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17 October 1966

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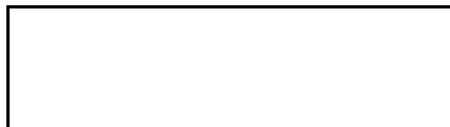
INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

DIRECTORATE OF INTELLIGENCE

State Dept. review completed

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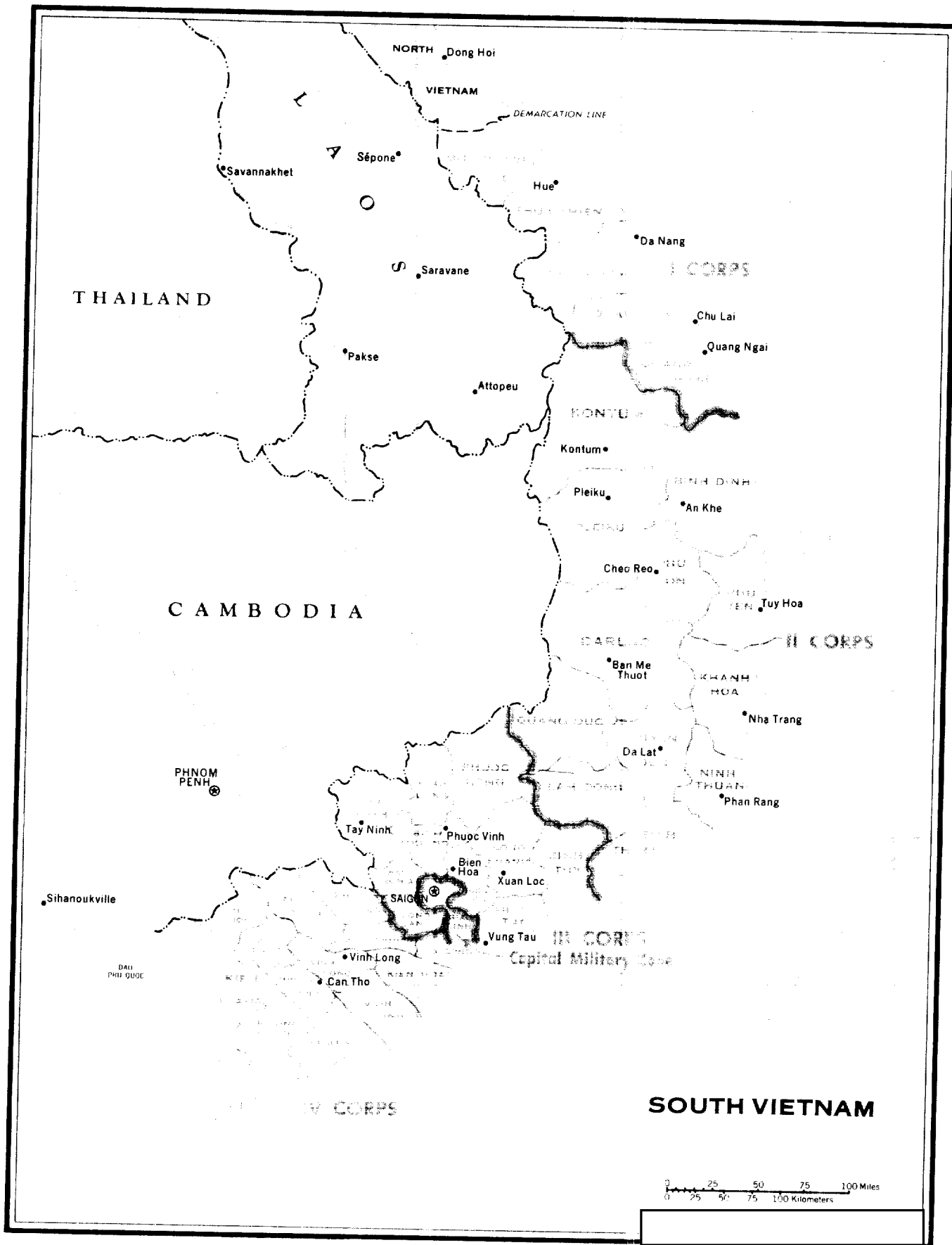
CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(10 October - 16 October 1966)

