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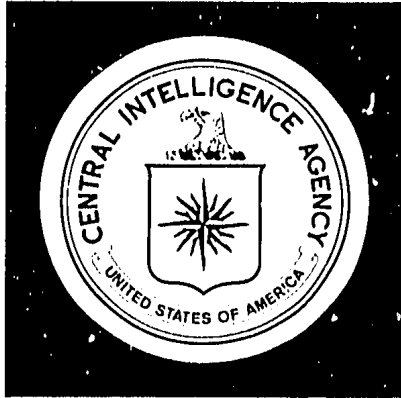
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**Top Secret**



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DIRECTORATE OF  
INTELLIGENCE

*Developments in Indochina*

Army review completed

State Dept. review completed

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DEVELOPMENTS IN INDOCHINAPage

## SOUTH VIETNAM

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The government has ordered its troops to retake Sa Huynh at "all costs." The Communists are trying to move people into areas under their control. US military authorities are worried about the military situation along the Cambodian border. The government is studying ways to permit the Viet Cong to participate in elections. Saigon prices are still high.

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## LAOS

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The North Vietnamese are resisting government efforts to take more territory in the Paksong area.

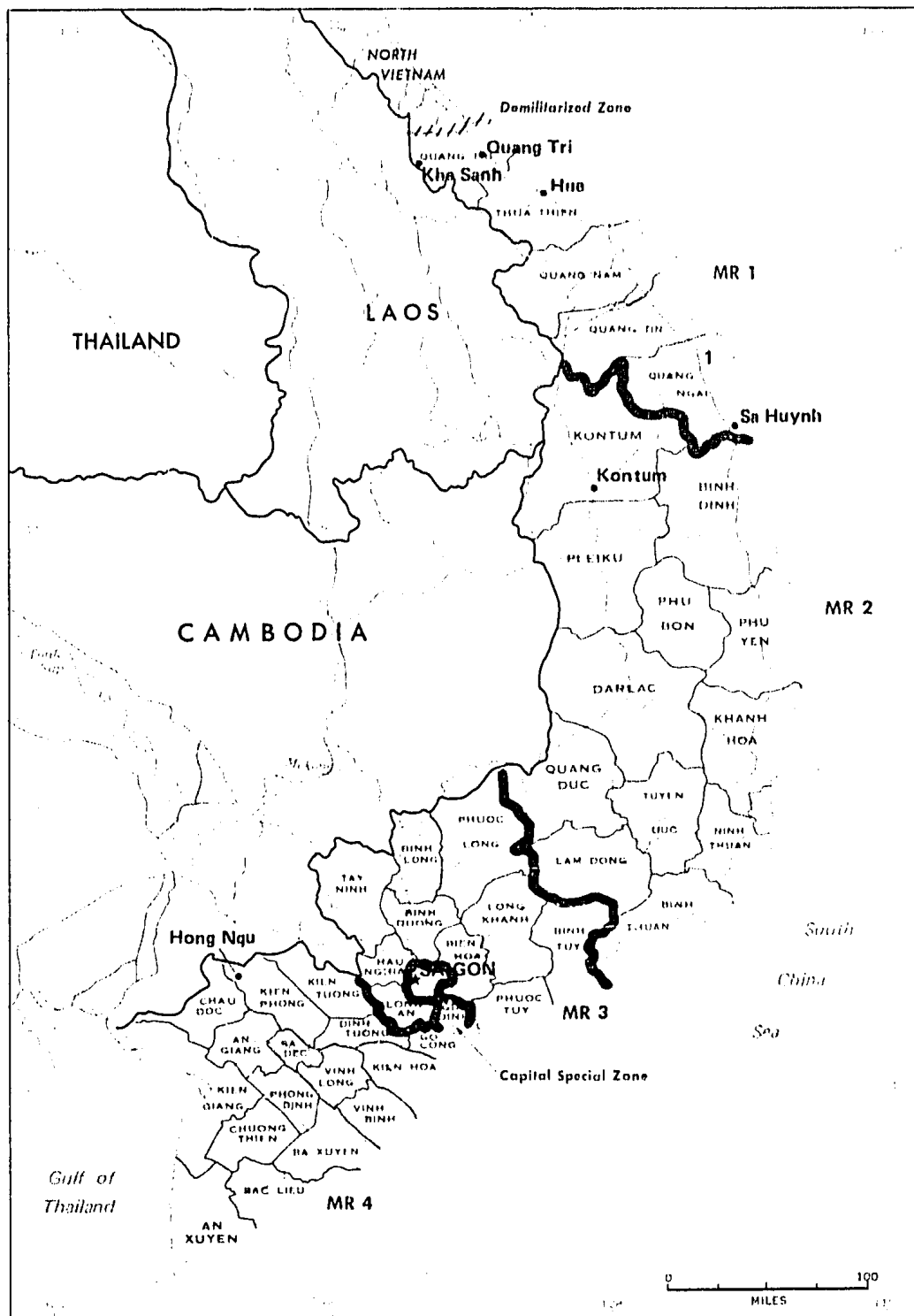
## CAMBODIA

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Fighting continues east and west of the Mekong. Sihanouk says the war will continue because the US will not talk to him. Price reforms are about to be implemented in Phnom Penh.

