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18 July 1966

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# INTELLIGENCE REPORT

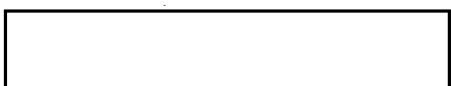
## THE SITUATION IN SOUTH VIETNAM

ARMY review(s) completed.

USAID review completed

State Dept. review completed

## DIRECTORATE OF INTELLIGENCE



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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

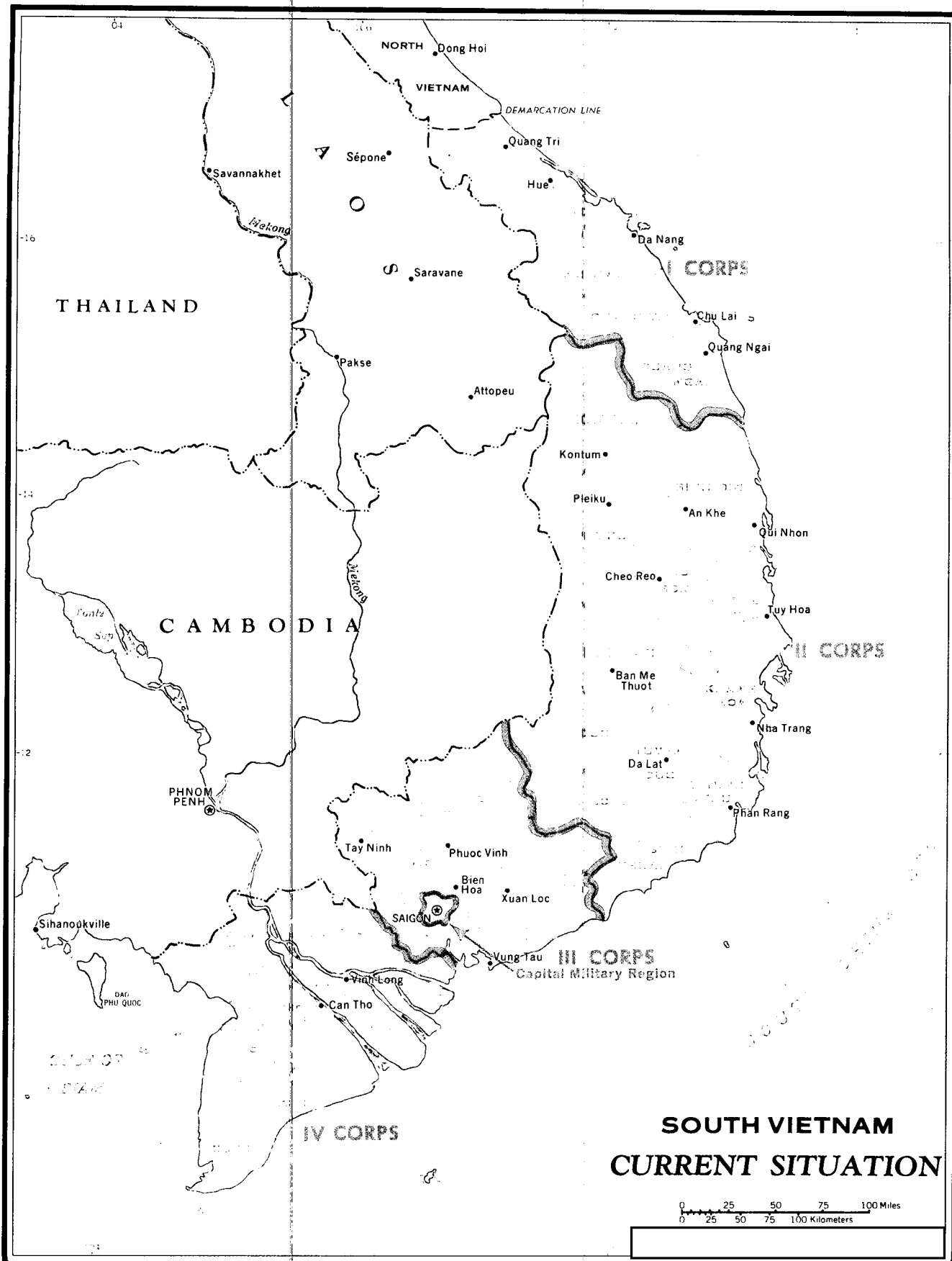
THE SITUATION IN SOUTH VIETNAM  
(11 - 17 July 1966)

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I. POLITICAL SITUATION

Premier Ky's new cabinet, announced last week, added important southern political elements to the government at the expense of central Vietnam and the Buddhist Institute. At the same time, the military tightened its control over the security, information, and administrative arms of the government. There was also some evidence of a last minute compromise which adjusted the influence of military factions within the cabinet.

