

THE WHITE HOUSE  
WASHINGTON

January 3, 1972

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MEMORANDUM FOR

The Under Secretary of State  
The Deputy Secretary of Defense

SUBJECT: Economic Support for Vietnam

It is important to evaluate the economic support required by the South Vietnamese economy over the coming years, as well as the alternative ways of meeting that requirement.

The first phase of this study should focus on how the essential level of foreign exchange support can be provided during CY 1972 and should include examination of:

- The foreign exchange support required by Vietnam in 1972;
- The potential sources of this support, including: (1) means of reducing the AID project to free supporting assistance funds for imports, (2) potential DOD actions to slow the reduction in foreign exchange availability, and (3) ways to keep up the level of PL-480 support despite rice self-sufficiency;
- The legislative problems, requirements for Presidential or other determination, and budget limitations.

The second phase should examine probable economic requirements from 1973 through 1976 based on alternative assumptions regarding the rate of economic growth, the level of military activity, and other key variables. Support from DOD, PL-480, and AID should be projected with policy alternatives clearly identified.

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DOS, USAID, OSD,  
NSS reviews  
completed.

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Actions to increase foreign exchange availabilities should not be delayed pending completion of the study.

The study shall be prepared under the direction of the Vietnam Special Studies Working Group. The first phase should be completed by January 19, 1972, and the second phase by mid-February 1972.



Henry A. Kissinger

cc: The Director of Central Intelligence  
The Chairman, Joint Chiefs of Staff  
The Director, Office of Management and Budget  
The Chairman, Council of Economic Advisors  
The Administrator, Agency for International  
Development  
The Assistant Secretary of the Treasury for  
International Affairs  
The Assistant Secretary of Agriculture for  
International Affairs

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NATIONAL SECURITY COUNCIL

*TRAY  
HANG*

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ACTION

December 22, 1971

MEMORANDUM FOR DR. KISSINGER

FROM: Phil Odeen *PO*

SUBJECT: Economic Assistance for Vietnam

The attached redraft provides for both a short-term (1972) study of how we meet essential economic requirements in Vietnam and a study of what will be needed in subsequent years and how we might provide it. Other changes were also made as you requested.

Dick Kennedy concurs.

*Make first date Jan '72  
but send out with  
old language back  
for signature.*

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MEMORANDUM

NATIONAL SECURITY COUNCIL

*Agree with message  
Get done  
He*

ACTION  
December 3, 1971

SECRET

MEMORANDUM FOR DR. KISSINGER

FROM: Phil. Odeen *POE*

SUBJECT: The Economic Achilles Heel in Vietnam

*Was this backchannel  
ever acknowledged?*

Ambassador Bunker has back-channeled a message (Tab B) to the effect that we will face critical problems in Vietnam in 1972 unless a \$700 million import level is maintained (\$750 million was the level planned for FY 71 and FY 72).

This minimum level of support requested by Bunker is \$100-150 million more than we will get from the Congress.

*Get reply  
by Dec 15  
M*

The Economic Problem

Based on discussions with Chuck Cooper this week, it is clear that Bunker's case for the \$700 million level rests on a need for political confidence building as well as economic necessity. The need arises from two circumstances:

-- Thieu has bitten the bullet on economic reforms. The large devaluation in November and his commitment to other reforms will generate substantial political opposition by the affected groups.

-- Thieu has also moved on military effectiveness by instituting a substantial combat bonus while reducing ARVN commissary benefits -- moves which do not set well in some military circles.

Thus, Thieu is counting on the development initiative and the continued availability of U. S. funds for imports to offset the liabilities of the excellent long-run programs on which he has embarked at our urging.

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Thieu has done what we wanted on the economic front. For us now not to produce the money would be a political disaster for him.

There are four ways to manage the \$700 million level in spite of Congressional cuts in supporting assistance.

-- To use up the pipeline of about \$100 million we have stashed away for future rainy days; however, FY 72 is not apt to be as rainy as FY 73 and major use of this pipeline in FY 72 could leave Vietnam in an impossible situation as early as September-December 1972.

-- To require DOD to take actions which will result in more DOD purchases of piasters and thereby more exchange for Vietnam aside from AID.

-- To restructure the AID allocations to take the cuts in programs other than Vietnam, there are few possibilities for this in supporting assistance as it hardly makes sense to cut Cambodia and Laos to save Vietnam, but there are opportunities elsewhere.

