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INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

DIRECTORATE OF INTELLIGENCE

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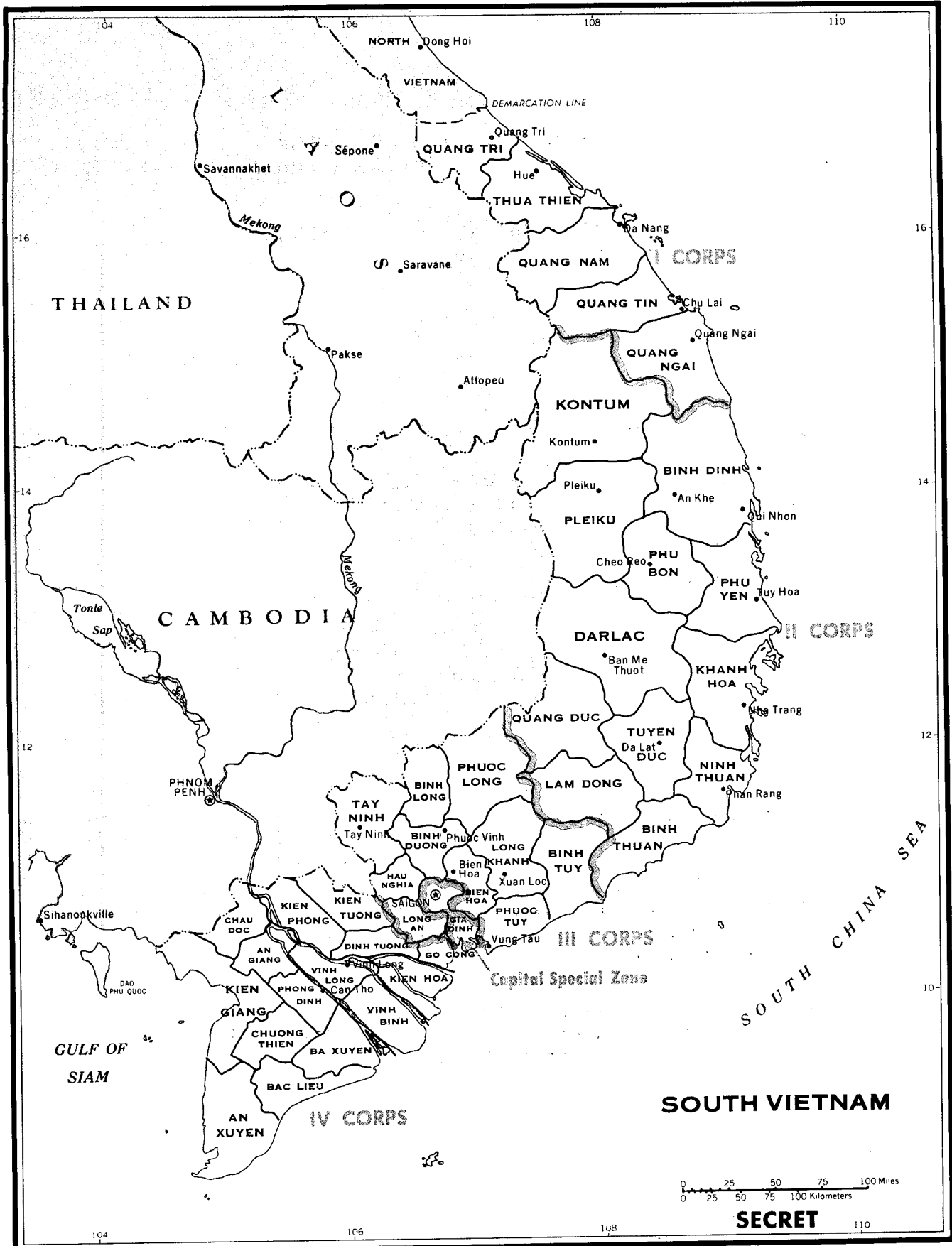
CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(14 November - 20 November 1966)

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I. POLITICAL SITUATION

Changes in military commands announced on 19 November were highlighted by the reassignment of the controversial IV Corps commander, General Dang Van Quang. On the previous day, the long awaited replacements for Premier Ky's dissident southern cabinet ministers were also named.

Meanwhile, the Constituent Assembly's subcommittees and one specially appointed delegation are working on assigned tasks. Militant Buddhist leader Tri Quang may be considering playing a more active role in the established political framework.

