 5,000 hamlets and over two-thirds of the children of elementary school age were enrolled as opposed to 5 percent during the last French Colonial years. Also during the year the Vietnamese Government initiated an ambitious agrarian development program, including accelerated rice and hog production, plus stepped-up distribution of land titles to former tenants.

Since the testimony before this Committee last Spring, two major changes have been made in the administration of the A.I.D. funded activities for Vietnam. In May 1967, a new organization was established in General

Westmoreland's Military Assistance Command (MAC/V) to integrate U.S. military and civilian programs in support of the Vietnamese Revolutionary Development Program and to provide a central point of supervision for all U.S. programs outside of Saigon. This new organization, Civil Operations and Revolutionary Development Support (CORDS) is, as you know, under the direction of Ambassador Robert Komer, Deputy to General Westmoreland. Certain A.I.D. funded projects -- refugees, Chieu Hoi, public safety, and material support of the work of the RD teams, were transferred to CORDS direction while retaining their A.I.D. funding. In addition, the coordination of all U.S. civilian staffs in the provincial areas was placed under CORDS. These included the USAID medical teams, educators and agriculturalists operating in the provinces. The USAID Mission in Saigon retained the responsibility for the Commercial Import Program, financial policy and all national programs which require close working relationships with the regular Ministries in Saigon such as education, health and agriculture - especially those projects associated with increasing rice production.

Also in May, 1967, A.I.D. Washington established a separate Bureau for Vietnam to ensure that this costly and complex aid program for Vietnam with its special problems receives the best possible management. The Bureau combines into one organizational unit almost all the A.I.D. functions concerned with the Washington direction and support of the Vietnam program. This Bureau works closely with those entities in State, Department of Defense, USIA, and the White House which are directly concerned with operations in Vietnam.

By the end of 1967, the A.I.D. role in Vietnam had changed substantially from the dark days of near defeat in 1965. The buildup of American troops in 1965 and 1966 saved the day but caused severe inflationary pressures and major dislocations in the Vietnamese economy. Moreover, the intensification of the war led to additional flows of refugees and civilian casualties. Saigon port facilities were swamped with ships and cargo to supply U.S. forces and to meet the surging import demands of the Vietnamese war economy. In 1966 consumer prices rose by 68 percent. At one point the port congestion was such that approximately three months was sometimes required for the turnaround of low priority cargo ships in Saigon.

A.I.D. turned all its efforts toward these critical problems and by the middle of 1967 the logistics, inflation, refugees and medical casualty problems were under relative control:

- Inflation was reduced from 68 percent in 1966 to 34 percent in 1967, a vastly better performance than we had been able to accomplish in Korea during the comparable war years.
- Saigon moved up from one of the worst to one of the best ports in the Far East with ships requiring a turnaround time of less than one week.
- U.S. medical personnel were treating some 300,000 patients monthly as compared to less than 50,000 per month in 1965.

A.I.D. was supporting more than 1,200 U.S. and other foreign medical personnel providing assistance to the Vietnamese -- a six-fold increase in three years.

-- Some 400 refugee centers had been established as against only a handful in 1965. There had been a five-fold increase in the A.I.D. and Voluntary Agencies personnel engaged in supporting the Vietnamese Government's refugee program.

Because of these developments a new environment of promise was created in which we and the Vietnamese could turn our attention to national development programs. Spurred on by war time demand and agricultural expansion in the countryside, 1967 turned out to be a year of great economic progress.

Indeed, by late 1967 economic and social progress was so marked in many fields that the VC were being confronted by the same problems posed to the East Germans by the economic and social progress of West Germany which led to the building of the Berlin Wall. It was the progress on this economic front, together with the marked progress on the political and military fronts, which apparently led the Viet-Cong to decide that they must make a counter-offensive under a markedly different strategy if they were to avoid gradual defeat.