C O N T E N T S

	<u>Section</u>
POLITICAL SITUATION	I
Cabinet crisis; Constituent Assembly developments; Buddhist Institute Council resignation anticipated.	
REVOLUTIONARY DEVELOPMENT	II
Revolutionary Development Cadres; More Viet Cong reactions to the Chieu Hoi program; Viet Cong defectors (Chieu Hoi); Progress in the Revolutionary Development program; Status of secured hamlets and population as of 31 August 1966 (tables).	
ECONOMIC SITUATION	III
Prices; Currency and gold; Pork situation; Economic stabilization for 1967; GVN foreign exchange reserves; Pay raise for merchant seamen; New plan to relieve port congestion.	
ANNEX: Weekly Retail Prices in Saigon (table)	
South Vietnam Economic Indicators (graphs)	
-Monthly Free Market Gold and Currency Prices	
-Weekly Free Market Gold and Currency Prices	

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I. POLITICAL SITUATION

Premier Ky's cabinet problems have apparently eased, but are by no means resolved. Six southern cabinet ministers who have brought on the crisis have agreed to postpone any further action until after the first week in November, but remain dissatisfied with concessions offered by Ky thus far.

The constituent assembly, reviewing the work of its subcommittees, has run into difficulty over one provision offered by its rules committee. The election of assembly officers, which is dependent upon completion of a set of procedural rules, may thus be postponed further.

The Council of the Buddhist Institute has agreed to resign sometime prior to the convoking of a National Buddhist Congress, scheduled for 21 October.

Cabinet Crisis

1. Premier Ky's cabinet problems, recently intensified by the proffered resignations of six southern cabinet ministers, have apparently eased for the time being, but are by no means resolved. In recent discussions, the ministers did not find concessions offered by Premier Ky fully acceptable, but agreed--providing that they were not provoked--not to force their resignations or take other action until after the Manila Conference and the US congressional elections in November.

2. The controversy, basically rooted in north-south regional animosities and sharpened by civilian-military differences, stemmed specifically from the temporary arrest of a southern Health Ministry official on 3 October by police director Loan, a northerner. The immediate indignation of southern ministers was temporarily assuaged by the resignation of Health Minister Nguyen Ba Kha, a northerner accused of instigating the arrest.

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3. However, the issue flared again on 6 October when a Vietnamese newspaper which generally expresses the views of northerners portrayed southerners in an unfavorable light. Six southern ministers, including Deputy Premier Nguyen Luu Vien, subsequently submitted a joint letter of resignation, expressing concern over the possible return of police state methods and criticizing Premier Ky for failing to consult more often with his cabinet.

4. Thus far, Premier Ky has suspended the newspaper involved, and has appointed a southern Catholic as the new health minister. He remains unwilling, however, to censure or reduce the powers of General Loan, whom the southerners are apparently determined to force out of the government. Loan, recently promoted by Ky following his major role in quelling the "struggle" movement this spring, is reported to be one leader of a group of field grade officers known as the "baby Turks." He and some of his close associates apparently have been exerting various types of pressure on southerners in addition to the one temporary arrest. Loan has always been closely linked with Ky, but is capable of independent action.

5. The controversy is also particularly unfortunate because it pits Premier Ky and other northern military officers against southern civilians, the very group whose cooperation Ky has recently been trying to enlist. Relations between the dominant northern military leaders, who have a very small population base in South Vietnam, and the few southern military leaders have been precarious for some time. In view of the residue of resentment toward the Ky government in central Vietnam following the "struggle" movement this spring, Premier Ky has attempted to form an effective political alliance with southern civilian political elements by increasing their influence in the cabinet. A break with these southerners could thus pose a fundamental political problem for the northern military leadership.

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Constituent Assembly Developments

6. During the week, the constituent assembly continued to review the progress of its subcommittees on credentials and rules. The validation of an additional 14 deputies brought the total of officially certified deputies to 108. The US Embassy has commented that of those remaining five or six may be unseated by the assembly or the courts, who are also ruling on protests of election irregularities.