General Quang Reassigned

1. After Directorate meetings and informal discussions among military leaders late last week, IV Corps commander General Dang Van Quang was officially reassigned on 19 November. According to a Directorate decree, Quang has been recommended to serve as the Minister of Planning and Development, a new cabinet post which will deal mainly with long-term postwar planning and economic development. Thus far, there have been no reports of any adverse reaction to Quang's reassignment among southern elements. Quang himself is at IV Corps headquarters in Can Tho, awaiting a formal change of command ceremony. [REDACTED]

[REDACTED] Quang has declared that he will not resist the Directorate's decision, and has given his word to this effect to both Deputy Premier General Co and Chief of State Thieu.

2. General Nguyen Van Manh, 23rd Division commander, has been appointed the new IV Corps commander. Manh, a southerner, apparently was Chief of State Thieu's choice for this major command. General Manh acted briefly last week as II Corps commander while General Vinh Loc was undergoing medical treatment in Saigon. Loc has since resumed command in II Corps, after his status was also apparently reviewed by the

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military leadership. In addition to the assignments of Generals Quang and Manh, six other lesser changes in military commands were announced, including a new chief of staff, a 23rd Division commander, a political warfare director, and a reshuffling of some military training commands.

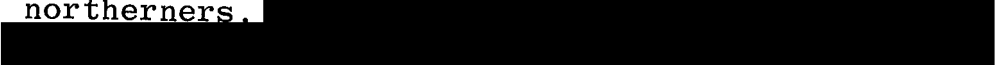
3. Quang's removal as IV Corps commander has been rumored since last March, when General Thi was dismissed as I Corps commander. During this intervening period, Quang has been a target for some of the spokesmen for the "Baby Turks," including III Corps commander General Khang and police director Loan. In this respect, his reassignment reflects their continued influence with Premier Ky, who apparently led the move against Quang among the senior military leaders. As a cabinet minister in Saigon, however, Quang will presumably continue to have some influence in the government, and his reassignment rather than dismissal bears the general characteristics of a compromise.

Cabinet Developments

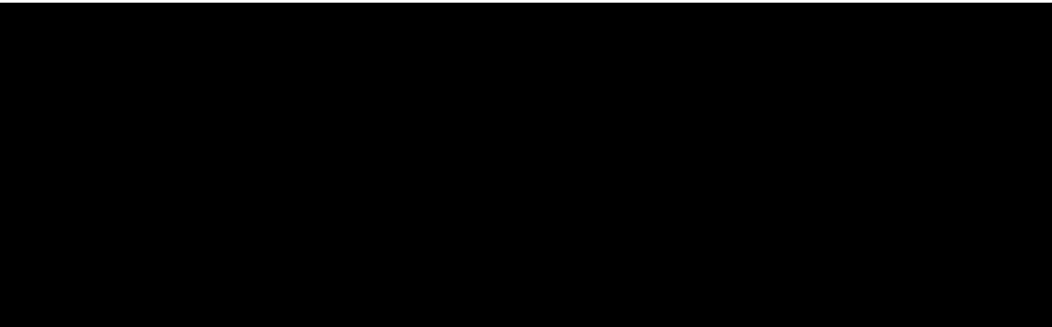
4. The government officially accepted on 18 November the resignations of four of the seven southern-oriented cabinet ministers which have been pending since mid October. New secretaries of state for education, youth, and social welfare were appointed. Rather than name a replacement for Economy Minister Thanh, the ministry was broken down into its three component parts--finance, industry, and commerce. Since Thanh had personally directed the commerce and industry departments, two new secretaries of state for these functions were named. A council system will coordinate the overall economic arrangement, with Premier Ky as chairman and national bank governor Hanh as secretary general.

5. All the cabinet appointees have been identified as southerners; an obvious concession to southern regional interests. Moreover, Deputy Premier Vien, one of three southern dissidents remaining in the cabinet, was assigned the additional function of heading the newly created department of culture. Despite these changes, however, there are some indications

that north-south regional squabbling emanating from the cabinet is continuing. Cong Chung, a newspaper reportedly owned by police director Loan, has begun a series of articles castigating former economy minister Thanh for dishonesty and corruption, and for instituting policies which have only benefited the Communists. On the southern side, leaflets praising the work of Thanh are being distributed in Saigon. Deputy Premier Vien also apparently remains determined to press for the removal of some key northerners.