This progress in 1967 in the economic areas came as a surprise to many, given the conventional image of destruction and dislocation in Vietnam, that occupies so much of television and news reporting. Though there had been

destruction in the countryside, particularly in the provinces near North Vietnam, most of the population centers escaped serious war damage and enjoyed visible economic and social progress during 1967. This was particularly true in the cities and the Delta, which contain over half of the rural population of Vietnam. In Saigon and most urban areas the war economy was providing full employment and a steadily increasing standard of living for most, including hundreds of thousands from the rural areas who came seeking security and a rising standard of living. While housing conditions were frequently miserable, the standard of living on other fronts -- food, clothing, consumer goods such as radios -- was markedly up for most urban groups.

X It was in the winter of 1966-67 that the Government of South Vietnam had taken the politically difficult decision of raising the price of rice in the cities to enable the price paid to the farmer for his rice to double. In addition, the price of pork and vegetables was allowed to rise to a very attractive level for the farmer. During the same period the price of the goods the farmer bought increased by less than one quarter. This surge of increased income to farmers who had access to the market economy came at a time when a payoff was beginning on much of the extension work done with farmers in earlier years. As already noted, fertilizer use has more than doubled in recent years. In November 1967 for the first time, both the Farmers Co-ops and the Tenant Farmers Union began buying fertilizer in

shipload lots of 8 to 10 thousand tons. The Tenant Farmers Union with its more than 100,000 members distributed some 30 percent of the more than 200,000 tons of A.I.D. financed fertilizer used in 1967. More than 40,000 irrigation pumps powered by A.I.D. financed small engines were sold in 1967 alone, probably ten times the number that existed in the entire country less than 5 years before. The sale of treadle sewing machines increased very greatly in 1967, by the tens of thousands, to the point where in some secure hamlets 30 percent of the families owned one.

This economic progress in the more secure rural areas was accompanied by marked social progress. In 1966 and 1967 more than one-third of the villages and hamlets installed their first locally elected councils in many years. Some 70 percent of all the children of elementary school age in the Delta were attending school, the beneficiaries of the more than 2,000 classrooms which had been built each year since 1963.

when? The new government installed in November 1967 has formulated its plans for an intensification of the agrarian development effort. It has again increased the retail price of rice in Saigon, this time by more than 10 percent in order to provide a better price to the farmer for his paddy. A goal of "universal" elementary education has been set for 1970, by which time it is expected that, security conditions permitting, more than 85 percent of the children will be in school. A greatly stepped up program for land title distribution and enforcement of land rent ceilings is being initiated. Possibly of greatest long-run significance, the new government has launched a tightly scheduled program, centered on the "miracle" strains of rice, designed to increase rice production 50 percent by 1971.

There is no clear answer yet to the question of what effect the VC Tet offensive will have on the A.I.D. supported programs in Vietnam for the balance of FY 1968 and for FY 1969. The principal aims of the Tet counter offensive included the collapse of GVN governmental machinery, the destruction of the sense of security that had developed in the urban areas, and the crippling of the economy through constant harassment of the cities along with the interdiction of the main roads connecting the cities with the countryside. For example, since Tet there have been some 650 minings, shootings and other incidents along Route 4, the umbilical cord from Saigon to the Delta. Continued progress of the nation building programs depends on the restoration of an adequate level of security by U.S. and GVN forces in the face of a major step-up in VC efforts.

The program to build 1250 new hamlet schools during the first six months of 1968 is obviously a major casualty. Some will be built, but far fewer than planned. The great majority of schools were closed in February, many becoming refugee centers and many were damaged. Numerous schools have reopened and all are scheduled to be open by early April, however the evacuation of refugees and reconstruction undoubtedly will be delaying factors in some areas.

The accelerated rice production program is proceeding apace, but the goal of 44,000 hectares of miracle rice to be planted this spring has been reduced to 26,700 following post-tet consultation by the Ministry

of Agriculture with each of its provincial offices. The attached chart gives the changes in the plan since Tet. The downward revisions reflect primarily deteriorated security conditions in the countryside. However, the accelerated military manpower mobilization undertaken since Tet has also forced cutbacks in civil programs. In Phu Yen Province the entire agricultural staff has been drafted.