Among other developments, former I Corps commander General Thi apparently has agreed to accept a government offer which would allow him to depart for the United States in the very near future. Policy and leadership problems within the Buddhist Institute were compounded last week by the "withdrawal" of moderate Institute chairman Tam Chau from an active role in the Institute for the next two months. The current dominance of the militants within the Institute make unlikely any early settlement of differences between the Institute and the government in the near future. A sufficient number of persons initially filed last week as candidates for the constitutional assembly elections in September, but their names and affiliations were not immediately available. In the central highlands, negotiations between the government and the dissident tribal autonomy movement FULRO reportedly were in danger of breaking down because of a recent change in Premier Ky's attitude.

Premier Ky's New Cabinet Finally Announced

1. After several delays, Premier Ky's new cabinet was announced on 13 July. In terms of regional balance, southern influence was increased by the appointment of several former ministers from the Huong government, including one as a new civilian deputy premier in charge of health, education, and social welfare. This increase

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of southern influence in the cabinet, while perhaps in part a reaction to the recent "struggle" movement in central Vietnam, also represents a significant bid by Ky for southern support during the forthcoming constitutional assembly elections. Some 71 of the 108 assembly seats to be contested are in III Corps, IV Corps, and the Saigon area. The addition of a civilian deputy premier could also be interpreted as another step by Ky to increase the civilian image of his government.

2. Catholic representation in the cabinet was maintained by the appointment of General Nguyen Bao Tri as Information/Chieu Hoi Minister. The replacement of a civilian information minister by General Tri, who is concurrently the armed forces' political warfare director, also served to increase military control over government propaganda and censorship. Finally, the only two cabinet members who were dropped entirely were close to the Buddhist Institute, and one of these was the only regional representative from central Vietnam.

3. Although official South Vietnamese Government announcements of the cabinet change did not dwell upon internal organizational realignments, there were some significant shifts in responsibilities at the supra minister level. According to a US Embassy report, the ministries of agriculture, public works, and the civilian administrative part of the former interior ministry now will report to Revolutionary Development minister General Thang. Deputy Premier and War minister Co, meanwhile, lost the responsibility for three of the six ministries he formerly supervised, but gained responsibility for one other ministry. The net loss in the administrative authority of General Co had earlier been reported as probable, and the repeated delays in the announcement of the cabinet were widely rumored to have been caused by Co's objections to such a change. However, some compromise apparently was worked out, since prior evidence suggested that Ky had intended to increase the responsibilities of General Thang and to decrease General Co's responsibilities even more than the final cabinet alignment indicates.

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General Thi to Depart for the US

4. Following discussions with Premier Ky and Deputy Premier Co on 13 and 14 July, former I Corps commander General Thi apparently agreed to accept their offer to leave for the United States in the very near future.

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public announcement on 15 July stated that the specially appointed military council of 20 generals, which had sentenced Thi and four other generals on 9 July, might "reconsider" its decision sometime during the coming week.

5. These developments apparently are satisfactory to General Thi and his remaining supporters within the armed forces, and will most likely serve to eliminate one potential source of trouble in regard to military unity. Although Thi's visit to the United States will be for an indefinite period, US observers have commented that there seems to be little question that both Thi and his associates contemplate Thi's eventual return to Vietnam to occupy a position of political or military importance.

Policy and Leadership Problems Continue Within the Buddhist Institute

6. Prospects for a settlement of differences within the Buddhist Institute and for a subsequent Institute agreement with the government grew dimmer last week, as moderate Institute chairman Tam Chau apparently failed to gain control over the militant faction. Following an ultimatum from the Institute council that he attend council meetings and take a stand on unresolved issues, Tam Chau announced that he would withdraw from Institute affairs until after the September election for the constitutional assembly. Chau said that he would not be responsible for the actions of the council during his absence, but he also declared that he would not resign as Institute chairman. Institute council meetings following Tam Chau's announcement apparently dealt with the questions of interim leadership and a policy towards the forthcoming elections, but no decisions had been announced by the end of the week.