-- To expand the PL-480 program. While Vietnam is rapidly approaching self-sufficiency in rice, we may be able to provide other commodities, e.g., tobacco and corn.

Before we can take a firm decision on how to meet the Vietnam requirement for \$700 million, analysis of the cost to other programs is required. DOD and AID are looking at the problem, but more careful analysis is needed to give you a full set of options and with their implications. At this time, I urge you to issue a study directive asking the VSSG to identify the need for foreign exchange support for Vietnam as well as the means available to help Ambassador Bunker.

An additional immediate problem is the FY 73 budget request. OMB has cut the AID request for Vietnam by \$75-90 million. AID argued that more funds are needed for Vietnam next year because of reduced DOD expenditure, i.e., total economic U.S. funding would go down but AID funding would go up. OMB rejected this approach on the basis, as we understand it, that Congress would not approve an increase.

This OMB decision should be reversed during the President's budget review since the supporting assistance request for Vietnam should be

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about \$625 million for FY 73 to maintain exchange availabilities of about the \$700 million level given expected DOD reduction in expenditures and reasonable support for development. We will keep you informed of progress on this score.

RECOMMENDATION

That you sign the attached study directive to the VSSG (Tab A).

Concurrence: John Negroponte 

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EYES ONLY

SECRET 221000Z NOV 71 VIA CAS CHANNELS

FROM: AMBASSADOR BUNKER SAIGON 0172 IMMEDIATE  
TO: THE WHITE HOUSE, EYES ONLY, HENRY A. KISSINGER

1. I THINK I SHOULD SHARE WITH YOU MY INCREASING CONCERNS ABOUT FY 72 ECONOMIC AID FUNDING PROSPECTS AS THEY MAY AFFECT OUR OBJECTIVES HERE. I BELIEVE THAT A SHARP CUTBACK IN IMPORT FINANCING AT THIS TIME IS LIKELY TO BE COSTLY NOT ONLY TO ECONOMIC DEVELOPMENT PROSPECTS BUT TO THE ABILITY OF THIEU TO MANAGE PROSPECTIVE SECURITY AND POLITICAL PRESSURES DURING THE COURSE OF 1972. U. S. TROOP WITHDRAWALS, POLITICAL CRITICISM OF THIEU REGIME HERE AND IN U.S., THE STRAINS WHICH WILL INEVITABLY ARISE DURING THE COURSE OF U. S. ELECTION YEAR, DIFFICULTIES IN SETTING THE VIETNAMESE ECONOMY ON DEVELOPMENT PATH, AND THE POSSIBILITY OF LOCAL EMPLOYMENT AND SECURITY PROBLEMS ALL COMBINE TO CREATE A SITUATION IN WHICH UNDUE ECONOMIC PRESSURE AND UNCERTAINTIES WOULD BE DANGEROUSLY UNSETTLING. A POLITICALLY ASTUTE ENEMY CAN BE COUNTED ON TO CAPITALIZE ON ECONOMIC DISSATISFACTIONS IN EFFORT TO UNRAVEL THE SOCIAL FABRIC AND WEAKEN THE GVN'S ABILITY TO SUSTAIN ITS MILITARY AND PACIFICATION PROGRAMS.

2. THIEU'S STATE OF UNION MESSAGE AND ACCOMPANYING ECONOMIC REFORMS MARK A WATERSHED FOR VIET-NAM. IT MEANS THAT THE COMMITMENT TO ECONOMIC DEVELOPMENT AND REDUCTION OF DEPENDENCE ON U. S. ASSISTANCE IS NOW ON A PAR WITH MILITARY, PACIFICATION AND POLITICAL ISSUES AS A NATIONAL PRIORITY. I THINK WE HAVE EVERY REASON TO BELIEVE THAT THIS COMMITMENT AND THE FUNDAMENTAL ECONOMIC REFORM PROGRAM WHICH EMBODIES IT WILL RESULT IN SIGNIFICANT ECONOMIC PROGRESS AND REDUCTION IN AID REQUIREMENTS IN NEXT TWO OR THREE YEARS. HOWEVER, A SHARP CUTBACK IN ECONOMIC ASSISTANCE AT THIS JUNCTURE IS LIKELY TO STOP THIS PROCESS BEFORE IT HAS A CHANCE TO GET STARTED SINCE THE KEY TO ECONOMIC PERFORMANCE IS PUBLIC AND INVESTOR CONFIDENCE IN THE FUTURE. IT WILL BE HARD TO ENGENDER SUCH CONFIDENCE IF AID IS DRASTICALLY CUT AND THE GOVERNMENT BESIEGED BY RESULTING POLITICAL PRESSURES.