The priority that the GVN is continuing to give to this ^{rice} program is indicated by the fact that the reduced 26,700 hectare goal still represents one of the more ambitious programs of its type ever undertaken by any country, quite apart from the war conditions prevailing in Vietnam.

The post-Tet VC attacks on the cities and the lines of communication have greatly reduced import demand for the moment. Not only are people reluctant to buy major investment durables such as pumps and trucks after the trauma of the recent attacks against the cities, but importers are reluctant to hold large inventories under such conditions. In addition, and despite the week by week improvement in highway conditions, the still insecure driving conditions on many major routes have both made it more difficult for goods to move in large quantities and, in many instances, doubled and trebled shipping rates.

Despite the reduction in imports and the continuing VC interdiction efforts on the one hand and the continued deficit spending by the GVN on the other, prices have returned to about pre-Tet levels. Merchants and farmers with

goods have been eager to reduce their inventories and persons with income have been reluctant to buy investment goods. Cash holdings therefore are growing rapidly. These present a serious inflationary danger for later in 1968 and will lead to an increased demand then for imports.

The fighting resulting from the VC attack against the cities resulted in substantial property damage. The U.S. Mission completed its first assessment last week of property damage in all of Vietnam, other than I Corps where Hue is located. As can be seen from the attached chart, the replacement cost of physical damage outside of I Corps is estimated at the dollar equivalent of \$120 million. Approximately one-half of this is for private housing. The great majority of these are susceptible to restoration under the self-help housing program whereby the owner is provided with a small sum of money from the GVN and cement and roofing materials from A.I.D. This program is well under way and by now materiel should have reached all provincial centers, including those accessible only by air. Ten days ago during my visit, some Provinces had not started distribution yet even though supplies had begun to arrive. In others, reconstruction was well along. In Pleiku, for example, on March 16 more than a third of the houses had already been rebuilt or were in the process of reconstruction. In most cities the overwhelming majority of the structures destroyed were shanties on the edge of town. Only in Saigon and Hue is the government itself undertaking housing

construction because of the requirement to replace multi-story buildings. In Saigon, for example, the GVN has contracted for the construction of 2,000 units in multi-story dwellings and already footings are being poured.

Destruction of private industrial facilities was considerable, totalling some \$33 million. The most significant loss was Vietnam's biggest industrial facility, a large modern textile mill lying just off the end of the Tan Son Nhut runway.

We estimate the foreign exchange consequences of the reconstruction effort to total more than \$50 million. These figures do not include the cost of personal property such as clothing and radios lost in the course of the fighting.

The damage to physical property in February was substantial. It is important, however, to keep this in context. Damage in Saigon was probably less than 2 percent of property value.

Another consequence of the Tet offensive is that for the first time many non-governmental leaders have spoken out vigorously in support of the Government's efforts against the VC. GVN leaders also have stepped up their efforts on many fronts, including attacks on corruption and military mobilization.

Widespread corruption within the Government of Vietnam has been a serious hinderance to rapid progress in many areas. Both President Thieu and Prime Minister Loc have been directing increasing attention to the matter of corruption during recent months and have spoken publically and at length on the subject during the past two weeks. President Thieu has called corruption a "national shame" and has taken a series of bold actions designed to bring significant improvement. In the last six months the Government has sentenced 46 military and civilian officials for corruption, three of whom received death sentences. In the past month, the President relieved two of his powerful regional military commanders and six of

his province chiefs for illegal dealings or poor performance. Both the President and the Prime Minister have pledged themselves to unceasing efforts to bring this problem under control. A.I.D. on its part has taken numerous measures in the past year, with considerable success to reduce diversion and loss of U.S. financed goods.