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Constituent Assembly Activity

7. Last week, the Constituent Assembly met in plenary session only briefly on 17 November to vote on the assembly's budget for the last quarter of 1966. Meanwhile, permanent assembly subcommittees and the special 12-man delegation--appointed by the assembly to arrive at a compromise with the government concerning its veto power--were working on assigned tasks. According to the chairman of the constitution drafting committee, Dinh Thanh Chau, committee work on the basic principles of the constitution will have progressed sufficiently to begin debate in a plenary assembly session by 28 November. Chau does not believe that the government will propose changes to the draft constitution while the assembly's work is in progress but will defer all amendments until the draft has been completed.

8. Chau and several other delegates have remarked that Chief of State Thieu is prepared to amend Article 20 of Decree Law 21 to permit an absolute majority of the assembly--rather than the two thirds

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majority now required--to override government amendments to the constitution. Such a change would more than likely satisfy assembly delegates, but government sources have not confirmed Thieu's willingness in this respect. The assembly's amendment committee presented its suggested changes for Decree Law 21 to the government on 18 November. A government reply is expected in about two weeks.

Buddhist Developments

9. [REDACTED]

[REDACTED] told US officials on 15 November that Tri Quang is prepared to participate constructively in the political process if a satisfactory constitution is adopted. [REDACTED] said that Quang and other militant Buddhists object to Article 20 of Decree Law 21, and feel it should be revoked.

10. With an assembly committee working towards a compromise with the government regarding Article 20, Tri Quang's message may have been intended as a form of indirect pressure supporting the assembly's position. However, it is quite possible that Quang is sincere in his willingness to participate in the political process given a satisfactory constitution. In view of Quang's political activism, it does not seem likely that he would prefer to remain out of the mainstream of political activity for long. In this respect, his remarks may be taken as general evidence of a growing recognition of the importance of the established political transition to a constitutional government. Because of the enmity existing between him and the Ky government, however, it is more than likely that Quang would throw his considerable political influence in central Vietnam to the "government opposition" candidate in next year's presidential election. At present, retired southern general Tran Van Don and his political front group appear to be the nucleus of such an opposition. It is worthy of note that Thich Phap Tri, a supporter of Tri Quang, was present at the front's initial reception on 30 October.

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II. REVOLUTIONARY DEVELOPMENT

The recent shuffle in cabinet posts may be expected to affect the Revolutionary Development program. According to recently announced plans, the ARVN will be used exclusively to support the vital Revolutionary Development program in 1967, a course of action that has the fullest support of Chief of State Thieu. The beginning of the National Reconciliation program is now due to start early in February, a delay of almost three months from its original kick-off date of 1 November. Although in general progress has been noted in the Revolutionary Development Cadre program for September, many problems remain to be solved, particularly at the village and hamlet levels. The Communists reportedly have started a counter - Revolutionary Development program in Binh Thuan Province that is directed largely at the cadre teams working in two of the districts of that province.

Government Shifts Affecting Revolutionary Development

1. The shuffle of cabinet posts and functional responsibilities now under way will affect future Revolutionary Development (RD) activities. For one thing, the present minister of information and Chieu Hoi and director of psychological operations, General Nguyen Bao Tri, has been relieved of his latter post so that he may concentrate on his ministerial duties. Brigadier General Tran Van Trung, commander of the Thu Duc Infantry Training Center, has been named to the psyops post. Trung will have the advantage of previous experience in his new post inasmuch as he was director of psychological operations in 1950. Since that time he has held a series of responsible staff and command posts. He is generally held in high regard by US military observers.

Future Role for ARVN in Revolutionary Development

2. The RD program should receive new impetus as result of the role recently announced for the

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285,000-man ARVN in 1967. Under the new concept, the ARVN will provide a security screen that will allow Revolutionary Development Cadres (RDCs) and other government agencies to carry on the task of winning hamlet and village dwellers to the side of the government. According to Defense Minister Co, the ARVN will be entirely committed to clear-and-hold operations designed to root out local guerrilla forces. Search-and-destroy operations against regular Viet Cong and NVA units will be the primary mission of the US forces. The use of the ARVN as a security screen for RD operations may help cut down on the current misuse of the RDCs as general security forces by local officials. This task cuts into the primary RDC mission of hamlet pacification.

3. General Thieu recently indicated to US officials that he intends to take a personal interest in the reorientation of the ARVN toward pacification. He indicated that some manner of re-education would be required for senior officers as well as a program for the retraining of troops. Thieu also said that he plans to monitor the progress by corps on a monthly basis, and that he expects subordinates in the field to do likewise.