3. OUR ASSESSMENT HERE IS THAT AN IMPORT LEVEL OF \$700 MILLION IS ESSENTIAL IN CY 72 AND PROBABLY CY 73 AS WELL. THIS IS \$50 MILLION BELOW WHAT ORIGINAL AID FY 72 APPROPRIATION REQUEST WOULD SUPPORT. SINCE, HOWEVER, AS A RESULT OF THE NEW ECONOMIC PROGRAM INVESTMENT AND EXPORTS WILL BE STIMULATED, LESS WILL BE AVAILABLE FOR CONSUMPTION. CONSEQUENTLY THE REAL DEGREE OF BELT TIGHTENING IMPLIED BY A \$700 MILLION IMPORT LEVEL WILL BE CONSIDERABLE.

4. OUR ESTIMATE IS THAT FY 72 AID ALLOCATION OF \$475 MILLION WILL BE NEEDED TO PROVIDE NECESSARY FUNDS FOR MINIMAL ONGOING USAID AND CORDS PROJAFT ACTIVITIES AND SUFFICIENT FUNDS TO SUPPORT \$700 MILLION IMPORT LEVEL. AT THIS LEVEL CY 72 FUNDS WOULD BE ONLY

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~~EYES ONLY~~

MINIMALLY ADEQUATE AND PROSPECTS FOR CY 73 WOULD BE BLEAK IN LIGHT OF CONTINUING REDUCTION DOD SPENDING, NECESSARY TIGHTENING OF AID PIPELINE, AND LIKELY DIFFICULTY IN GETTING HIGHER AID LEVEL IN CY 73. I HOPE THIS WILL BE BORNE IN MIND WHEN WHATEVER SUPPORTING ASSISTANCE APPROPRIATION WE EVENTUALLY END UP WITH IS ALLOCATED.

5. IN VIEW OF CURRENT PROSPECTS FOR CY 72 AID BILL, IT IS LIKELY THAT DOD FUNDS WILL BE NEEDED TO SUPPORT VIETNAMESE ECONOMY AT A LEVEL CONSISTENT WITH OUR INTERESTS HERE. IN THE PAST, PROVIDING SUBSIDY VIA LOW 118 OFFICIAL RATE FOR DOD EXPENDITURES HAS MEANT SUBSTANTIAL DOD CONTRIBUTION TO SUPPORT OF VIETNAMESE ECONOMY. BUT THIS DOES NOT APPEAR FEASIBLE ANY LONGER. LEGISLATIVE HISTORY WITH ARMED SERVICES COMMITTEES, CONCENTRATED ATTACK ON 118 RATE BY MOORHEAD COMMITTEE, REVISED MONAGHAN AMENDMENT TO HOUSE AUTHORIZATION BILL, ALL MAKE EARLY DEMISE OF 118 RATE INEVITABLE. MOREOVER, EXPERIENCE IN LAST YEAR HAS INDICATED THAT YOU CAN INDUCE DOD TO UNDERTAKE THOROUGH REVIEW OF POSSIBLE OTHER SOURCES OF DOD FINANCIAL SUPPORT. WE ARE UNDERTAKING SIMILAR EFFORT HERE AND MISSION SUGGESTIONS WILL BE CABLED NEXT WEEK.

6. COOPER WILL BE IN WASHINGTON WEEK OF NOVEMBER 23-DECEMBER 2. I HOPE YOU WILL HAVE TIME TO SEE HIM DURING HIS VISIT TO GET FIRST-HAND REPORT OF AID REQUIREMENTS HERE.

7. I AM RELUCTANT TO ADD ANYTHING MORE TO YOUR BURDENS AND WOULD NOT DO SO DID I NOT THINK THE PROBLEM OF CRITICAL IMPORTANCE TO THE SUCCESS OF ACHIEVING OUR OBJECTIVES HERE.

8. WARM REGARDS.

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