The stepped-up mobilization effort to increase the armed forces by 135,000 men in 1968 is causing problems for many A.I.D. funded programs. More than 20,000 volunteers and draftees are now being inducted each month, and in many key agencies a third or more of the critically essential personnel are subject to immediate draft. Thus, in the Vietnamese equivalent of our FAA, 50 highly trained Vietnamese, one-third of its critical staff now face imminent draft. This compares with a loss of 46 people with critical skills in the past three years, of which 40 were drafted. Their departure would seriously jeopardize the vital airport network in Vietnam, including Tan Son Nhut. We are working with the Vietnamese Government on an improved critical skills-deferment plan to soften the impact on key civilian ministries of the otherwise commendable military mobilization effort. Unfortunately, in a country which as recently as 1950 only had 300 college students, there is a shortage of personnel with enough educational background to meet both key civilian needs and the Vietnamese Army's needs for officer candidate material and skilled personnel for such units as helicopter squadrons.

In conclusion, I should describe the A.I.D. funded programs as indispensable elements in a total program for success in Vietnam. Obviously, they are only part of a larger effort in which security has a primary role.

VIETNAM A.I.D. PROGRAM
(Based on Pre-January 30 Analysis)

BY TYPE OF PROGRAM

(In millions of dollars)

	<u>FY 1967</u> <u>Actual</u>	<u>FY 1968</u> <u>Estimated</u>	<u>FY 1969</u> <u>Proposed</u>
Supporting Assistance	495.0	470	480
The Commercial Import Program	200.0	200	220
The Project Program	284.8	251	231
Administrative Costs	4.8	8	9
Program Support AID/W	5.5	9	10
Non-Regional Funds	-	2	10

BY PROGRAM GOAL

(In millions of dollars)

<u>Program Goals</u>	<u>FY 1967</u> <u>Actual</u>	<u>FY 1968</u> <u>Estimated</u>	<u>FY 1969</u> <u>Proposed</u>
Economic Stabilization	208.2	207.7	223.6
War Support & Relief	36.1	42.0	46.0
Pacification	56.0	68.6	59.4
National Development ^{1/}	124.3	83.4	91.9
Technical Support ^{2/}	60.2	49.3	30.1
 PROGRAM TOTALS	 484.8	 451.0	 451.0
Administrative Expenses	4.8	8.0	9.0
Program Support AID/W	5.5	9.0	10.0
Non-Regional Funds	-	2.0	10.0
 TOTAL A.I.D. ASSISTANCE	 495.0	 470.0	 480.0

^{1/} The higher figure for National Development in FY 1967 is explained in large measure by the funding for one project: Saigon Power -- \$40 million.

^{2/} Certain commodity items and contracts such as Air America shifted to Pacification & War Support in order to make annual figures comparable.

PROJECT PROGRAM BY SECTOR

(In thousands of dollars)

<u>Program Sectors</u>	<u>FY 1967</u> <u>Actual</u>	<u>FY 1968</u> <u>Estimated</u>	<u>FY 1969</u> <u>Proposed</u>
<u>USAID</u>			
Agriculture	19,499	14,913	11,553
Education	14,490	10,045	13,106
Industry	1,908	543	10,353
Labor	1,772	1,571	1,558
Logistics	35,341	25,579	12,348
Public Administration	5,651	6,252	4,628
Public Health	22,352	26,532	27,676
Public Works	11,046	11,887	11,552
Urban Reconstruction & Development	51,280 ^{1/}	23,588	25,944
Other ^{2/}	4,060	4,037	5,138
Technical Support	71,611 ^{3/}	41,557	28,265
<u>MACV/CORDS</u>			
Revolutionary Development	18,393	43,354	32,727
Refugees/Social Welfare	11,146	18,331	22,547
Public Safety	16,212	22,811	23,605
Total Project Program	285,761	251,000	231,000

1/ Includes \$40 million for Saigon Electric Power.

2/ Includes Village and Local Development, Youth Affairs, and National Information Service.

3/ Includes Air America contract funding transferred from USAID Technical Support to CORDS in FY 1968. In FY 1969 DOD will assume funding responsibility for 3/4 of the contract. The Technical Support figure is less in this sector table than on the preceding goal table. Wherever Technical Support costs could be appropriately applied to a specific sector, this has been done. Some of the sector costs, however, were chargeable to two or more program goals and were therefore left in the general Technical Support figure in the goal table.

