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# INTELLIGENCE REPORT

## THE SITUATION IN SOUTH VIETNAM

### DIRECTORATE OF INTELLIGENCE

USAID review completed

ARMY review(s) completed.

State Dept. review completed



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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM  
(25 July - 31 July 1966)

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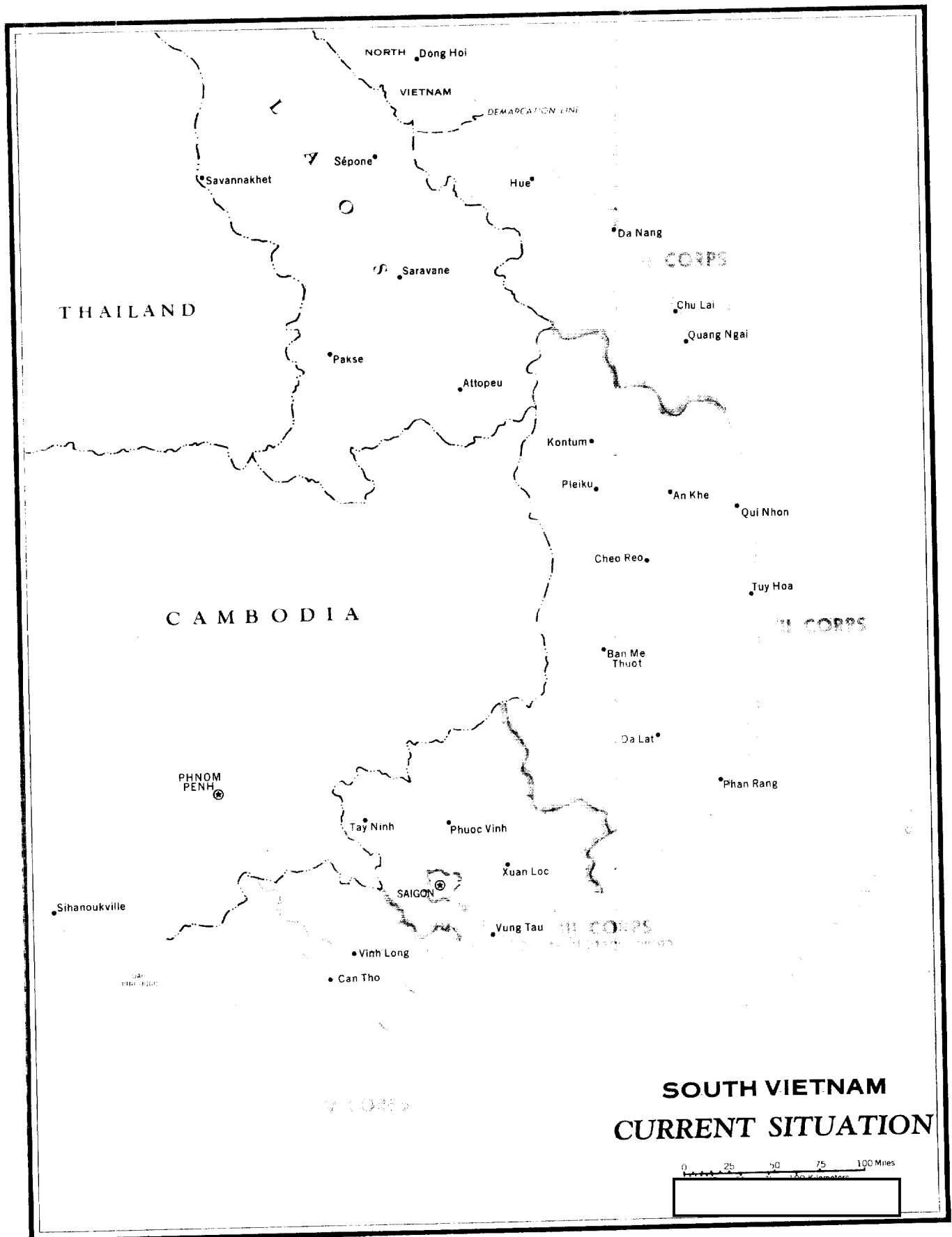
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I. THE POLITICAL SITUATION

Candidates for the constitutional assembly elections in I Corps are predominantly members of two traditional nationalist parties, with no known "struggle" candidates on the lists. In Saigon, there is some evidence that the government has been smoothing the way for well-known independent candidates while discouraging obvious election irregularities.



