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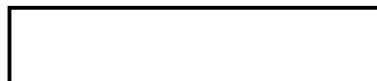
# INTELLIGENCE REPORT

## THE SITUATION IN SOUTH VIETNAM

### DIRECTORATE OF INTELLIGENCE

State Dept. review completed

USAID review completed



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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM  
(1 August - 7 August 1966)

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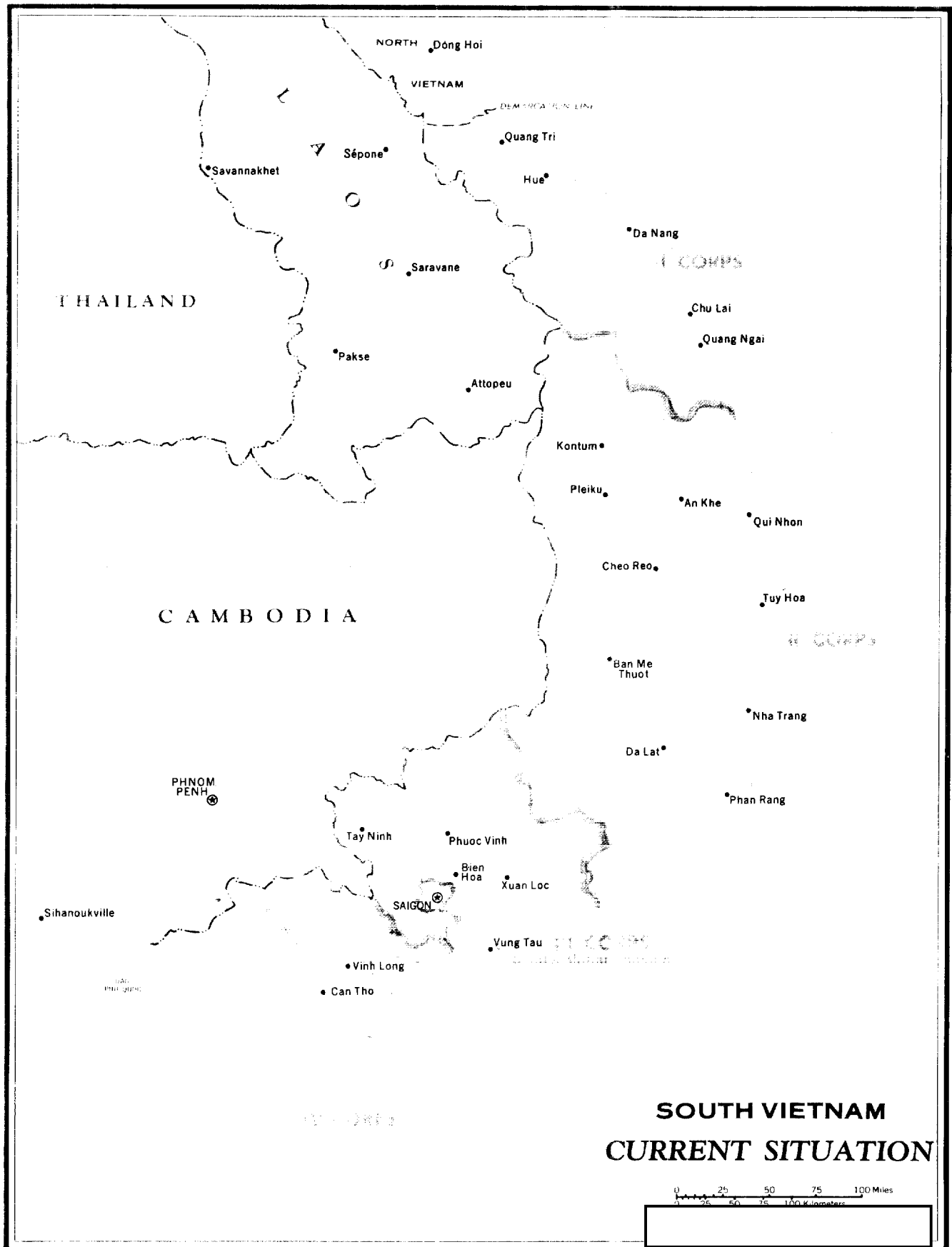
	<u>Section</u>
POLITICAL SITUATION	I
Premier Ky's retirement intentions; [redacted] [redacted] Election progress; Buddhist Institute developments.	
REVOLUTIONARY DEVELOPMENT	II
Quang Tri Province; Viet Cong defectors (Chieu Hoi).	
ECONOMIC SITUATION	III
Prices; Currency and gold; Pork situ- ation; Minister Thanh on the economic situation; Price controls; Labor prob- lems; Rubber plantations.	
ANNEX: Weekly Retail Prices in Saigon (table) Free Market Gold and Currency Prices (graphs) (Monthly and Weekly)	