Préliminary 3/19/68

Tet Offensive Damage Survey
 All Vietnam - Replacement Costs - Physical Damage Only
 (Million VN\$)

Attachment C

	<u>I¹⁾ CORPS</u>	<u>II CORPS</u>	<u>III CORPS</u>	<u>IV CORPS</u>	<u>Saigon⁴⁾</u>	<u>Total</u>	<u>Millions US\$</u>
Agriculture - Total		(83.555)	(154.409)	(1,676.627)	(53.926)	(1,968.517)	(16.683)
Crops		6.429	40.950	128.082	-	175.461	1.487
Livestock, Poultry & Fish		73.954	48.613	1,509.760 ⁵⁾	-	1,632.327	13.834
Supplies & Equipment		2.882	8.796	7.360	-	19.038	.161
Processing Plants		-	-	-	-	-	-
Equipment & Inventories		0.290	32.580	20.050	22.848	75.768	.642
Structures		-	23.470	11.375	31.078	65.923	.559
Education - Total		(48.104)	(32.140)	(70.255)	(1.050)	(151.549)	(1.284)
Equipment & Supplies		5.320	5.194	1.396	.105	12.015	.102
Vehicles		NR	5.194	-	-	5.194	.044
Structures		42.784	21.752	68.859	.945	134.340	1.138
Private Industry & Commerce - Total		(431.266)	(2,968.731)	(92.072)	(478.600)	(3,970.669)	(33.651)
Equipment & Inventories		417.406	2,320.713	30.715	283.125	3,051.959	25.865
Vehicles		NR	-	40.500	-	40.500	.342
Structures		13.860	648.018	20.857	195.475	878.210	7.443
Logistics - Total		(31.825)	(1.200)	(3.217)	(-)	(36.242)	(.307)
Equipment		-	-	0.114	-	0.114	.001
Commodities		-	0.172	0.040	-	0.212	.002
Vehicles		31.825 ²⁾	0.953	3.063	-	35.841	.304
Structures		-	0.075	-	-	.075	.001
Health - Total		(94.715)	(2.206)	(7.920)	(-)	(104.841)	(.889)
Equipment & Supplies		NR	0.380	2.545	-	2.925	.025
Vehicles		NR	0.112	1.093	-	1.205	.010
Structures		94.715	1.714	4.282	-	100.711	.854
Public Facilities - Total		(220.485)	(90.607)	(230.593)	(282.829)	(824.514)	(6.988)
Equipment & Supplies		30.866	1.500	9.304	-	32.470	.275
Vehicles		-	-	1.620	2.950	4.570	.039
Utilities		41.599	7.313	35.837	204.879	289.628	2.455
Structures		147.824	13.468	30.582	75.000	266.874	2.262
Roads, Bridges & Railroads		0.396	68.326	162.250	-	230.972	1.957
Private Housing ³⁾ - Total		(1,739.608)	(612.045)	(2,601.930)	(2,049.070)	(7,002.654)	(59.347)
GRAND TOTAL		2,649.558	3,861.338	4,682.614	2,865.475	14,058.985	119.149
Millions US\$		22.455	32.725	39.685	24.285	119.149	

1) Data not yet received.

2) The only vehicles reported destroyed or damaged in II Corps.