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The Buddhist Institute has selected an acting chairman, Thich Thien Hoa, who seems likely to be dominated by the militant supporters of Tri Quang on the Institute council, according to the US Embassy. A few remaining supporters of the "struggle" movement in central Vietnam have apparently banded together in a new organization, but are not considered a threat to the government at this time.

Election Developments

1. Additional information was received from the US Embassy last week on candidates in the Saigon area and I Corps for the constitutional assembly elections this September. In I Corps, some 87 candidates are currently contesting the 17 seats at stake. The nationalist VNQDD and Dai Viet parties are sponsoring 45 of the 87 candidates, with the remaining candidates running largely on religious or independent slates. Very few "struggle"-associated candidates apparently filed in I Corps. One such slate, however, did file in Da Nang, but was disqualified because of its "struggle" orientation.

2. The political affiliations of candidates in the Saigon area are more vague. Several of the lists are grouped around well-known political independents, including former chief of state Phan Khac Suu, municipal council head La Thanh Nghe, and Dai Viet leader



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Dang Van Sung. In nearby Gia Dinh Province, a respected independent, Dr. Phan Quang Dan, is sponsoring one slate in each of the province's two electoral districts.

3. There also was some evidence last week that the government was smoothing the way for well-known candidates while discouraging obvious election law irregularities. One of Premier Ky's advisers told a US official that Ky recently interceded to prevent candidate lists headed by Phan Khac Suu and Dang Van Sung from being disqualified for procedural shortcomings. Premier Ky also reportedly ordered the disqualification of a deputy province chief who had filed in violation of electoral regulations.

4. In a statement broadcast over Hanoi radio on 25 July, the presidium of the Viet Cong's National Liberation Front strongly condemned the forthcoming elections. The statement exhorted the people in the heavily populated towns not only to boycott the election, but to "smash this deceitful bufoonery."

5. The Viet Cong had attacked VNQDD party headquarters in Quang Tin Province on 16 July, severely wounding the party's leading candidate in the September election. The attack may represent the first anti-election action by the Communists, although the VNQDD's involvement with various government programs in I Corps also makes it a natural target for the Viet Cong.

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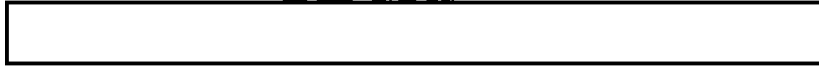
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8. The Viet Cong's Liberation Radio also broadcast a warning to IV Corps commander Quang and II Corps commander Loc that they were the next targets in a government purge. Quang, who is a close associate of General Co, has also been recently rumored for replacement.

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 The Viet Cong commentary reflects the Communists' awareness of friction within the military government and points up the continuing Communist efforts to exploit potentially divisive issues which might weaken the government's effectiveness.

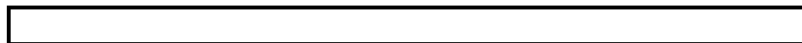
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Developments Within the Buddhist Institute

9. Thich Thien Hoa, a relatively nonpolitical religious leader, was selected as acting chairman of the Buddhist Institute on 23 July. Thien Hoa will retain this position in the continued absence of chairman Tam Chau, probably for about two months. The US Embassy has commented that although Thien Hoa is relatively nonpolitical, he is likely to be dominated by the militant followers of Tri Quang on the Institute council.