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SOUTH VIETNAM

Government forces in southern Quang Ngai Province reportedly have been ordered to recapture the Sa Huynh area "at all costs."

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[redacted] a second ranger group has been moved into the province as reinforcement. Some elements of the government's task force have been airlifted onto high ground west of the village, but the bulk of the relief force remains about five miles north of Sa Huynh along Route 1.

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Although sporadic Communist shellings and light ground attacks continue throughout the northern provinces, the army's chief of staff for the region believes the situation has stabilized and that no major new initiative by either side is likely. Some fighting is reported in the central provinces, with most of the action occurring in coastal Phu Yen Province.

There are reports that the Communists in several provinces near Saigon are trying to construct "instant hamlets" and are encouraging people to move into these "model" settlements.

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[redacted] COSVN has ordered Viet Cong military units and cadre in Tay Ninh Province to carry out a reconstruction program to resettle areas under their control. The embassy reports that the Communists in Binh Tuy and Phuoc Tuy provinces are making similar efforts to bring about a shift of population to their areas. The government is moving to counter such efforts and apparently will resort to air strikes, if necessary.

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In the delta, US military authorities report that the situation along the border between Kien Phong Province and Cambodia is becoming "serious." South Vietnamese forces in the area have been trying, so far unsuccessfully, to dislodge elements of a North

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The Economy

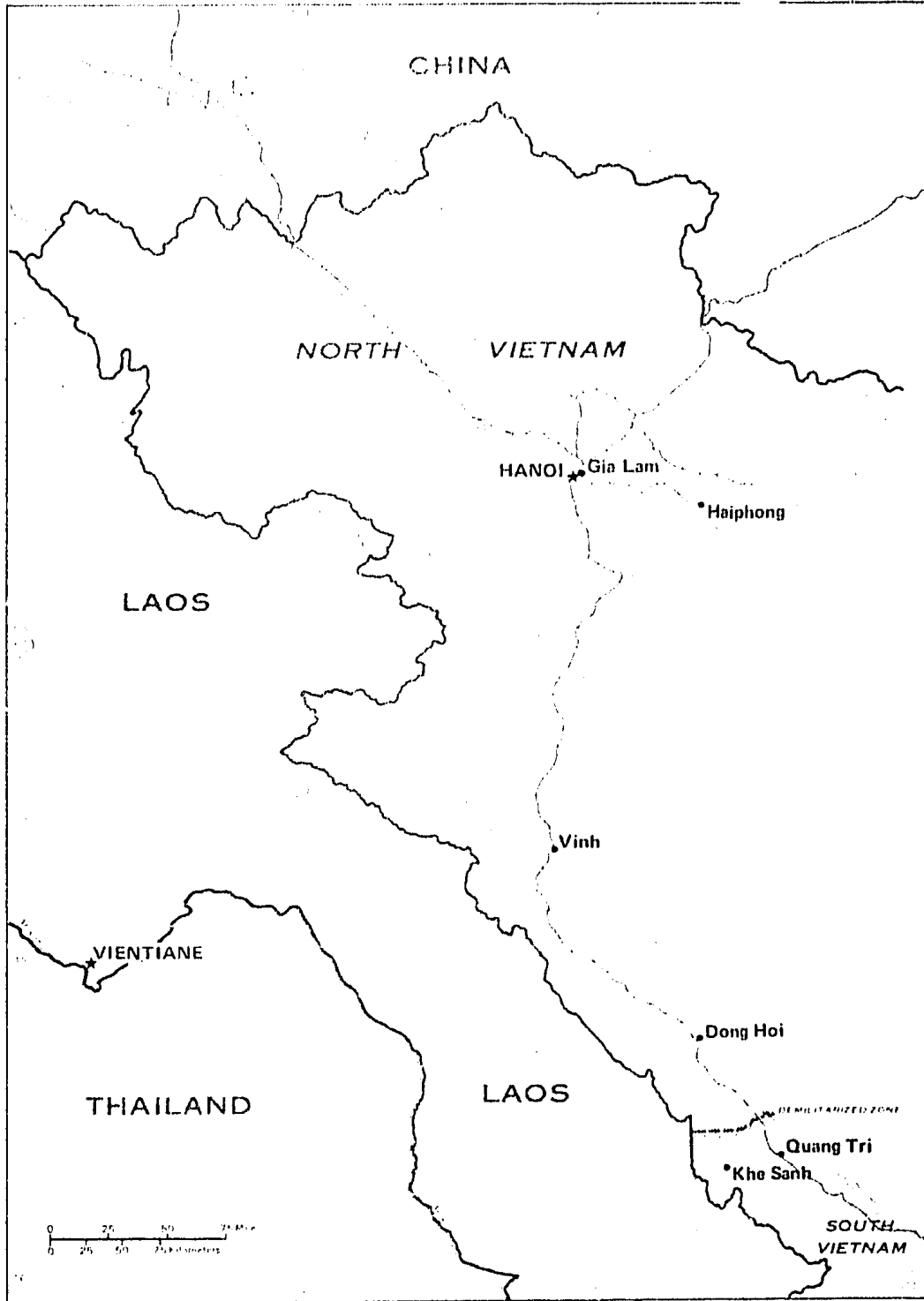
Commodity prices in Saigon have not fallen as much as expected following the Tet holidays, primarily because shipments of perishable foodstuffs have not returned to normal levels. Despite a drop of about 7 percent, Saigon consumer prices on 12 February were still 6 percent above the level prevailing before the cease-fire. All roads into the city are again open, but truckers apparently are either fearful of using the main roads or have been unable to get to them because of interdiction of secondary roads. Even if supplies of foodstuffs regain normal levels, however, there will still be some permanent increase in the price level because the government recently raised official prices for sugar and petroleum products.