4. The voice of the Viet Cong, Liberation Radio, has already gone on record as denouncing the new mission of the ARVN and, as might be expected, has predicted failure for the program. The enemy maintains that this new role for the ARVN is "a step backward for the republican armed forces" and that the ARVN will be relegated "to carrying the handbags of the US and ROK troops." Warnings were also issued that the ARVN troops would not be safe in their new role since they will be operating in a more exposed position in strange villages, where they will be easier victims for the VC. The Communist propaganda line so far seems aimed mainly at exploiting Vietnamese-US frictions and ARVN fears of the Viet Cong military; both are old enemy themes.

National Reconciliation Delayed Further

5. The GVN National Reconciliation program is now due to be initiated about the time of the lunar new year celebration (Tet) on 8 February. This information was recently disclosed to US officials by

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Chief of State General Thieu. In effect this is a three-month delay in initiating a program that was originally to have started on 1 November, Vietnam's National Day. Thieu felt, however, that major new overtures in November to get Communists to rally to the government side would have been "premature." He stressed the fact that before a major propaganda program is launched more planning must go into giving the returnees legal status as well as providing them material benefits and informing them of future opportunities.

Revolutionary Development Cadres

6. Although progress was noted during September in the performance of Revolutionary Development Cadre (RDC) teams in the majority of provinces of the country, many problems remain unsolved. The most prevalent of these problems is the establishment of in-province training, at the district, village, and hamlet level, of Vietnamese officials who are responsible for managing the RDC programs. These officials need more instruction as to their exact missions. There is some evidence that national and provincial officials are beginning to better comprehend their own responsibilities and the over-all mission of the RDC. Recent seminars at the Vung Tau Training Center, which have been attended by district and provincial officials and local RDC committee leaders, have helped to provide a better understanding of concepts, plans, and objectives of the RDC program in the various provinces. A breakdown of RDC activities by corps zone follows.

I Corps

7. Province-level officials involved with the RDC program are apparently becoming more responsive to directives from the Ministry of Revolutionary Development. However, the political alignments and religious factionalism of lesser officials within the provinces continue to influence cadre operations. Progress in this corps was sporadic during September. Only one hamlet was secured in Quang Ngai Province, while in nearby Quang Nam some 67 hamlets were downgraded from secured status because of re-evaluation

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of the criteria. In Quang Tri Province, RDCs were effectively used to assist in rice harvest operations; the teams also utilized this period to explain GVN policies to the people at the hamlet level. In Thua Thien Province, RDCs continue to be used as area security forces, a factor that worked against other meaningful progress.

II Corps

8. Seven of the 12 provinces reported satisfactory progress in RDC operations. Remedial steps were reportedly taken in several provinces in this corps to cure defects noted in cadre performance. Misuse of the RDCs to provide over-all local security was reported from some areas. In some instances, district officials seem to be reluctant to monitor teams in the course of their field operations. One flagrant violation of the principle of keeping cadres in their home areas occurred in Binh Thuan with unfortunate results for the RDC effort there. Three cadre groups were moved from the northern part of the province to the southern part--a distance of 70 kilometers--with the result that 30 individuals refused to work and returned to their homes.

III Corps

9. Very limited progress in the activities of RDCs was noted in this corps zone during the reporting period. The outstanding problem is that many provincial officials continue to use the RDC teams incorrectly, or are not managing them efficiently. A serious lack of leadership on the part of the responsible local officials in Hau Nghia Province has resulted in RDCs not staying in the hamlets overnight, despite little or no harassment from the Viet Cong.

IV Corps

10. During the September reporting period, RDC activity was generally limited throughout the corps. Flooding in five of the provinces provided an opportunity for the RDC teams to demonstrate their

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ability to act as a disaster relief force. An Xuyen Province has proved to be an area of particularly slow progress. Security is particularly bad and the RDCs can only operate in a few areas.

Viet Cong Reactions to Revolutionary Development

11. The Communists have organized an "Anti-GVN Rural Pacification Program" in two districts in the south-central portion of Binh Thuan Province. The Communist program has been organized for two months in four villages of the two districts, according to a reliable source, and has a total strength of about 40 men. These men, all over 40 years old, have been divided into three-man cells and have been gathering information on local RDCs in order to assassinate or abduct team members.