10. No major Institute policy statement immediately followed Thien Hoa's appointment, although he has called for the release of all monks still under detention. The only Institute communiqué signed by Hoa as chairman, however, calls upon Buddhist followers to refrain from protest suicides against the government. A young Buddhist monk had died recently as a result of burns he sustained on 21 July, but police have claimed that the incident was murder, citing the monk's statement that he had been set afire against his will. The Institute communiqué was probably intended to refute indirectly the government's claim that the monk's death was not a bona fide suicide.

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[REDACTED]

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11. [REDACTED]

the government is tightening restrictions on access to militant leader Tri Quang, who is continuing his fast in a Saigon clinic. Thich Phap Tri, militant deputy chairman of the Institute, was recently turned away by government guards. However, Tri Quang himself was allowed to attend Catholic Father Quynh's antigovernment reception on 21 July.

"Struggle" Movement Remnants in Central Vietnam

12. A few remaining "struggle" movement leaders still at large in central Vietnam have apparently banded together in an organization known as the "Hung Viet" party. [REDACTED]

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[REDACTED] this group is based in Hue and is pro - Viet Cong in addition to being pro-"struggle." The party has apparently printed some leaflets and distributed some banners, and has a membership of 15 or 20 persons, although these figures may include only its executive committee. While the "Hung Viet" name has been applied loosely to designate all remaining "struggle" elements still active, there is another group known as the "Ky Con," apparently made up largely of military deserters and reportedly located outside Hue.

13. American officials in Hue have reported that there is not too much concern over these groups, and that it is probably too soon for "struggle" elements to reorganize and mount any meaningful effort. The US officials warned, however, that there did seem to be some tendency among local authorities to dismiss the effectiveness of these organizations, perhaps to demonstrate to higher authorities the effectiveness of the clean-up job already done.

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## II. REVOLUTIONARY DEVELOPMENT

Premier Ky submitted a cautious report on the status of pacification in a speech to foreign and domestic newsmen on 27 July. The premier's judgment of progress to date was that the government is "encouraged." During June, 42 hamlets were secured, raising to 54.3 the percentage of the population considered by MACV to be under GVN control. MACV also estimates that those people live on 11.3 percent of Vietnam's 66,000 square miles of land. Initial reports on the recently assigned cadre groups indicate that, as expected, they are suffering "growing pains," although the problems are not considered as serious as recent newspaper articles imply. The total number of Communist defectors for all of 1965 is expected to be roughly equaled by early August this year.

### Premier Ky on Revolutionary Development

1. In his state-of-the-nation speech on 27 July, Premier Ky presented to a large gathering of Vietnamese and foreign newsmen a cautious summary of pacification developments since the beginning of 1966. The fact that Ky himself, rather than General Thang, chose to comment on the program suggests that the premier desires to impress both US and domestic audiences with the high priority his government has been giving to the program since the February Honolulu conference.

2. According to Ky, the number of hamlets "built" in 1966 is 110 percent ahead of the comparable period in 1965. Referring to USAID-supported programs, he cited significant gains in the training of teachers, the construction of roads and bridges, the provision of irrigation systems for 17,500,000 acres of farmland, and the establishment of several hundred wells. Ky said that the number of pacification cadres had almost doubled, but pointed out that the cadre-team concept is new and that qualitative improvements must be stressed in the future. Ky also indicated awareness that over-reliance on statistics as a measure

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of progress could result in merely "paper achievements." In summarizing pacification progress during 1966, Ky went no further than to say that the government is "encouraged."

### Status of Security Situation during June

3. According to MACV, 31 provinces registered over-all gains in the number of hamlets, population, and territory secured during June. Eight provinces showed no change in their security status, and four provinces reported greater local insecurity.

4. Nationwide, 42 hamlets were added to the secure or "pacified" list during June, bringing the cumulative total of such hamlets to 4,054. (It is estimated that there are over 13,000 hamlets in South Vietnam.) The addition of the 42 hamlets to government control raises to 54.3 the percentage of the total population considered by MACV to be firmly under the government's protection.