3) Includes only structural loss

4) Incomplete data

5) Expected downward revision

PRELIMINARY: MARCH 19, 1968

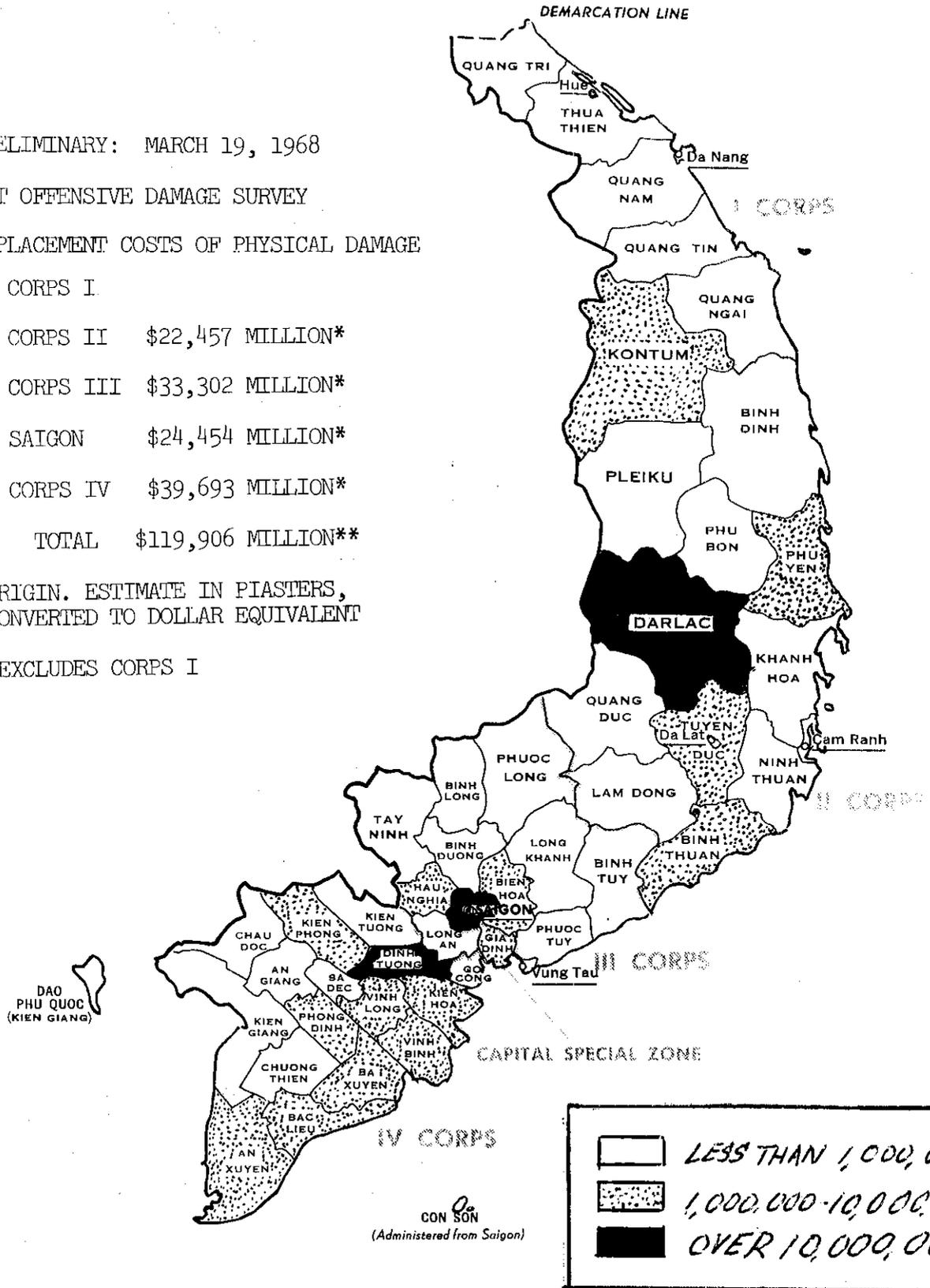
TET OFFENSIVE DAMAGE SURVEY

REPLACEMENT COSTS OF PHYSICAL DAMAGE

CORPS I	
CORPS II	\$22,457 MILLION*
CORPS III	\$33,302 MILLION*
SAIGON	\$24,454 MILLION*
CORPS IV	\$39,693 MILLION*
TOTAL	\$119,906 MILLION**