7. The rules committee, however, has had less success in gaining the assembly's approval of its work. Assembly debate became particularly heated over one provision which declared that the purpose of the assembly was to draft a constitution. The assembly session on 13 October ended chaotically when a vote dealing with this issue was obviously miscounted by the acting secretary general. With acceptance of the assembly's procedural rules bogged down at least temporarily, the election of assembly officers apparently will be put off accordingly.

Buddhist Institute Council Resignation Anticipated

8. It appears that the Council of the Buddhist Institute has decided to resign as a prelude to a National Buddhist Congress believed to be scheduled for 21 October. The decision for the council to resign was [REDACTED] at the initiative of the militant Thich Tri Quang during a meeting of the Institute on 11 October. Thich Tam Chau, also present at the meeting, was reported to have agreed both to demonstrate his good faith and also to make it more difficult for the militant element of the Institute to challenge the validity of the National Congress.

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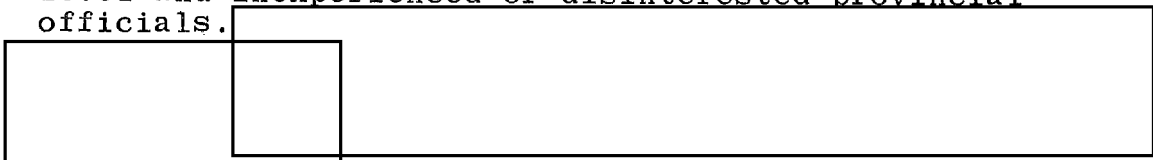
II. REVOLUTIONARY DEVELOPMENT

Progress reports concerning the first class of Revolutionary Development Cadres from the Training Center at Vung Tau at the end of three months in the field indicate that their performance has generally been effective, but some adjustments in the over-all program are in order. Continued Viet Cong efforts to counter the government Chieu Hoi program point up their concern with desertions from their ranks. Viet Cong defectors totaled 377 during the week of 6-12 October, the second consecutive week in which the count has gained. During the month of August, there was a net gain of 67 secured hamlets throughout South Vietnam, 26 provinces registered over-all gains, nine showed no change in the security situation, while in eight provinces the security situation deteriorated somewhat.

Revolutionary Development Cadres (RDC)

1. The first class of RDC's graduated from the National Training Center of Vung Tau had, as of the end of August, been in the provinces for three months. Limited evaluation regarding their effectiveness and problems encountered during this period are now available.

2. The program, in general, seems to be working well in 26 of the 43 provinces. In a majority of the provinces where the program has been lagging and ineffective the principal causes are attributed to poor RDC leadership at the staff or operational level and inexperienced or disinterested provincial officials.



3. The government has taken several steps to solve problems associated with the RDC's. During

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August, Minister of Revolutionary Development, Major General Nguyen Duc Thang, conducted a series of conferences in each of the four Corps areas. These conferences were also addressed by Corps commanders and attended by nearly all cadre group leaders who showed great interest and enthusiasm. Similar conferences were held for team leaders and staff elements at the provincial level; in some instances these conferences were attended by province chiefs. The general theme of these conferences, as exemplified in the Corps commanders' speeches, was that the RD effort is more important than military operations, and the Vietnamese must take charge of this program for themselves. The attitude of these military commanders for what is essentially a civilian RD program is promising.

4. Additional conferences have been called for some 900 province officials and RD provincial group leaders to be held at the Vung Tau Training Center in an effort to overcome the disinterest formed among this level of officials for the RD effort. These seminars will also work out RD leadership requirements for 1967 and appropriate assignments for RDC groups, as well as attempt to improve the over-all RD program based on three months experience with cadres in the field.

5. A summary of RD cadre programs by Corps follows:

I Corps Tactical Zone

6. RDC programs through August had not been notably effective, but some hope was held out for future operations because of a greater interest in the effort on the part of province officials in four of the five provinces. This resurgence of interest is held to be directly attributable in part to General Thang's insistence on the importance of this program. A direct result of this high-level interest is that poorly performing RDC leaders are now being transferred to other duties and administrative staffs are being reorganized or replaced with cadre elements of proven ability.

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II Corps Tactical Zone

7. Progress in this Corps is reported, over-all, to be satisfactory, although some provinces are reporting problems of inadequate leadership at provincial and district levels.