5. MACV's initial estimate of the amount of land on which the GVN-controlled population lives (a newly reported category) is 11.3 percent or 7,458 of the country's 66,000 square miles. MACV has not estimated the percentage of land (as opposed to the percentage of people) controlled by the Communists.

6. The US Marines in I Corps continued during June to expand their area of operation, helping to create a favorable security environment in which the rural cadre groups could function. In II Corps, with the exception of one province, the operations of South Vietnamese and free world forces were reported to have provided a similarly favorable environment. Troops in III Corps, however, made little contact with the enemy in June during the course of sporadic search-and-clear operations. In IV Corps, the US Navy indirectly benefited pacification by conducting increased resources-control missions to interdict the movement of Viet Cong supplies and troops. The enemy's major source of transportation in the delta is the complex river and canal system. Recent US efforts have been targeted more heavily against delta waterways in an effort to deny the Communists

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what has been their most useful transportation and resupply route.

### Status of Cadre Groups during June

7. It was approximately mid-June when the first newly trained class of revolutionary development cadre groups was finally deployed for field assignments. Initial reports of the groups' performance to date are not particularly optimistic, but it is too early to pronounce any realistic judgment on their future. Some of the problems they are reportedly having, however, had been predicted and steps are being taken to rectify them. In II Corps, for example, some Vietnamese teams assigned to work in strictly montagnard villages have demonstrated a lack of motivation, reflecting the traditional enmity between the ethnic Vietnamese and the culturally different peoples who inhabit the country's central highlands. In Kontum Province, one of the newly graduated groups refused to spend the night in the village to which they were assigned. This team is reported to be back in business, however, after being threatened with a tour in the army. In Pleiku Province, meanwhile, groups consisting of both Vietnamese and montagnard personnel are reportedly functioning without difficulty.

8. The over-all performance of cadres operating in III Corps during June was satisfactory. Several of the provincial teams, however, were poorly motivated as a result of ineffective leadership, while some others were improperly deployed and used as security guard troops. Similar problems have been noted in IV Corps. Revolutionary development officials there are in the process of re-educating provincial and corps government functionaries in an effort to stimulate interest in the correct implementation of cadre programs as originally planned.

9. In spite of the anticipated procedural problems of introducing new cadres to a dangerous and delicate task, local successes to date are indicative of the sound foundation upon which the program is based, especially in comparison to past efforts. For example, in the delta province of Chau Doc, which borders Cambodia and the strategic Bassac River transportation corridor, a cadre group was assigned to

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operate in an insecure village in the mountainous region near Cambodia, an area long known as a Viet Cong sanctuary. That particular area is inhabited by Vietnamese and a minority group of Khmers (ethnic Cambodians). The cadre group assigned to the village was similarly composed of a mixture of native Vietnamese and Khmers. The group's contribution to the contested village included the construction of an entire hamlet complete with a school and teacher. The payoff for the group's work came mainly in the form of information furnished to census-grievance cadres, who managed to identify families in the village with Viet Cong relatives. By the application of judicious social pressure on those families, the cadres have induced several Viet Cong to defect with their weapons.

10. This mountainous area of Chau Doc, in August 1965, was the scene of one of the most significant mass defections to the GVN, involving the inducement of nearly 900 Khmers and their families to leave their inaccessible mountain retreat for government villages. The Khmers, many of whom were armed, had a long history of nominal allegiance to Cambodia and, at times, support to the Viet Cong; all had demonstrated considerable hostility to the Vietnamese prior to their defection. Their decision to return to the government was partially due to a pacification "drama" team, including several Cambodian dancers and singers, who had ventured to the insecure Khmer village to perform pro-GVN "plays" designed to influence the target audience to rally to the government.