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7. The withdrawal of Tam Chau clearly signifies the dominance of the militant followers of Tri Quang on the Institute council and the apparently unbridgeable gap presently existing between them and the moderates. The current depth of feelings between elements of the two factions is illustrated by reports that Tam Chau now fears assassination, possibly by some of the militants whose release from government detention was recently arranged by Chau. The US Embassy has commented that a permanent split in the Institute is possible but not probable, since both factions seem to realize the loss of political influence that would result for both sides.

8. Although no firm decision has evidently been reached, the militants may be preparing to make a strong effort to boycott the September elections. Thus far, the militant deputy chairman of the Institute, Thich Phap Tri, has been cooperating with Father Hoang Quynh's Religious Citizens Bloc, which continued to publicize its antigovernment stand and its criticism of the elections at a press conference on 12 July. Militant leader Tri Quang, who last week continued his fast at a Saigon clinic, also reportedly had a long conversation with Father Quynh on 14 July. By the end of the week, there were contradictory reports on when Tri Quang would end his fast, although he may soon make his first public appearance in more than a month at a reception to be given by Father Quynh.

#### Election Progress

9. The 11 July deadline for candidates to file for the September constitutional assembly elections stimulated interest last week. The government modified its original deadline by requiring that only the candidate heading each slate had to file by 11 July. The remaining candidates on each slate had until 13 July. A projection of those who filed on 11 July indicated that approximately 700 individuals would contest the 108 assembly seats at stake throughout the country. This number will undoubtedly decrease because of the failure of some candidates to fill out their slates, and later, because of the local and central election boards' screening processes. In the Saigon area, the failure to present full slates

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by 13 July reduced the number of candidates from about 200 to 135. Initial reports from the provinces, including those in central Vietnam, indicated a plentiful number of candidates, although fewer than in urban areas. Their names and affiliations, however, were not immediately available.

FULRO Negotiations May be Running into Trouble

10. Negotiations between the government and the dissident tribal autonomy movement, FULRO, have been continuing for several months following a montagnard uprising last fall, but now may be in danger of breaking down.

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Premier Ky recently refused to agree to two key demands made by FULRO representatives--the rights of the montagnards to form separate paramilitary units and to fly their own pennant with the Vietnamese flag. Earlier, Premier Ky reportedly had agreed in principle to these demands in return for a pledge of loyalty to the government by FULRO leaders. FULRO representatives who have been meeting with government negotiators in Ban Me Thuot have not yet been told of Premier Ky's latest attitude for fear that they would break off the negotiations,

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The government's special commissioner for montagnard affairs, Paul Nur, will probably attempt to persuade Premier Ky to reverse his decision.

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## II. REVOLUTIONARY DEVELOPMENT

In the 13 July cabinet revision, the Ministry of Revolutionary Development, under the direction of General Nguyen Duc Thang, was elevated from a secretariat and expanded to include the State Secretariats for Public Works and Agriculture and a new Special Commission for Administration. The State Secretariats for Education and Public Health were apparently also upgraded in stature, with their over-all director in charge of social and cultural affairs designated a deputy premier on a level with General Co, the general-commissioner for war. The training program designed to increase the effectiveness of village and hamlet officials was to begin, reportedly on 15 July. Defectors from the Viet Cong numbered 339 during the week ending 8 July.

### Ministry of Revolutionary Development Upgraded from State Secretariat

1. Part of the rationale for the 13 July revisions of Premier Ky's cabinet was to incorporate some of the functions bearing on pacification under a more centralized and administratively efficient control mechanism. This was primarily accomplished by removing General Thang's State Secretariat for Revolutionary Development from General Co's over-all "war" authority and elevating it to the level of a separate ministry. Subordinate to the new Ministry of Revolutionary Development will be the State Secretariat for Agriculture, the State Secretariat for Public Works, and a new organization entitled the Special Commission for Administration. The Administrative Commission embodies part of the dissolved Ministry of Interior, the remainder being incorporated into a new separate Ministry of Security which will also have, among its functions, the responsibility for administering the National Police.