III Corps Tactical Zone

8. Six of 11 provinces in this Corps report satisfactory performances by RDCs. In four of the five provinces where RDC performance has not been satisfactory, corrective measures have been taken by provincial officials. In some, cadres have been released; in others, they have been warned that if they do not perform as expected they will be released. Sometime this month, 602 RDC group leaders and administrative RDC chiefs will attend a leadership course at Vung Tau. It is believed that these measures, all of which are to be monitored by General Thang, will tighten up the RD effort throughout the Corps.

IV Corps Tactical Zone

9. Progress in the RD effort was reported in 12 of the Corps' 15 provinces. In this Corps, problems of leadership and discipline of the cadres, as well as premature deployment of RDC personnel to meet quotas, were evident. Increased interest by provincial officials in the programs may resolve these present problems. Again, it was the direct interest of Saigon, as expressed by the presence of General Thang, which moved provincial officials off dead center insofar as the Revolutionary Development Program is concerned.

More Viet Cong Reactions to the Chieu Hoi Program

10. Two recently captured documents from Tay Ninh Province point up the concern with which the Viet Cong are viewing the stepped-up Chieu Hoi effort of the GVN. One document captured in mid-September analyzes the causes of defection and suggests corrective measures to be taken. Major factors which cause the Communist soldier to desert are: personal indignities, fear of combat and death, homesickness, and enemy inducements. Additionally, the Viet Cong feel that their

II-3

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own management, leadership, and indoctrination practices contribute to defections. The remedies suggested in this document include: daily indoctrination sessions for cadre and soldiers, as well as for the families of troops living in GVN-controlled areas. The elimination of "traitors" from Viet Cong agencies and units was also cited as a goal. This document was issued by the Current Affairs section of the Tay Ninh Province Committee.

11. The second document, originating with the Tay Ninh Province Military Proselyting Section, indicated that a total of 110,900 piasters had been given in cash awards to RVNAF deserters who had turned in their weapons to Viet Cong officials. The cash award table used follows:

Machine gun or automatic rifle	2,000 piasters
Carbine or sub-machine gun	1,500 piasters
Pistol	800 piasters

Unfortunately, this document does not indicate the time frame over which the funds were expended, which would be a good indicator by which to gauge the success of their program. Nevertheless, the total sum expended is considerable and gives some indication of the extent to which arms selling is indulged in by the government forces.

Viet Cong Defectors (Chieu Hoi)

12. The number of returnees to the side of the government for the week 6-12 October, according to reports received from 37 provinces, totaled 377, an increase over the previous week's total of 319. The breakdown of returnees by Corps areas follows:

I Corps	36
II Corps	99
III Corps	95
IV Corps	147
	<u>377</u> (241 military)

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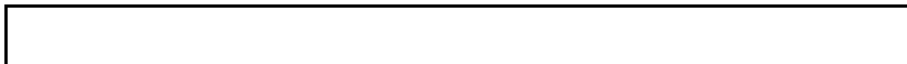
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Defectors in 1966 through 12 October total 13,829 with the daily average now standing at 48.5.

Progress in the Revolutionary Development Program

13. A country-wide increase of 67 secured hamlets, 0.4 percent secured population, and 0.1 percent secured area was recorded during August. The government now controls 4,155 secured hamlets, 55 percent of the population, and holds 11.5 percent of the land. Net progress was noted in 26 of the 43 provinces and two of the autonomous cities, while nine provinces and one autonomous city reported no change in the security situation. Over-all regression occurred in eight provinces (Quang Tri, Kontum, Pleiku, Ninh Thuan, Phu Yen, Quang Duc, Kien Phong, and Kien Giang). In eight of these provinces where regression occurred, eight hamlets were downgraded to undergoing securing, three to undergoing clearing and 24 reverted to Viet Cong control. (See charts on the following pages for a breakdown by Corps of progress through August.)