*ORIGIN. ESTIMATE IN PIASTERS,
CONVERTED TO DOLLAR EQUIVALENT

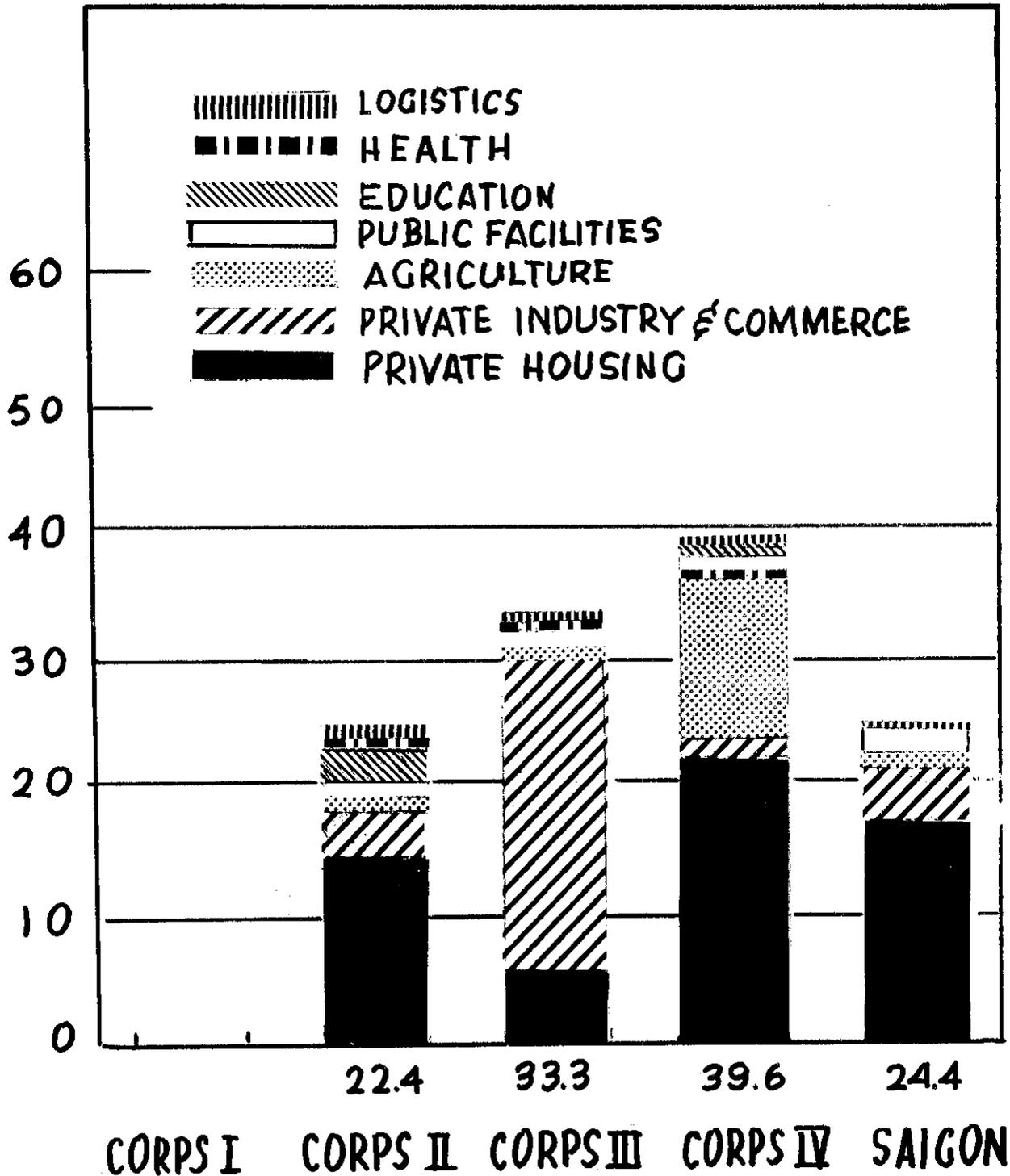
**EXCLUDES CORPS I



TET OFFENSIVE DAMAGE SURVEY

REPLACEMENT COST - PHYSICAL DAMAGE

TERMS: MILLION US\$



PRELIMINARY: MAR. 19, 1968