Commodity supply problems in other areas of the country also appear to have eased somewhat during the past week as more roads were reopened for commercial traffic. Price developments were similar to those reported from Saigon. Kontum City is still cut off, but food supplies are being brought in by airlift.

There are no other indications of any serious economic disruption. Currency and gold price movements--the best spot indicator of speculators' attitudes--did not reflect any changes in security conditions. Saigon black market currency rates moved down slightly between 6 and 12 February, while the price of gold increased steadily in response to the movement of world prices just prior to the devaluation of the dollar.

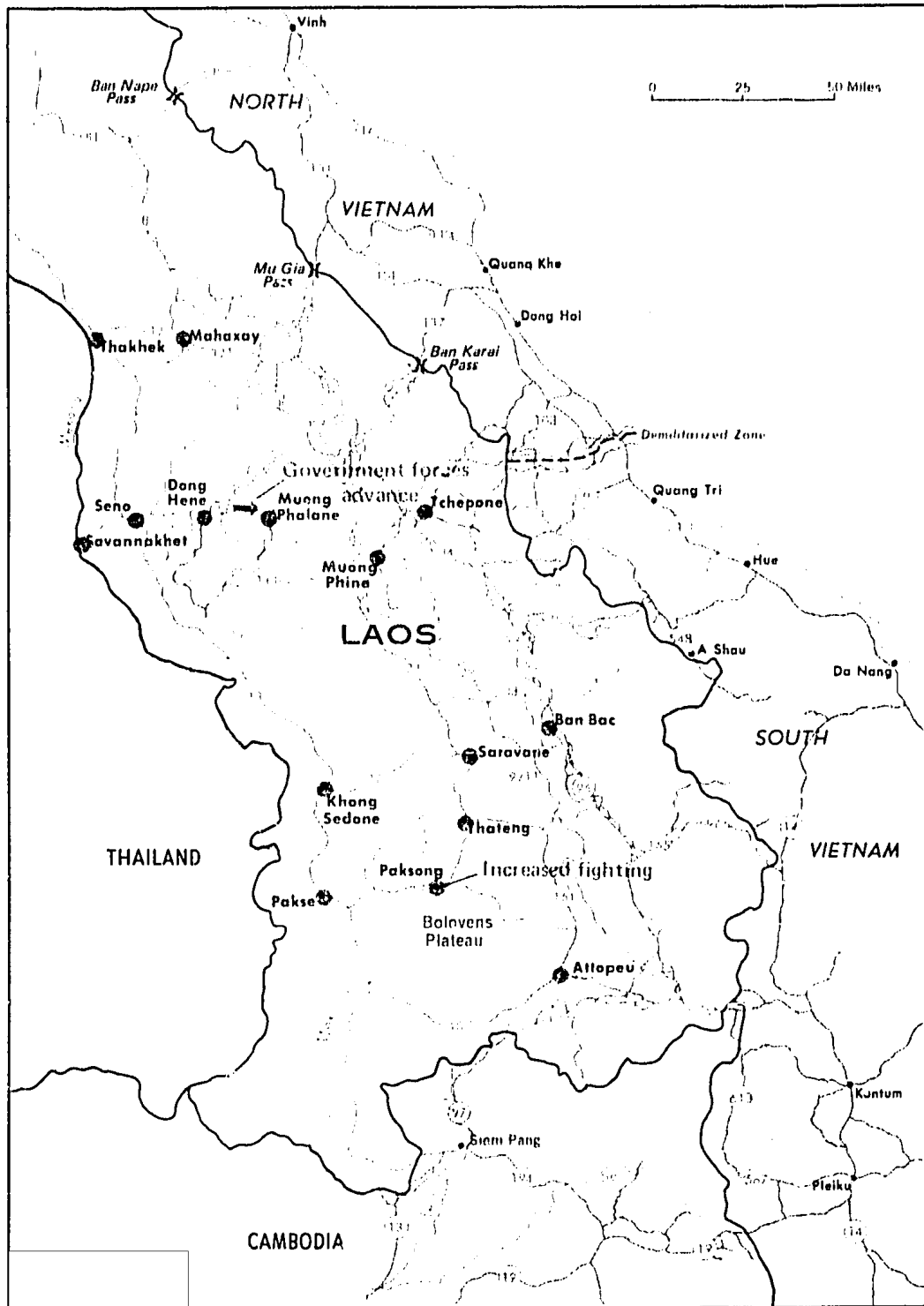
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LAOS