II-5



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Status of Secured Hamlets and Population
As Of 31 August 1966 1/

National Priority Areas (NPA)

	<u>HAMLETS</u>				<u>POPULATIONS (THOUSANDS)</u>			
	<u>Aug</u>	<u>CY66</u>	<u>CY66 Goals 4/</u>	<u>Aggregate</u>	<u>Aug</u>	<u>CY66</u>	<u>CY66 Goals 4/</u>	<u>Aggregate</u>
I Corps								
Gains	1	5			.8	.8		
Loss	<u>0</u>	<u>0</u>			<u>0</u>	<u>27.2</u>		
Net	1	5	38	38	.8	-26.4	54.5	230.5
II Corps								
Gains	5	35			10.3	43.7		
Loss	<u>0</u>	<u>0</u>			<u>0</u>	<u>0</u>		
Net	5	35	107	104	10.3	43.7	107.2	198.5
III Corps								
Gains	22	45			34.6	115.1		
Loss	<u>0</u>	<u>31</u>			<u>0</u>	<u>46.3</u>		
Net	22	14	297	544	34.6	68.8	404.7	2,729.5
IV Corps								
Gains	0	47			0	30.3		
Loss	<u>0</u>	<u>47</u>			<u>0</u>	<u>0</u>		
Net	0	0	91	254	0	30.3	137.3	467.1
TOTAL								
Gains	28	132			45.7	189.9		
Loss	<u>0</u>	<u>78</u>			<u>0</u>	<u>73.5</u>		
Net	28	54	533	940 <u>2/</u>	45.7	116.4	703.7	3,625.6 <u>3/</u>

NOTE: 1/ Heretofore, secured hamlets and population data reflected only incremental progress and did not reflect regressions which occurred during CY66. This report and future reports will reflect Corps and country-wide net status.

2/ Total Hamlets in NPA--2,726.

3/ Total Population in NPA--5,648,500.

4/ Goals are determined by GVN. Other figures are US statistics.

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	<u>HAMLETS</u>				<u>POPULATION (THOUSANDS)</u>			
	<u>Aug</u>	<u>CY66</u>	<u>CY66 Goals (4)</u>	<u>Aggre- gate</u>	<u>Aug</u>	<u>CY66</u>	<u>CY66 Goals (4)</u>	<u>Aggre- gate</u>
I Corps								
Gains	2	28			11.0	40.8		
Loss	3	-27			4.8	25.4		
Net	<u>-1</u>	<u>1</u>	211	413	<u>6.2</u>	<u>15.4</u>	229.9	696.5
II Corps								
Gains	28	174			23.9	201.1		
Loss	21	184			22.1	161.1		
Net	<u>7</u>	<u>-10</u>	409	794	<u>1.8</u>	<u>40.0</u>	375.3	905.3
III Corps								
Gains	8	91			5.0	119.9		
Loss	0	0			0	6.1		
Net	<u>8</u>	<u>91</u>	187	327	<u>5.0</u>	<u>113.8</u>	176.0	462.9
IV Corps								
Gains	25	192			39.1	314.3		
Loss	0	76			0	25.3		
Net	<u>25</u>	<u>116</u>	517	1681	<u>39.1</u>	<u>289.0</u>	559.9	2608.5
TOTAL								
Gains	63	485			79.0	676.1		
Loss	24	287			26.9	217.9		
Net	<u>39</u>	<u>198</u>	1324	3215 ⁽²⁾	<u>52.1</u>	<u>458.2</u>	1341.1	4673.2 ⁽³⁾

- NOTE: (1) See note 1 on II-6 chart.
 (2) Total non-NPA hamlets--8723.
 (3) Total non-NPA population--9,415,000.
 (4) Goals are determined by GVN. Other figures are US statistics.

II-7

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III. ECONOMIC SITUATION

Retail prices in Saigon declined for the fourth consecutive week, but rice prices continued to rise. On 10 October, the USAID retail price index was at its lowest level since 27 June. Prices, as measured by this index, were 17 percent above the level prevailing just prior to the 18 June devaluation. Prices of imported commodities also declined in the week ending 10 October and gold and currency prices were essentially unchanged.

The US and GVN signed a joint memorandum of understanding which will govern a common program of economic stabilization for 1967. The US and GVN also discussed measures to make use of growing GVN foreign exchange reserves. The US Embassy in Saigon has drawn up a plan, which has Premier Ky's general approval, to speed the flow of goods through warehouses at the Saigon port. Following a limited strike and a threat of mass resignation, approximately 1,000 Vietnamese merchant seamen recently received an average wage increase of 25 percent.