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## I. POLITICAL DEVELOPMENTS

There are some signs that the military government is looking beyond the September constitutional assembly elections to concern itself with the form of the constitution and of a future government. Meanwhile, Premier Ky has busied himself with upcoming election developments and announcements of his political retirement next year and apparently plans no immediate action against controversial generals in the government. A Buddhist Institute challenge to the government to resolve in one way or another existing differences between the two has drawn no noticeable government response.

### Premier Ky's Retirement Intentions

1. Premier Ky on several occasions last week announced his intentions to retire from politics and to return to strictly military duties when an elected government is established sometime next year. Although Ky has previously expressed a desire to return to the air force, his remarks at this time may also have been intended to dispel any suspicions that Ky would attempt to cling to power as a result of the recently improved power position of the military government, and to foster the impression that the nature of the future elected government will represent a sharp break from past and present military regimes.

2. Ky's remarks, however, do not necessarily signal a future political withdrawal by the military establishment. Chief of State General Nguyen Van Thieu has been mentioned as a likely military candidate for the position of chief executive in the new government. In addition, former I Corps commander General Nguyen Chanh Thi, recently retired from the army by decision of the ruling generals, declared that he would be a candidate for the top post. Thi's announcement, made shortly after he arrived in the United States for a visit of several months, may cause new complications for military unity in the future.

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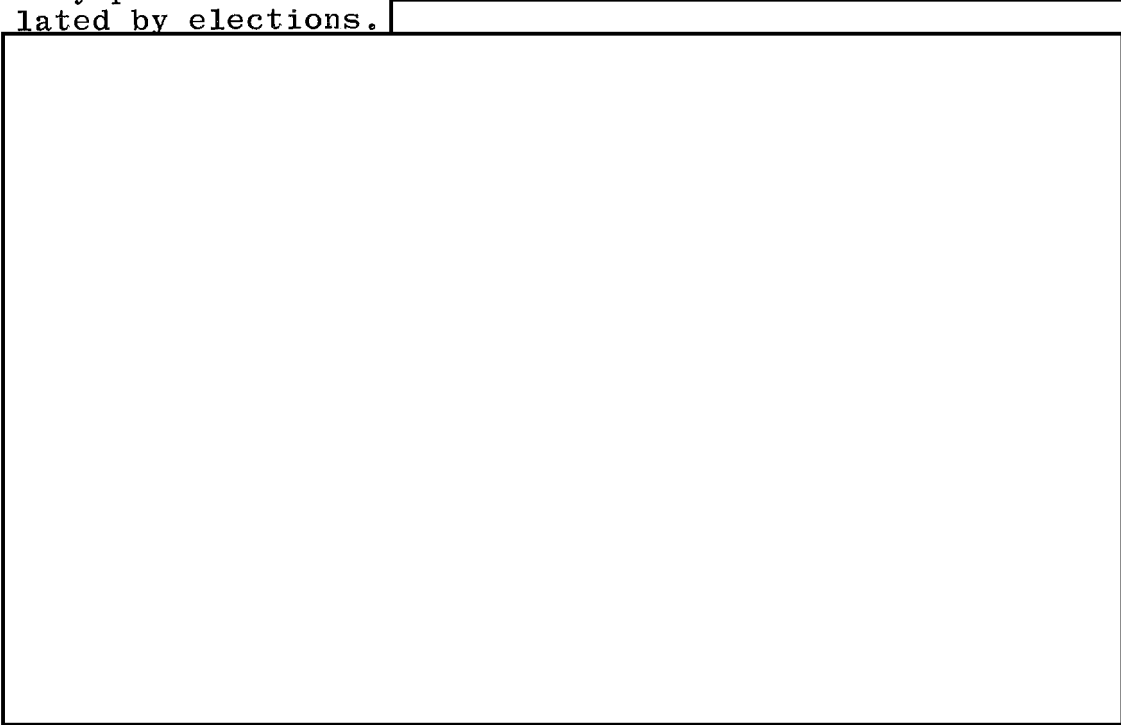
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3. As a further indication of military interest in shaping the political future, the government is also sending a six-man delegation, headed by security minister General Linh Quang Vien, to South Korea this week, presumably to examine techniques used successfully by the Koreans to translate military power into a broader civilian government regulated by elections.