North Vietnamese troops on the Bolovens Plateau stopped government efforts to move onto key hilltops just north and east of Paksong on 12 February.

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The Communist units appear to be suffering significant casualties, although they have built tunnels and deep trenches to survive intense air strikes. In the central panhandle, irregular troops northwest of Muong Phalane began on 13 February to move back toward the Se Sansoy River, which runs through the town.

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CAMBODIA

Fighting is continuing east of the Mekong River near Neak Luong and Banam. Another attempt by four government battalions to retake Banam has been repulsed by the Khmer insurgents just south of that village. Cambodian forces operating in the Banam - Neak Luong sector are beginning to run low on ammunition, and their casualties are mounting. More than 100 wounded government troops were evacuated by air on 13 February.

On the opposite side of the Mekong, government units trying to clear a section of Route 1 some 15 miles southeast of Phnom Penh are still meeting stiff resistance. The military high command in the capital has indicated that it will use the Cambodian Air Force for close air support in the Route 1 area, reserving requests for US air support for other, less populated areas.

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Sihanouk Blames the US

A French press report from Peking states that Sihanouk sent a telegram to an unspecified American newspaper on 13 February, asserting that the war in Cambodia will continue as a result of the US Government's failure to meet with him or to hold talks with his "government." Sihanouk has made no further mention of his recent proposal that insurgent military forces reciprocate Phnom Penh's cessation of offensive operations--a retreat obviously dictated by the failure of the Khmer insurgents to heed his advice.

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Economic Reforms

Phnom Penh apparently is about to enact several long-overdue price reforms recently recommended by the International Monetary Fund (IMF). Despite continued government reluctance to incur the political

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risks of increasing prices on sensitive items, new POL prices are due to be announced this week, followed by higher electricity rates and rice prices. The details of the new price arrangements are not yet fully known, but the POL price action--at least--does not go as far as the IMF recommendation that controlled prices be abandoned in favor of the free market. The new price schedule is keyed to an exchange rate of 200 riels to the dollar and will continue to require a large government subsidy as the exchange rate inevitably increases.

The IMF also informed the government that firm budgetary discipline was necessary to restore financial stability and hold inflation to acceptable levels during 1973. The latest budget estimate by the Ministry of Finance for 1973 is 35.7 billion riels--an increase of some 16 percent over last year--and may go considerably higher depending on the level of price subsidies and the government's success at keeping a lid on expenditures. Government expenditures last year, for example, were 6.6 billion riels greater than original estimates. Other cost-cutting recommendations by the IMF included a limit of 253,000 paid military personnel, a moratorium until July on increases in government salaries, and suspension of civilian hiring. It is not known what action, if any, will be taken on these measures, but past attempts at reducing military personnel expenditures have been unsuccessful and recent labor unrest in Phnom Penh may militate against a wage freeze. [redacted] 25X1

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