Prices

1. Price movements in Saigon continue to be generally favorable. The over-all USAID retail price index declined two percent in the week ending 10 October because of a three-percent decline in the food index; the nonfood index moved up one percent. Lower food prices resulted primarily from a decline in the price of fish. Pork and vegetables held steady. Rice moved up for the fourth consecutive week because of hoarding in anticipation of shortages resulting from the Mekong floods. Rice prices are now approaching their 1966 highs. The slight rise in nonfood prices stemmed from increases in the prices of firewood and laundry soap. All other nonfood items sampled held steady. (A table of weekly retail prices in Saigon is included in the Annex.)

III-1

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2. The prices of most imported commodities were generally steady or lower. Slight increases, however, were recorded by rayon yarn, newsprint, and some chemical products. The USAID index for selected US-financed imports (6 July 1965 = 100) stood at 173 on 11 October compared with 178 a week earlier.

Currency and Gold

3. Gold and currency price movements on the Saigon free market also continue to be encouraging. On 10 October the price of gold was unchanged at 244 piasters per dollar. Dollars moved up 2 piasters to 171 and MPC (scrip) rose 1 piaster to 117. (Graphics on monthly and weekly free market gold and currency prices are included in the Annex.)

Pork Situation

4. Sales of frozen pork imported by the GVN were resumed during the week of 3 October following a week of slaughtering live hogs. The amount of frozen pork disposed of averaged about 55 tons daily, or roughly two-thirds of Saigon's normal consumption. Evidently, the remaining third of Saigon's requirements was met by illegal slaughter of live hogs. The GVN had originally planned to continue sales of frozen pork during the week of 10 October in order to clear the ship holding the remainder of the original 1,500-ton shipment. By 8 October, however, a backlog of 2,200 live hogs had accumulated in the Saigon slaughterhouse. Suppliers have approached Saigon authorities to permit slaughtering during the week of 10 October, but the outcome of the request is not yet known.

Economic Stabilization for 1967

5. Representatives of the US and GVN, meeting in Washington, have agreed that the June 1966 stabilization program has achieved notable success in improving the economic situation in South Vietnam. They also agreed that it is important to take measures now to

III-2

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preserve reasonable price stability in 1967 in order that the joint US-GVN effort to strengthen the economy of South Vietnam can move forward without creating renewed inflationary pressures. As a result, the US and GVN on 6 October signed a memorandum of understanding which calls upon the two governments to work together on a common program of economic stabilization, including the establishment of definite quantitative targets, for 1967.

6. According to the memorandum, every effort will be made in drawing up the program to limit the inflationary gap in 1967 to the lowest level possible; this gap appears now to be about 10 billion piasters. In order to reach this goal, both sides have agreed to work on the following problems: port congestion, liberation and simplification of the import system in order to facilitate the import of goods necessary to maintain price stability, implementation of effective budgetary controls over GVN and US expenditures in Vietnam, enlargement of anti-inflationary resources through improvement of customs and tax collection and savings, maintenance of wage and credit control, increased domestic agricultural and industrial output, and improvement in the use of existing productive capacity. To assure an adequate flow of goods into the economy, the US agreed to continue to finance imports to supplement Vietnamese resources.

7. In order to make the most out of the advantages which result from the stabilization program, it was also agreed to consider postwar reconstruction at this time. Consequently, the memorandum provides that both governments will undertake the following measures: immediate implementation of those economic aid projects designed to maintain present economic stability and to establish the foundations for future development, and creation of a joint study team to draw up a social and economic reconstruction plan for postwar Vietnam and to study measures for the future conversion of military bases and port installations to social and economic development uses.

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8. GVN foreign exchange reserves have increased steadily since the US military buildup in South Vietnam. Swelled by the expenditures of US and foreign troops and construction workers, expenditures for US construction, and military piaster purchases, these reserves amounted to \$264 million in July 1966 compared with only \$118 million a year earlier. Moreover, it is estimated that by the end of 1966, these reserves will amount to \$290 or \$300 million. The US now feels that these reserves should be reduced to a level of roughly \$200 million in order to prevent accumulation of GVN reserves at the indirect expense of US aid, relieve pressure on very tight AID funds, and apply a larger proportion of aid to lasting development, while at the same time protecting the GVN from political attack or anxiety about future foreign exchange availabilities.