#### Viet Cong Defectors (Chieu Hoi)

11. Returnees during the period from 9 to 15 July numbered 256. From 16 to 22 July, 322 Communists defected, of whom 237 were military personnel. Defectors during the 16 to 22 July period are listed by corps areas as follows:

I Corps	77
II Corps	71
III Corps	64
IV Corps	110

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The cumulative total of defectors from 1 January 1966 through 22 July has risen to 10,756. At the present rate, the total 1965 figure of 11,124 returnees should be surpassed by early August of this year.

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### III. ECONOMIC SITUATION

For the first time since early June, the steady price rise associated with devaluation has broken, with prices of most domestic and imported commodities declining slightly in the week ending 18 July. Although prices had edged up again by 25 July, they were still below the levels prevailing during the first half of July. This encouraging development could prove to be temporary, however, unless the port bottleneck is broken and the GVN and US Mission are able to resist demands for further wage increases. Recently available trade data for 1965 show a continued decline in South Vietnam's exports and an increase in imports.

#### Prices

1. The steady price rise associated with devaluation was broken for the first time in the week ending 18 July when the USAID retail price index was two percent below the previous week. By 25 July, however, the index had moved up three percent. Nevertheless, the index is still below the levels prevailing during the first half of July. Prices have now risen about 18 percent since the 18 June devaluation, and slightly more than 30 percent since the beginning of June.

2. The slight decline in the over-all index on 18 July was caused mainly by lower pork prices, which followed the announcement of an increase in the official price of live hogs and an expectation of increased deliveries. Although these expectations were only partly realized in the following week, the price of pork bellies held steady at 150 piasters per kilogram. The main reason for the four-percent increase in food prices in the week ending 25 July was a rise in the prices of beef and fish, reportedly caused by Viet Cong destruction of a bridge between Saigon and the delta. In addition, the price of rice continues to rise: on 25 July, the cheapest variety of rice was priced at 1,350 piasters

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per 100 kilograms compared with 1,300 piasters on 18 July. The non-food index, which had increased seven percent in the week ending 18 July, remained steady as of 25 July.

3. The prices of most imported commodities, which had been increasing sharply in recent weeks, also declined in the week ending 18 July and were generally stable or slightly lower in the following week. Consumer resistance to the recent excessive price levels and the importers' need for cash appeared to be the major reasons for this decline.

#### Currency and Gold

4. On the Saigon free market the prices of dollars and MPC (scrip) on 18 July were 210 and 126 piasters, respectively, four piasters each above the previous week. Gold rose three piasters to 306. By 25 July, however, dollars had fallen back to 204 piasters and gold had dropped to 289 piasters, the lowest level since 6 June. The decline in the price of gold was apparently caused by smuggling rather than by official sales. In Hong Kong, the piaster-dollar cross rate jumped 19 piasters to 188 on 22 July. The reasons for this increase are not yet clear. (Graphics on monthly and weekly free market gold and currency prices are included in the annex.)

#### Regional Economic Situation

5. During the month of June, food prices were generally steady in II Corps and the southern part of I Corps. In the two northern provinces of I Corps, however, prices rose because of a shortage of supplies. The III and IV Corps areas reported significantly higher prices, primarily because of the devaluation. Labor unions and labor-management relations have now become part of the economic life of II Corps. In IV Corps, competition is increasing for skilled and semi-skilled labor; pirating and job-jumping are common practices. Transportation difficulties exist in all four regions because of insufficient commercial trucking, interdiction of highways as a result of road and bridge destruction, VC taxation, and poor GVN highway maintenance.

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Wage Problems

6. The policy of wage restraint, which is essential for the success of the recent economic reforms in South Vietnam, shows signs of weakening. The US Embassy reports that the over-all wage increase recently granted by the private US construction combine, RMK-BRJ, is in excess of the 15-percent limit ordered by the Mission Council. Moreover, a spot check of combine employees indicates considerable disappointment with the increase, which probably amounts to more than 20 percent, and RMK officials believe that new work stoppages cannot be ruled out.