2. The removal of the Public Works Secretariat from the Economy and Finance Ministry is significant because the majority of funds expended on pacification

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are utilized for construction projects, such as the building and repair of roads, bridges, dams, produce markets, and irrigation sites. These projects are helpful in providing tangible evidence to the rural population that the government is providing them with meaningful services. The movement, storage, and distribution of basic construction commodities has been a constant thorn in the side of US and GVN officials who have been pressing provincial pacification administrators to release funds and meet the monthly construction goals designated after the February Honolulu conference. General Thang should have more authority now to implement priority construction projects vital to the over-all rural development process.

3. The movement of the Agriculture Secretariat to General Thang's ministry should help to coordinate more effectively assistance to the 85 percent within the total development program of the population concerned with agriculture.

4. According to USAID officials, the temporary assignment of 20 US military officers with the necessary technical background as provincial agricultural advisers has already begun to prove its worth. In general, the performance of the MACV officers has been reported as outstanding. Their Vietnamese counterparts from the local agricultural and animal husbandry offices are reportedly more eager now to travel to outlying villages where such projects as agricultural fairs, poultry improvement, and crop marketing are being established.

#### Education and Health Secretariats

5. Another of the cabinet revisions which bears on pacification is the appointment of a civilian to the post of deputy premier in charge of social and cultural affairs. This office, which encompasses the State Secretariats for Education, Public Health, and Social Affairs, was upgraded, in part because of the necessity for a more serious effort to extend educational and medical facilities to South Vietnam's 80-percent rural population. Designating the head of social and cultural affairs as a deputy premier is probably also a political maneuver by the military

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leaders to give a respected civilian, who is also a southern Buddhist, a status equal to that of the other deputy premier, General Co.

6. During a conversation with Ambassador Lodge early in July, Premier Ky, commenting on his proposed cabinet changes, described the country's educational system as a "terrible mess," still committed to the French system and language. Ky pointed to the large corps of youthful agitators who, he said, could just as well be trained in technical schools and employed as plumbers, electricians, and mechanics. Ky's conclusions were that the French educational influence would gradually be dropped in favor of an Anglo-Saxon system and that separate departments would be established to deal with the universities, the technical schools, and the primary and high schools.

#### Training of Village and Hamlet Officials

7. Experience shows that a particularly key element within the revolutionary development cadre group is the six-man civil affairs team. These teams have been developed primarily in response to the need for a more well-trained and responsible corps of village and hamlet chiefs and functionaries. At the Honolulu conference in February, General Thang listed the training of village and hamlet officials as one of six major areas of needed improvement in rural development. On 18 April, General Thang authorized the funding of the training program to be implemented by local officials in cooperation with the cadre groups and the Ministry of Interior. The teams initially devoted their efforts to bettering the performance of the village chiefs and their administrative committees. Since the Interior Ministry administrative responsibility was granted on 13 July to the Ministry of Revolutionary Development, the civil affairs program should be greatly facilitated.

8. Ineffective village and hamlet leadership has been consistently reported as thwarting attempts to bridge the gap between the peasantry and the government. Villagers, it is clear, will identify with the GVN and the nation largely in proportion to the effectiveness of the officials with whom they must deal.

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9. Since the cadre groups and their six-man civil affairs teams were deployed to their respective provinces for the first time in mid-June, it is expected that the training of local officials this summer will be undertaken by joint working groups consisting of the civil affairs teams, other Vietnamese training personnel now in the provinces, and US advisers where available.

Viet Cong Defectors (Chieu Hoi)

10. The weekly total of defectors during the 2-8 July reporting period rose slightly to 339; those in the military category numbered 229. One company commander and five platoon leaders were among the defectors. Returnees are listed by corps areas as follows:

I Corps	22
II Corps	111
III Corps	68
IV Corps	138

11. In his 13 July cabinet revision, Premier Ky also appointed Major General Nguyen Bao Tri, the former III Corps commander, as the minister of information and Chieu Hoi to replace the former civilian chief. The ministry has been upgraded in importance from a state secretariat. The appointment of a key military officer represents in part the continuing joint GVN/US emphasis on the defector program. The primary purpose of the designation of a military head of the ministry, however, is probably the desire of Premier Ky and Chief of State Thieu to have one of their own loyal officers in a position to monitor and influence the electoral process leading up to the September constitutional assembly elections.