9. This problem was discussed by US and GVN officials at the recent economic meetings in Washington. Although a definite agreement on GVN reserves was set aside temporarily, the following measures were considered: (a) a transfer of certain commercial import program (CIP) categories to the GVN import list, (b) an assurance to the GVN that to the extent CIP financing in FY 1967 as measured by actual licensing falls below the level of 1966 as a result of GVN import financing, the balance thus saved by AID will be earmarked for development projects, and (c) purchases by the National Bank of Vietnam of US Treasury bonds of more than one year maturity.

Pay Raise for Merchant Seamen

10. Following a limited strike and a threat of mass resignation, approximately 1,000 Vietnamese merchant seamen--members of the CVT-affiliated Sea Transport Workers' Federation--recently received an average wage increase of 25 percent. This wage hike, which is retroactive to 1 September, was the first granted to seamen since October 1965. The GVN Ministers of Labor, and Transport and Communications were instrumental in limiting the raise to 25 percent, about half of the

III-4

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seamen's original demands. A corresponding demand by shipowners for an increase in freight rates reportedly was denied on the grounds that it would be inflationary.

11. Since the devaluation in mid-June, several other groups have received wage increases. These increases have included the 20 to 30 percent raise for GVN employees, a 7.5 percent increase for US Mission employees, and a 17.5 percent raise for Vietnamese construction workers employed by RMK-BRJ, the US construction consortium in South Vietnam.

New Plan to Relieve Port Congestion

12. The US Embassy in Saigon has drawn up a plan to speed the flow of goods through the warehouses at the port of Saigon. In general, the plan calls for penalty storage rates on goods stored longer than 15 days, issuance of a new decree delegating full authority to the Port Director (General Lan) to control the cargo in the warehouses, and the removal of cargo from the port warehouses by the Vietnamese Armed Forces after 30 days at the discretion of the Port Director. The Vietnamese Armed Forces could either use the goods themselves or auction them to raise welfare funds for military dependents. Maximum use of US troops will be made in determining warehouse procedures, verifying the arrival date, quantity and location of goods, and helping the GVN to select the cargo to be confiscated.

13. General Westmoreland presented this program to Premier Ky who gave his general approval to the proposals. The critical next step is to get Ky's signature on a decree which would empower the Port Director to control the cargo in the port. Such a decree would give the Port Director authority to verify the arrival and location of cargo, publicly post warehouse inventories certified by GVN and US officials, notify importers, and select cargo for confiscation after 30 days.

14. Meanwhile, the embassy is working on measures to simplify customs procedures and to bring the commercial banks into the picture, since the banks have a good deal to lose if the goods are confiscated. The

III-5

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embassy believes that once the import community understands Premier Ky's intentions to clear out the warehouses with US help, the importers will start moving their goods. It is also possible that the banks will bring pressure on the importers once the banks know when the goods arrived and where they are located.