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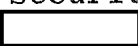


Election Progress

5. In an effort to maximize voter turn-out and to neutralize Viet Cong anti-election propaganda and plans to disrupt the election through terrorism and sabotage, the government held a three-day seminar in Saigon beginning on 1 August for province chiefs and other officials concerned with election organization, security, and publicity.

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 Premier Ky and other government ministers made a particular effort to stress the need for honest elections, including an injunction against moving major military units from one area to another in order to weigh the voting.



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6. According to preliminary figures presented at the seminar, more than 4,999,000 persons have been registered as voters thus far. The government estimated earlier that there would be a total of some 5,120,000 registered voters based on a June 1966 projection of the population. For last year's provincial and municipal council elections, about 4,600,000 persons registered to vote, with approximately 74 percent of the registrants actually voting.

#### Buddhist Institute Developments

7. Following a council meeting on 30 July, the Buddhist Institute issued an open letter which in effect presented the government with an "either-or" proposition. The letter challenged the government to declare the Buddhist "struggle" movement illegal, and to follow up with normal methods of prosecution, including the arrest and prosecution of such Buddhist leaders as Tri Quang and Thien Minh. Failing this, the letter demanded as an alternative the release of all Buddhist monks and nuns still under detention, and freedom of the press to make known Buddhist policy. The communique apparently made no reference to the Buddhists' position on the forthcoming elections, nor did it make any demand for the removal of Premier Ky or Chief of State Thieu. There was no report of any immediate government response.

8. Meanwhile, the US Embassy has reported that government restrictions on militant leader Tri Quang are increasing. On 3 August, police prevented Quang from leaving the Saigon clinic where he has been residing in order to attend a Buddhist Institute council meeting. Controls on visitors to Tri Quang, previously very strict, reportedly now have been tightened to the point where no one except medical personnel is allowed to see him.

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II. REVOLUTIONARY DEVELOPMENT

The outlook for progress in the revolutionary development program in northernmost Quang Tri Province is not particularly rosy. Although many of the problems that have beset rural development there in the past have been to some extent resolved, a continuing buildup of Viet Cong units since late 1965 and the recent infiltration of the 324B Infantry Division from North Vietnam complicate the prospects for an effective pacification scheme. Throughout South Vietnam, 261 persons defected from the Communists to the GVN during the week ending 29 July.

Quang Tri Province

1. By the first of June, the pacification effort in northernmost Quang Tri Province was officially estimated to be five months behind schedule. According to US provincial representatives, the program began deteriorating early this year when most provinces were feeling the impact of a positive re-emphasis on rural development. Since March, the inertia in Quang Tri has been due in large part to regional sympathy with the "struggle" movement that was manifested mostly in the two provinces immediately to the south. Prior to the appearance of the "struggle" movement, a provincial conflict of interest between the Catholic and Dai Viet Party province chief and the Buddhist-controlled Quang Tri provincial council apparently had a continuing deleterious effect on the implementation of the civilian programs.