12. The assignment of Tri should help alleviate the declining morale of lower level Chieu Hoi functionaries which was allegedly the result of a conflict between the ex-secretary of state for information and his deputy for Chieu Hoi affairs.

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### III. ECONOMIC SITUATION

The prices of domestic and imported commodities continue to rise, but the rate of increase for domestic commodities has slowed considerably. Pork continues to be scarce and the GVN has decided to raise the official price for live hogs and sell pork at official prices to GVN employees. In the Saigon free market the prices of gold and dollars were relatively stable in the week ending 12 July.

Total deliveries of rice from the delta to Saigon during the first half of 1966 were about 45 percent below the January-June average during 1961-65. Negotiations are under way for the transfer of Michelin's Dau Tieng plantation to the Plantation Workers Federation. A gradual ARVN/MACV takeover of the Saigon port is under way. It appears that the strikes by the Vietnamese construction workers and employees of Caltex have ended.

#### Prices

1. According to the USAID retail price index on 12 July, retail prices in Saigon had risen about 17 percent since the 18 June devaluation. The increase for the week ending 12 July, however, was only two percent above the previous week. A major reason for the increase in prices is the soaring price of pork, which has indirectly caused sharp increases in the prices of other meats and fish. Price increases for rice, charcoal, and firewood have been more moderate, and with the exception of cabbage, the price of vegetables is relatively stable. (A table of retail prices in Saigon is included in the annex.)

2. The prices of imported commodities also continue to rise. The most notable increases have been in iron and steel products, cement, and calcium carbide. On 8 July the price of cement rose to 300 piasters per 50-kilogram bag compared with 180 piasters just before devaluation. Although the

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reasons for these increases are not entirely clear, the market may have been jolted upward by the fact that the rather unclear GVN announcement on customs duties may have led importers to believe that they would have to pay higher duties than is actually the case.

### GVN Decisions on Pork

3. Although Minister of Economy Thanh still refuses to import hogs to solve the pork crisis, he reportedly has decided to raise the official price of live hogs on 1 August. Suppliers seem to be aware of this decision, and consequently, deliveries of hogs to Saigon undoubtedly will be low during the remainder of July. The GVN also has decided that commencing 15 July, it will sell pork at official prices through commissaries to GVN and certain other employees. The Office of Supply will purchase hog carcasses in An Xuyen Province and ship them by air to Saigon. Although this project was contemplated a few months ago as a method to help offset low GVN wages, the current pork crisis evidently has given it additional impetus. The US Embassy reports that while there is merit in assisting GVN employees, who remain a disadvantaged group in spite of recent wage increases, the air transport of hogs will entail a sizable subsidy from the GVN.

### Currency and Gold

4. The prices of gold and dollars were relatively stable in the week ending 12 July. Gold fluctuated around 305 piasters per dollar and dollars hovered close to 205 piasters per dollar. The price of MPC (scrip) ranged between 120 to 123 piasters per dollar. These prices compare with pre-devaluation peaks of 462, 270, and 155 piasters per dollar for gold, dollars, and MPC, respectively. During the first five months of 1966, the average prices for gold, dollars, and MPC were 240, 172, and 120, respectively. The US Embassy reports that although the GVN is still selling gold through the commercial banks, dealers may not be buying as much gold as expected because they prefer to avoid registration requirements and taxes connected with the purchase of gold. (Graphics on monthly and weekly free market gold and currency prices are included in the annex.)

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Rice Deliveries

5. Deliveries of rice from the delta to Saigon in June amounted to slightly more than 30,000 metric tons, or roughly 75 percent of the 1961-65 average for June. The US Embassy reports that while deliveries from the delta are not good, they are better on a seasonally adjusted basis than during the first four months of this year. There evidently is some indication that provincial traders are beginning to unload their stocks because they no longer expect further substantial price increases. Total deliveries during the first half of 1966 amounted to 194,000 metric tons, or about 45 percent below the January-June average during 1961-65.