7. US Mission employees were granted a 7.5 percent pay increase effective 3 July. In addition, although pay increases of 20 to 70 percent have already taken place for many workers in the private and municipal sectors, South Vietnam's leading labor union, the CVT, is reportedly preparing a drive for increased wages in the private sector.

Port Operations

8. The US Embassy reports that USAID cargo continues to move through the port of Saigon at an accelerated rate. General Lan, the newly appointed director general of the port, has formed a series of subcommittees to study port problems and recommend solutions by 27 July. Meetings also are being held to work out ground rules for customs administration by the GVN under ARVN and MACV control.

9. In spite of these developments, however, recently revised port tonnage figures show disturbingly little change in the capacity of the port during the first half of 1966. Moreover, current estimates of the increase in Saigon port capacity by the end of the year suggest that not enough commodities will be cleared through the port to yield the amount of anti-inflationary offset that the International Monetary Fund expected from the recent devaluation.

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Foreign Trade

10. Recently available data on South Vietnam's foreign trade in 1965 show a continuation of the trend evident in the past few years--a decline in exports, an increase in imports, and an ever-widening foreign trade deficit. Exports from South Vietnam in 1965 amounted to only \$36 million, the lowest level of the past decade. During 1960-64 the annual average level of exports was roughly \$70 million. The sharp decline in 1965 stemmed primarily from a reduction in exports of rubber, South Vietnam's major earner of convertible currency.

11. Imports in 1965 reached an all-time high of \$357 million, 20 percent above the 1964 level. The most striking characteristic of South Vietnam's imports in recent years has been the increasing importance of imports from the US in the total--from roughly one quarter in 1959 to more than half in 1965.

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ANNEX

Weekly Retail Prices in Saigon a/  
(In Piasters)

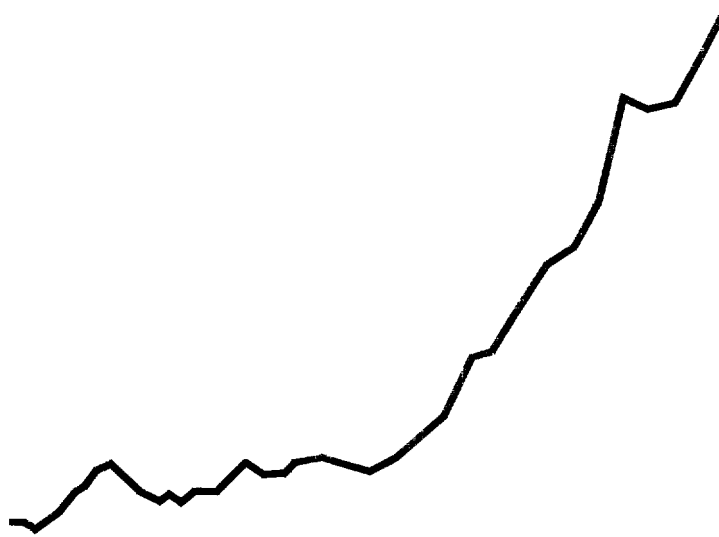
	3 Jan 1966	20 Jun 1966	27 Jun 1966	5 Jul 1966	11 Jul 1966	Percent Change from Mo. Ago	Percent Change from Yr. Ago
Index for all Items <u>b/</u>	<u>160</u>	<u>185</u>	<u>193</u>	<u>217</u>	<u>220</u>	+ 25	+ 119
Index for Food Items <u>b/</u>	<u>169</u>	<u>196</u>	<u>206</u>	<u>234</u>	<u>237</u>	+ 27	+ 130
Of which:							
Rice/Soc Nau (100 kg.)	800	1,350	1,350	1,400	1,450	+ 16	+ 53
Pork Bellies (1 kg.)	70	90	110	170	170	+ 89	+ 278
Fish/Ca Tre (1 kg.)	110	130	140	170	180	+ 38	+ 260
Nuoc Mam (jar)	50	80	85	85	85	+ 21	+ 70
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>145</u>	<u>147</u>	<u>157</u>	<u>160</u>	+ 16	+ 79
Of which:							
Charcoal (60 kg.)	440	500	500	550	550	+ 20	+ 112
Cigarettes (pack)	10	10	10	10	11	+ 10	+ 38
White Calico (meter)	27	32	36	40	39	+ 44	+ 77
Laundry Soap (1 kg.)	30	35	37	40	40	+ 18	+ 90

