

MEMORANDUM

OUTSIDE THE SYSTEM

NATIONAL SECURITY COUNCIL

OSD, NSS, State Dept.
reviews completed

ACTION

SECRET/EYES ONLY

November 23, 1971

MEMORANDUM FOR:

MR. KISSINGER

FROM: . . .

JOHN H. HOLDRIDGE

SUBJECT:

Ambassador Bunker's Concern About
U.S. Aid

Ambassador Bunker has sent you a personal cable in which he expresses his increasing concern about the prospects for obtaining sufficient economic assistance for South Vietnam (Tab B). He emphasizes the importance of the aid, notes that FY '72 levels are only minimally adequate, and foresees severe problems in the future as DOD spending continues to decline. Consequently, he asks if DOD cannot be induced to take another thorough review of possible sources of DOD financial support. Ambassador Bunker also notes that Chuck Cooper will be in Washington next week, and he hopes that you will have a chance to see him and discuss the problem of aid.

Comment. Ambassador Bunker's concerns are of course justified, and the role of future DOD spending in Vietnam will have to be examined carefully at some point. At the moment, however, we believe that it would be best to take no other action than to see Cooper next week and consider any views he may have on how DOD money could be channeled and used effectively. If you are unable to see Cooper, we shall do so. We have also drafted a brief response from you to Ambassador Bunker (Tab A).

RECOMMENDATION:

MORI co5142758

A) That you approve the draft cable to Ambassador Bunker at Tab A.

Approve ✓ Disapprove _____

B) That you authorize me to schedule an appointment for Chuck Cooper to see you.

Approve _____ Disapprove _____

SECRET/EYES ONLY

Use on Chuck Cooper

*11/27 given to act room
11/27 at 2:45*

BACK CHANNEL VIA CAS CHANNELS

SECRET/EYES ONLY

November 27, 1971

FOR: AMBASSADOR BUNKER, SAIGON

FROM: HENRY A. KISSINGER *HK*

REFERENCE: Saigon 0172

DELIVER AT OPENING OF BUSINESS.

I share the concerns you expressed reftel. Unfortunately I will not be in Washington when Cooper is here but I have asked my staff to obtain a full report of his views on the aid problem.

Warm regards.

SECRET/EYES ONLY

RECEIVED
WHCA

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C 2 0 2 5 T 221 120Z NOV 71 VIA CAS CHANNEL
 FROM: AMBASSADOR BUNKER SAIGON 217Z 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 EXPORT 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 WITH-
 DRAWAL, 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 UNEMPLOYMENT AND
 SECURITY PROBLEMS ALL COMBINE TO CREATE A SITUATION IN WHICH HEAVY
 ECONOMIC PRESSURE AND UNCERTAINTIES WOULD BE DANGEROUSLY UNSETTLING.
 A POLITICALLY ACTIVE 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 PACIFI-
 CATION PROGRAMS.
 2. THIEU'S STATE OF UNION MESSAGE AND ACCOMPANYING ECONOMIC REFORMS
 MARK A WATERCHED 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
 ENDORES IT WILL RESULT IN SIGNIFICANT ECONOMIC PROGRESS AND REDUC-
 TION 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 EXPECT SUCH CONFIDENCE IF ECONOMIC DEM-
 ORICALLY CUT AND THE GOVERNMENT WEAKENED BY RESULTING
 POLITICAL PRESSURES.

3. OUR ASSESSMENT HERE IS THAT AN IMPORT LEVEL OF \$725 MILLION IS ESSENTIAL IN CY 72 AND PROBABLY CY 73 AS WELL. THIS IS \$53 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 COMPLETION. CONSEQUENTLY THE REAL DEGREE OF BELT TIGHTENING IMPLIED BY A \$725 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 PROJECT ACTIVITIES AND SUFFICIENT FUNDS TO SUPPORT \$725 MILLION IMPORT LEVEL. AT THIS LEVEL CY 72 FUNDS WOULD BE 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 FY 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 11% OFFICIAL RATE FOR DOD EXPENDITURES HAS BEEN A SUBSTANTIAL DOD CONTRIBUTION TO SUPPORT OF VIETNAMESE ECONOMY. BUT THIS DOES NOT APPEAR FEASIBLE ANY LONGER. LEGISLATIVE HISTORY WITH ARMED SERVICES COMMITTEES, CONCENTRATED ATTACK OF 11% RATE BY MOORHEAD COMMITTEE, REVISED MONAGHAN AMENDMENT TO HOUSE AUTHORIZATION BILL, ALL MAKE EARLY DEMISE OF 11% RATE INEVITABLE. MOREOVER, EXPERIENCE IN LAST YEAR HAS INDICATED THAT U. S. CONTRACTOR EFFORT HERE CANNOT BE MANAGED EFFECTIVELY WITH CONTINUED DUAL RATE SYSTEM NOW IN EFFECT. CONSEQUENTLY I HOPE 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 BURDEN 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.

EYES ONLY