6. Adequate stocks of about 80,000 metric tons remain in Saigon primarily because of continuing imports. Price increases for rice have been somewhat more restrained than for other commodities because of continuing sales of US rice at 9 to 9.5 piasters per kilogram. During the month of June the wholesale price of the cheapest type of rice rose only three percent, from 1,005 to 1,035 piasters per 100 kilograms. On 12 July this price was 1,200 piasters per 100 kilograms, or roughly 15 percent above the June peak.

Possible Transfer of Rubber Plantation

7. In late June an exchange of letters between the Plantation Workers Federation (PWF), a small organization of South Vietnamese rubber workers, and the Ste. des Plantations et Pneumatiques Michelin confirmed in principle the transfer of Michelin's Dau Tieng plantation in Binh Duong Province to the PWF. Details of the transfer are being negotiated, and according to the assistant manager of Michelin in Saigon, the transfer probably will be approved shortly by the Michelin home office in Paris. One proposal already discussed was payment by the PWF for the plantation and equipment on an installment basis with the amount to be fixed as a percentage of profits. The Dau Tieng plantation has an estimated total area of roughly 23,000 acres; it employed about 1,500 permanent workers and produced roughly 6,000 metric tons of rubber in 1963.

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8. According to the assistant manager, Michelin is interested in liquidating its holding in South Vietnam because of losses caused by exorbitant fees paid to the Viet Cong and high taxes imposed by the GVN. The US Embassy reports that the transfer of Dau Tieng to the PWF could serve as a welcome precedent for resolving problems faced by Michelin in a manner that would serve an objective of the Revolutionary Development program--a gradual widening of popular participation in the economic development of South Vietnam. It is possible that new security measures being implemented in the area around this plantation will prevent the Viet Cong from exercising substantial influence within the PWF in its operation of the plantation.

#### Port Operations

9. The GVN has issued a decree naming ARVN Brig. Gen. Lam new director general of the Saigon port. This is the first step in the gradual ARVN/MACV takeover of the port. During Phase I of the new plan, MACV will assume responsibility for the discharge and movement of all tax-free cargo (i.e., goods for the counterinsurgency program and US Mission agencies) to its first destination. Although the Commercial Import Program will not be affected during Phase I, it will be closely observed to locate bottlenecks and determine the type of corrective action needed to eliminate them.

10. Lighterage control remains a problem in the Saigon port. According to the latest estimates available, there are roughly 450 loaded lighters in the harbor, of which 50 to 60 are being discharged weekly. After the first week of operation of a new control system, it has become obvious that a method must be devised to ensure that assigned lighters are not overstaying their allotted time.

#### End of Strikes

11. It appears that the strike by the Vietnamese construction workers has ended. On 11 July, Raymond-Morrison-Knudsen announced their wage offer, and workers returned to their jobs on the following day. The strike called on 1 July by 250 workers at

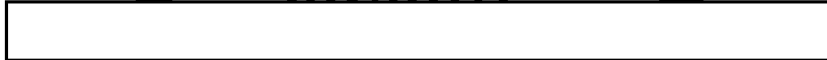
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Caltex, one of three oil distribution companies in South Vietnam, ended 13 July on the brink of a sympathy strike to be called by 2,500 more workers at Shell and Esso. The strike at Caltex was triggered by the firing of a union secretary and was unrelated to wage demands. Caltex has now agreed to take back the union official pending the decision of a labor-management conciliation commission at Caltex.

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ANNEX

Weekly Retail Prices in Saigon a/  
(In Piasters)

	3 Jan 1966	6 June 1966	13 June 1966	20 June 1966	27 June 1966	Percent Change from Mo. Ago	Percent Change from Yr. Ago
Index for all Items <u>b/</u>	<u>160</u>	<u>164</u>	<u>173</u>	<u>185</u>	<u>193</u>	+ 17	+ 88
Index for Food Items <u>b/</u>	<u>169</u>	<u>171</u>	<u>184</u>	<u>196</u>	<u>206</u>	+ 19	+ 94
Of which:							
Rice/Soc Nau (100 kg.)	800	1,120	1,250	1,350	1,350	+ 17	+ 45
Pork Bellies (1 kg.)	70	70	90	90	110	+ 57	+120
Fish/Ca Tre (1 kg.)	110	115	130	130	140	+ 27	+169
Nuoc Mam (jar)	50	70	70	80	85	+ 21	+ 70
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>139</u>	<u>134</u>	<u>145</u>	<u>147</u>	+ 11	+ 63
Of which:							
Charcoal (60 kg.)	440	490	460	500	500	+ 4	+ 79
Cigarettes (pack)	10	10	10	10	10	0	+ 25
White Calico (meter)	27	26	27	32	36	+ 38	+ 57
Laundry Soap (1 kg.)	30	33	34	35	37	+ 16	+ 76

a/ Data are from USAID sources.

b/ For all indexes, 1 January 1965 = 100.