2. Moreover, the lives of villagers in Quang Tri have been affected by the presence this year of more Viet Cong than at any other time in the past 12 years. An increase in enemy personnel began to make its presence felt around the beginning of the year in the mountainous northern and western sectors of the province near the Demilitarized Zone (DMZ). Many of these troops were reported to have come directly through the DMZ in small groups, but active infiltration by this route remained largely unconfirmed.

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The presence of hard core Communist units placed additional burdens on the implementation of the civilian programs, an experience typical of provinces with a high percentage of enemy full-time combat troops. The villagers' morale has also reportedly declined as a result of friendly air and artillery strikes in support of military operations, and because of increased Viet Cong taxation in insecure areas. Despite several ARVN military successes in February, a district capital was overrun that month, with 22 government defenders killed.

3. The political turbulence and the near-tripling of Communist forces in the province, since September 1965, have also had economic repercussions. Prices of basic subsistence items have risen sharply. The distribution of USAID commodities, such as cement, to rural villages has slowed to a near halt, first because of bottlenecks in moving supplies into the province, and secondarily because of enemy harassment of transportation corridors within the province.

4. The influx of defectors in Quang Tri under the Chieu Hoi program this year has been below that in other provinces where record numbers of Viet Cong personnel were turning themselves in. Only 45 Communists were registered at the local Chieu Hoi center during the seven months from November 1965 through May 1966; the average for each of the other provinces during that same period was 266. The poor Chieu Hoi performance in Quang Tri was probably due in part, however, to the relatively small number of enemy local hamlet militia and village guerrillas, the military personnel most likely to defect. The high percentage of North Vietnamese soldiers in main force units also decreases the likelihood of a high returnee rate in Quang Tri.

5. The performance of Quang Tri's pacification cadres has been below par, partly due to their ties among anti-Buddhist political groups, which makes them less acceptable to a population generally in sympathy with the Buddhist "struggle" movement. There was some indication also that the former province chief, who was removed in late 1965, tended to employ such cadres as a private security force rather than to use them as designed to operate

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in contested villages. Some cadre leaders also reportedly resigned when the "struggle" movement erupted, complaining that ineffectual provincial administrators were taking advantage of the turmoil to sit out the war for a while.

6. Cadre performance may become more satisfactory in the future, now that additional personnel have been received from recent extensive preparation at the national cadre training center. Even though total cadres have increased by nearly 500 percent to a present strength of about 1,600 personnel, they will probably encounter unusual difficulties in carrying out their specialized functions because of local insecurity. This has been the case in other provinces experiencing a rapid buildup of Communist hard core forces. The recent infiltration of the 324B North Vietnamese Division across the DMZ into the mountain foothills of the north-central section of the province may compound Quang Tri's security problems. Although the military mission of these additional Communist troops has been presently thwarted by the US Marine Operation HASTINGS, the people of Cam Lo District who felt the presence of both sides during the heavy fighting are unlikely to be spurred to greater "pacification" efforts than would have been the case a year ago.

#### Viet Cong Defectors (Chieu Hoi)

7. From 23 to 29 July, 261 Communists defected to the government under the "Open Arms" program; 171 of them were military personnel. Among the returnees were four platoon leaders and one North Vietnamese soldier. They returned by corps areas as follows:

I Corps	52
II Corps	90
III Corps	59
IV Corps	60

On 25 July, Colonel Pham Anh, previously chief of Long An Province, was appointed director of Chieu Hoi Affairs under the upgraded Ministry of Information and Chieu Hoi now headed by General Nguyen Bao

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Tri. US Mission officials expect Colonel Anh to inject new vigor into the program. They report that he has already launched a campaign to overcome the poor quality of past Chieu Hoi administrators, especially in the provinces, and to reemphasize the priority of the defector program within the general context of all GVN pacification programs.

8. Captured documents continue to reveal that the Viet Cong have been hurt by the Chieu Hoi response. As one example of their retaliation, a small Communist unit attacked the Chieu Hoi center in Go Cong province on 25 July, killing one returnee and wounding several others and members of their families.