a/ Data are from USAID sources.b/ For all indexes, 1 January 1965 = 100.**SECRET**

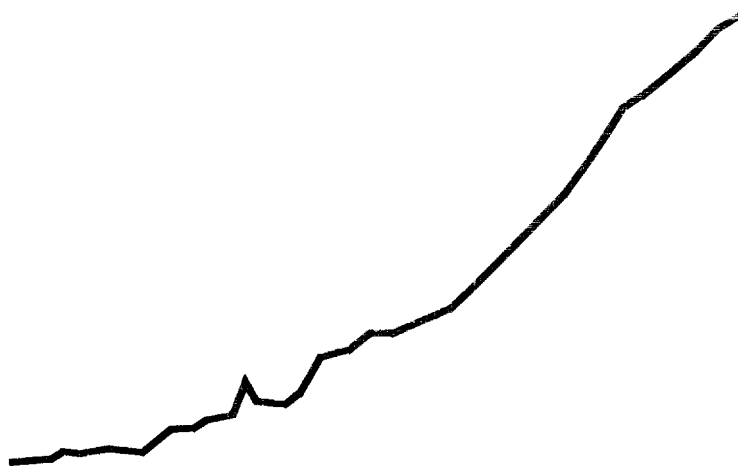
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**Cost of Living Index\*** (For Working-class Family in Saigon)  
JANUARY 1963 — MAY 1966

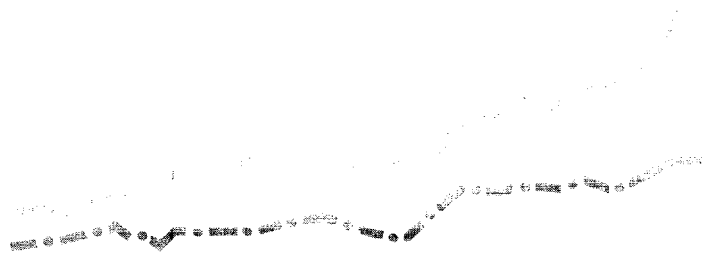


**Money Supply**  
JANUARY 1963 — JUNE 1966

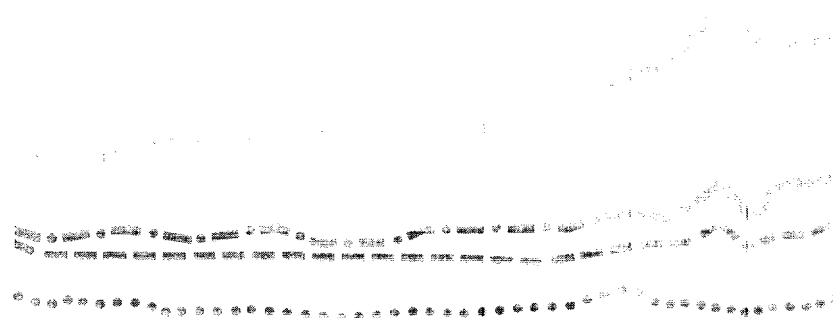


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### Monthly Free Market Gold and Currency Prices JANUARY 1964 – JUNE 1966



### Weekly Free Market Gold and Currency Prices 3 JANUARY 1966 – 18 JULY 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).

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