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ANNEX

TABLE

Weekly Retail Prices in Saigon a/

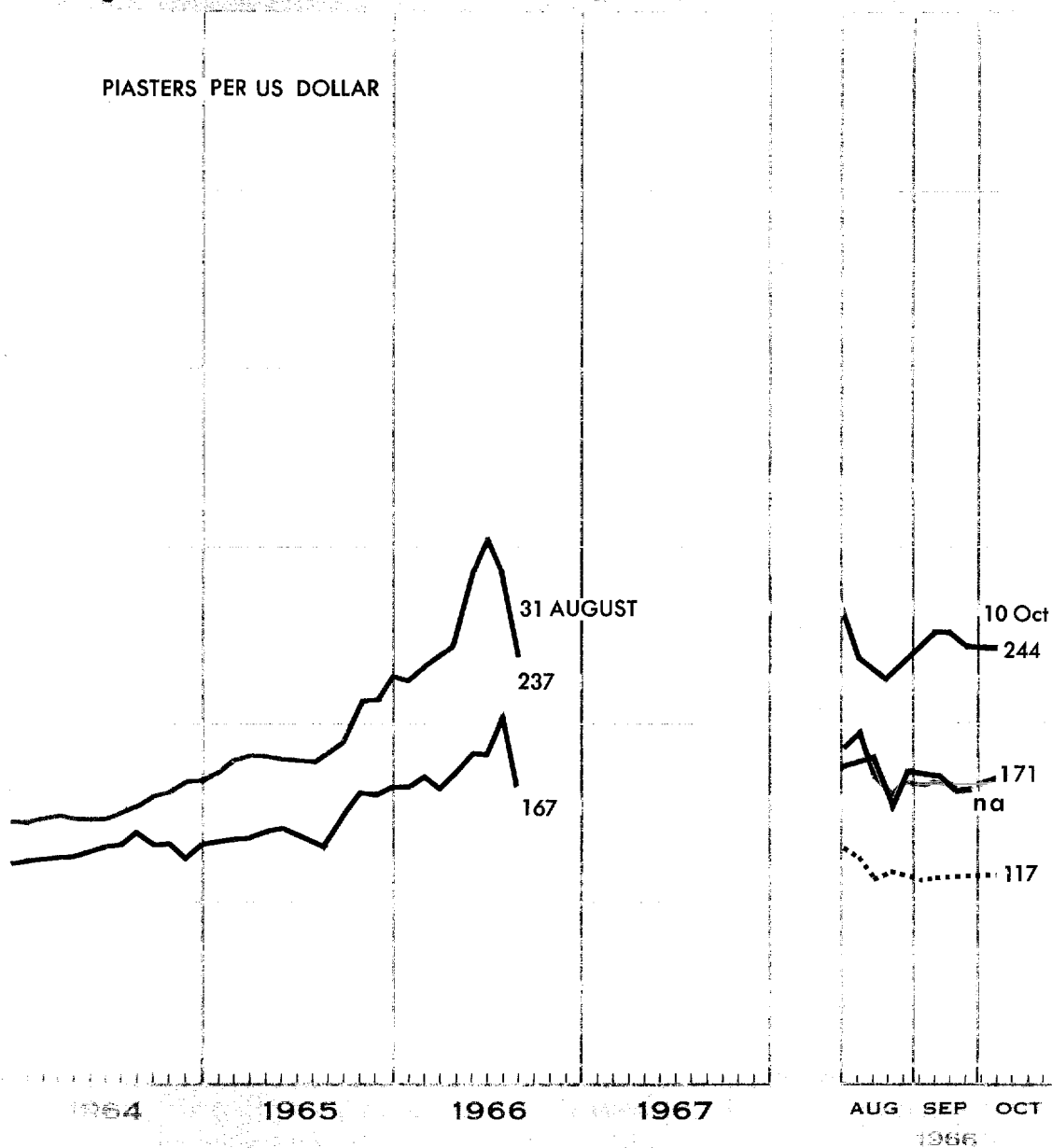
(In Piasters)

	3 Jan 1966	19 Sep 1966	26 Sep 1966	3 Oct 1966	10 Oct 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>219</u>	<u>212</u>	<u>209</u>	<u>202</u> <u>c/</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>227</u>	<u>219</u> <u>c/</u>	<u>214</u> <u>c/</u>	<u>204</u> <u>c/</u>
Of Which:					
Rice-Soc Nau (100 kg)	800	1,320	1,370	1,400	1,450
Pork-Bellies (1 kg)	70	100	85	85	85
Fish-Ca Tre (1 kg)	110	180	170	160	140
Nuoc Mam (jar)	50	85	85	85	85
Index for Nonfood Items <u>b/</u>	<u>124</u>	<u>192</u>	<u>190</u> <u>c/</u>	<u>191</u> <u>c/</u>	<u>194</u> <u>c/</u>
Of Which:					
Charcoal (60 kg)	440	600	590	600	600
Cigarettes (pack)	10	14	14	14	14
White Calico (meter)	27	33	32	32	31
Laundry Soap (1 kg)	30	40	40	40	44

a/ Data are from USAID sources.

b/ For all indexes, 1 January 1965 = 100.c/ Preliminary.**SECRET**

Saigon Free Market Gold and Currency Prices



——— GOLD Basis: gold leaf worth \$35 per troy ounce
 - - - - - US \$10 GREEN
 ——— PIASTER-US DOLLAR CROSS RATE— In Hong Kong; calculated by reference to the exchange rates to the Hong Kong dollar
 US \$10 MPC Military Payment Certificates (scrip)

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