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### III. ECONOMIC SITUATION

Signs of economic improvement continued. In the week ending 1 August, retail prices in Saigon were generally steady or slightly lower, and, with few exceptions, the prices of imported commodities also declined. In the Saigon free market the price of gold fell to the lowest level since mid-May and the price of dollars declined to early June levels. Although the arrival of hogs in Saigon still is less than normal Saigon consumption, the number of arrivals has increased.

Labor continues to be a problem, however, and pressure for substantial wage increases is building up. Another unfavorable development is the imminent closure of six important rubber plantations because of transportation difficulties.

#### Prices

1. Price movements continue to be encouraging. In the week ending 1 August retail prices in Saigon were generally steady or slightly lower. Although the USAID retail price index for all items showed a gain of 3 percent above the previous week, food prices moved down 1 percent. The prices of beef, chicken, and pork all declined as pork supplies improved somewhat. Pork bellies were being sold at 140 piasters per kilogram compared with 150 piasters during the previous two weeks. The price of the cheapest type of rice continued to increase, but the price of the most expensive variety declined and average grade rice held steady. Although the prices of most nonfood items were stable, the nonfood index increased because of a sharp rise in the price of aspirin which weighs rather heavily in the index. (A table of retail prices in Saigon is included in the annex.)

2. Among imported commodities, the prices of milk, sugar, and flour increased moderately but the prices of almost all other imported commodities declined, continuing the trend begun two weeks ago.

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The prices of iron and steel mill products, which had risen sharply since devaluation, were well below those prevailing during the past three weeks.

### Currency and Gold

3. Developments in the Saigon free market are equally encouraging. On 1 August the price of gold was 265 piasters per dollar--24 piasters below the price on 25 July and the lowest level since the middle of May. Dollars fell by 19 piasters to 185 piasters per dollar which is roughly the price that prevailed during the first week of June. The price of MPC (scrip), on the other hand, rose 7 piasters to 130 piasters per dollar for reasons that are not yet apparent. (Graphs on monthly and weekly free market gold and currency prices are included in the annex.)

### Pork Situation

4. A total of 4,511 hogs arrived at the Saigon slaughterhouse from the provinces during the first week following the 16 July increase in the official price for hogs from 5,800 to 7,000 piasters per 100 kilograms. Although this level of arrivals was an improvement over the 3,600 to 3,700 weekly average for the preceding three weeks, it still was less than half the normal consumption of the Saigon area. At the beginning of the week of 25 July arrivals of hogs in Saigon stopped, reportedly because of Viet Cong destruction of a bridge linking the delta to Saigon. Deliveries of hogs recovered later in the week.

### Minister Thanh on the Economic Situation

5. At a press conference held by Premier Ky on 27 July, Minister of Economy Thanh pointed out that many elements of economic stability had emerged during recent weeks. Among those cited by Thanh were: a halt in the increase in the cost of living; a reduction in the money supply; a stabilization and even slight decline in the price of gold; a reduction in congestion at the Saigon port; and the issuance of \$100 million worth of import licenses since the 18 June devaluation.

6. According to the US Embassy, the statistics cited by Thanh to support these claims were close to

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the actual situation with the exception of the figures on rice shipments. Thanh claimed that shipments of rice from the delta to Saigon in 1966 were equal to those of 1965. It appears, however, that he was counting only shipments of milled rice and not of paddy and brokens. When these categories are included, total shipments on a rice-equivalent basis during the first half of 1966 amounted to 194,000 tons, or 25 percent below deliveries during the comparable period of 1965.

7. Thanh's speech undoubtedly was intended to allay public apprehension which has mounted since devaluation because of rapidly increasing prices. According to the US Embassy, Thanh's speech appears to have had some success in achieving the desired effect.

#### Price Controls

8. Minister of Economy Thanh believes that present price control activity by the police may frighten merchants into withdrawing goods from the market. Thanh has stated that this activity was undertaken without consultation with the Ministry of Economy and that although Premier Ky seems to agree that price checks by the police should be stopped, no action has been taken. The embassy reports that no adverse reaction to the police activity is yet visible.