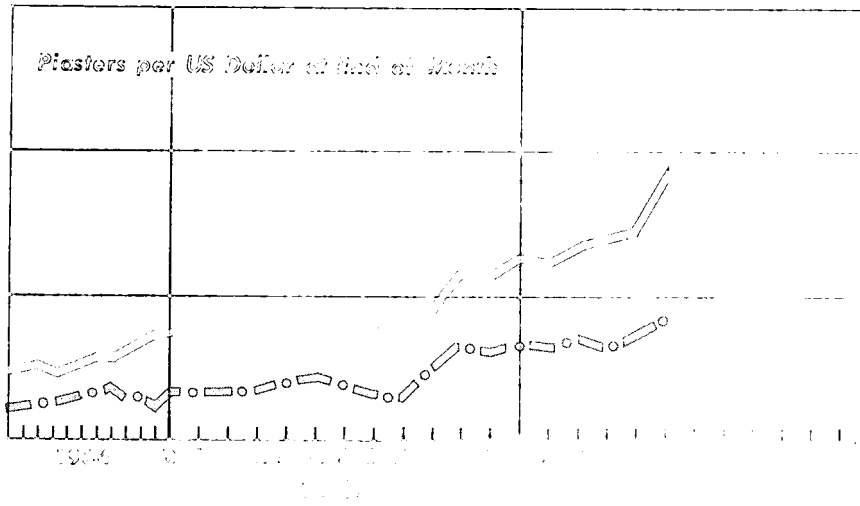
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## SOUTH VIETNAM ECONOMIC INDICATORS

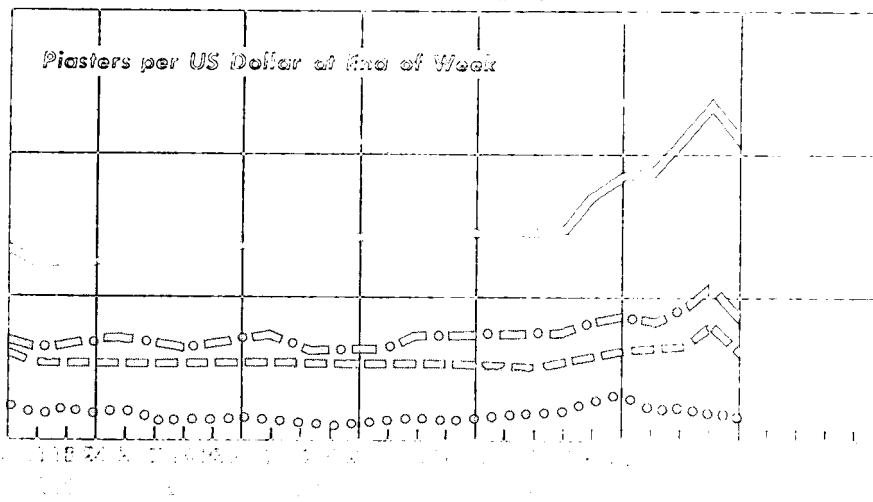
### Monthly Free Market Gold and Currency Prices

JANUARY 1964 - MAY 1966



### Weekly Free Market Gold and Currency Prices

3 JANUARY 1966 - 27 JUNE 1966



GOLD (Saigon) - Piaster price per US dollar of gold calculated on the basis of gold leaf as worth \$35 per troy ounce.

—●—●—●— US \$10 GREEN (Saigon)

—●—●—●— PIASTER-DOLLAR CROSS RATE - Piaster-dollar exchange rate in Hong Kong calculated by reference to the exchange rates of these two currencies to the Hong Kong dollar.

●●●●● US \$10 MPC (Saigon) - Military Payment Certificates (scrip).