#### Labor Problems

9. There is evidence of continued discontent among workers engaged in vital construction projects in the Saigon area. A committee representing approximately 3,000 workers at Bien Hoa Airfield has written to RMK-BRJ, the American construction consortium in South Vietnam, demanding that the company honor an alleged oral promise of a wage increase larger than that recently granted RMK workers. The letter asked for an answer by 28 July, but contained no specific threat of a strike. A Vietnamese labor official reports, however, that worker sentiment is to walk off the job if demands are not met. A strike by the Bien Hoa workers could spread to other sites in Saigon. Management's position is that present US-GVN policy decisions on wages preclude granting further wage increases.

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10. The GVN National Labor Advisory Board, which has been dormant for two years, has been revived by Secretary of Labor Hung and will begin holding deliberation on wages, particularly on raising the minimum wage in the Saigon area. In a public speech on 29 July Secretary Hung advised management to readjust wages to the cost of living within the framework of the following guidelines: (a) lowest paid workers should get priority consideration, (b) increases must not jeopardize a firm's financial condition, and (c) increases should be moderate in order to prevent a wage-price spiral.

11. Meanwhile, President Buu of the CVT, South Vietnam's leading labor union, has announced that the CVT will ask for general wage increases. Buu recognizes, however, the importance of wage restraint at this time and is not pressing for immediate action. Instead, he has instructed CVT regional units to make a study of local living costs in preparation for bargaining.

#### Rubber Plantations

12. Unless Route 13 is reopened, the French-owned plantations belonging to the Societe des Caoutchoucs d'Extreme Orient (CEXO) and Plantations des Terres Rouges in Binh Long Province will be closed, according to a recent report. Plantation stocks of essential commodities, such as fuel and rice, are almost depleted, and although the two companies reportedly have sufficient rice supplies in Saigon, they are unable to transport the rice to the plantations. Moreover, large quantities of rubber ready for shipment to Saigon cannot be moved because of the closure of Route 13. An allied road-security operation ended on 5 August, with results still unreported; previous clearing efforts have provided only temporary alleviation.

13. These two companies operate six plantations in Binh Long Province. It is estimated that almost two fifths of the rubber produced in South Vietnam comes from these six plantations, which in 1964 employed about 10,000 permanent workers.

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ANNEX

Weekly Retail Prices in Saigon a/  
(In Piasters)

	3 Jan 1966	5 Jul 1966	11 Jul 1966	18 Jul 1966	25 Jul 1966	Percent Change from Mo. Ago	Percent Change from Yr. Ago
Index for all Items <u>b/</u>	<u>160</u>	<u>217</u>	<u>220</u>	<u>209</u>	<u>217</u>	<u>+ 12</u>	<u>+ 83</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>234</u>	<u>237</u>	<u>220</u>	<u>230</u>	<u>+ 11</u>	<u>+ 85</u>
Of which:							
Rice/Soc Nau (100 kg.)	800	1,400	1,450	1,500	1,500	+ 11	+ 67
Pork Bellies (1 kg.)	70	170	170	150	150	+ 36	+150
Fish/Ca Tre (1 kg.)	110	170	180	140	160	+ 14	+ 88
Nuoc Mam (jar)	50	85	85	85	85	0	+ 55
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>157</u>	<u>160</u>	<u>172</u>	<u>172</u>	<u>+ 15</u>	<u>+ 77</u>
Of which:							
Charcoal (60 kg.)	440	550	550	600	600	+ 20	+100
Cigarettes (pack)	10	10	11	12	12	+ 20	+ 33
White Calico (meter)	27	40	39	40	40	+ 11	+ 74
Laundry Soap (1 kg.)	30	40	40	45	44	+ 19	+109

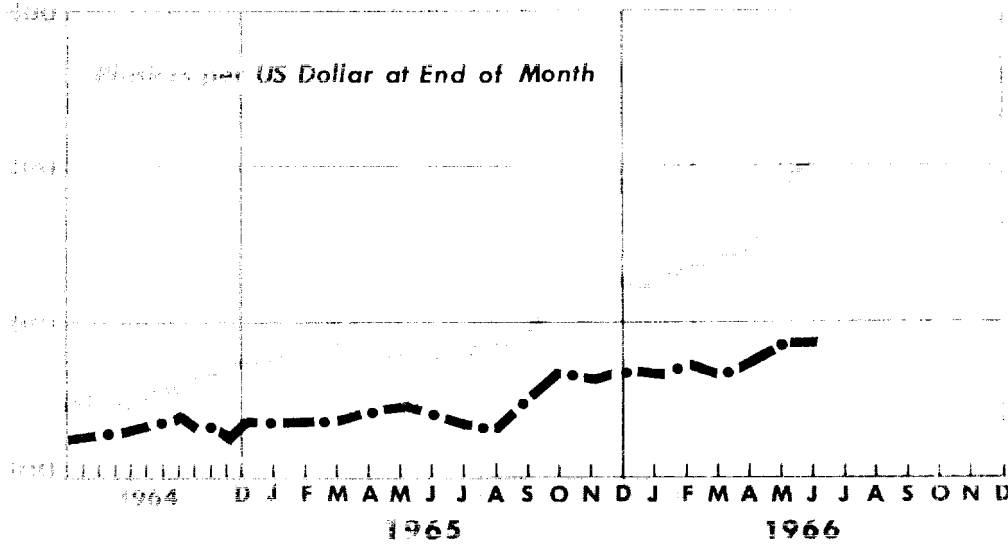
a/ Data are from USAID sources.b/ For all indexes, 1 January 1965 = 100.**SECRET**

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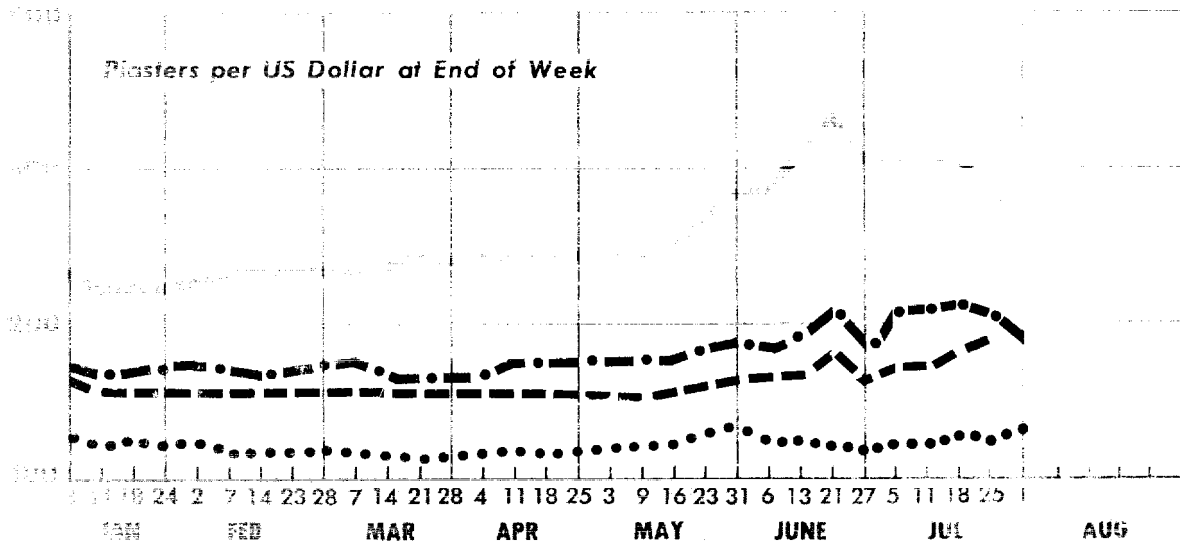


# SOUTH VIETNAM ECONOMIC INDICATORS

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



## Weekly Free Market Gold and Currency Prices 3 JANUARY 1966 – 1 AUGUST 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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