12. The Viet Cong district committees reportedly have decided that their counter operations have been successful so far and are planning to expand their activities. The RDCs according to the Viet Cong, are "demoralized" and are working only "passively." The Communists reportedly plan to recruit more terrorists in order to carry out their anti-RDC effort. While there have been no official reports of passivity or loss of morale among RDCs working in Binh Thuan, no progress was officially recorded in the Revolutionary Development program there during September.

Viet Cong Defectors (Chieu Hoi)

13. The upsurge in the rate of Viet Cong defectors continued during the week of 10-16 November, with 611 reporting to Chieu Hoi centers throughout the country. More than half of the returnees were received at the Binh Dinh Province center, in the wake of Operation IRVING. Of the total 611, 343 were military returnees. Thus far this year, 16,398 Viet Cong have returned to government control through the Chieu Hoi program, as compared to 11,124 returnees through all of 1965.

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III. ECONOMIC SITUATION

On 14 November retail prices in Saigon were one percent above the previous week because of higher food prices. Although pork prices evidently declined somewhat, rice and vegetables continued to increase. The price of rice used by the working class is now 30 percent above the price prevailing just prior to the devaluation last June. Free market gold and currency prices declined, partly because of a reduction in the official price of gold.

Hopefully, the appointment of new members to the recently reorganized Ministry of Economy will result in solutions to several outstanding problems, such as the soaring prices for rice. Governor Hanh of the National Bank of Vietnam has announced the release of \$150 million in GVN foreign exchange for imports in November and December, and \$350 million for imports during 1967. In addition, Hanh announced that credit for industrial investment will be liberalized.

A labor dispute now under way at the port of Saigon could lead to a strike at the port if current negotiations do not produce an agreement.

Prices

1. Retail prices in Saigon rose markedly between 7 and 10 November because of higher prices for pork, vegetables, and rice. The over-all price level declined somewhat by 14 November, however, as transportation difficulties in the delta eased and arrivals of hogs in Saigon increased. According to the USAID retail price index, retail prices on 14 November were one percent above the previous week: food prices were up two percent and nonfood prices declined slightly. Higher food prices resulted from increased prices for rice and vegetables. Rice prices continued to rise following the increase in the Saigon

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price of imported rice. On 14 November the price of rice used by the working class--which has risen steadily during the past five weeks--was 1,650 piasters per 100 kilograms, or more than 30 percent above the price prevailing just prior to the devaluation last June. Higher vegetable prices apparently stem in part from crop damage caused by the recent floods in the delta. Pork prices apparently were lower as a result of increased arrivals of hogs in Saigon. (A table of weekly retail prices is included in the Annex.)

2. According to the USAID price index for selected US-financed imports, prices of imported goods on 15 November were less than one percent above the previous week. Prices held steady for some imported commodities, such as round bars, wire rods, and cement, while other sampled commodities showed increases or decreases of only one to two percent. Once again, the prices of condensed milk and sugar were stable or slightly lower.

Currency and Gold

3. Free market gold and currency rates, which had edged up steadily during the past three weeks, declined during the week ending 14 November. The price of dollars on 14 November was 172 piasters per dollar, or three piasters below the previous week. MPC (scrip) declined two piasters to 113 piasters per dollar. Gold fell ten piasters to 239 piasters per dollar as a result of a reduction in the official price of gold from 230 to 213 piasters per 35th-ounce. The GVN announced this reduction in the official price of gold on 9 November in order to build confidence in the piaster and dispel recent rumors of another devaluation. This is the third time since the June devaluation that the official price of gold has been lowered. The price of gold was set at 249 piasters per 35th-ounce in June and, subsequently, was lowered to 242 and then 230 piasters. According to the Vietnamese press, the National Bank of Vietnam sold 708 million piaster of gold between 18 June and 11 November as part of its official gold-sales program initiated last June. (Graphics on monthly and weekly free market gold and currency prices are included in the Annex.)

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Discussions with Acting Minister of Economy Ton

4. On 11 November US officials met with Acting Minister of Economy Ton and recommended continuation of the joint US-GVN economic meetings that began in early September. Although Ton agreed to hold a meeting the following week if the US so desired, he pointed out that he could accomplish nothing because the top three officers of the Ministry of Economy have resigned, and no one was willing to make decisions pending the appointment of a new minister of economy. Nevertheless, US officials stated that they were anxious to determine GVN thinking on the rice and pork situation and to discuss the port problem at a meeting next week.

5. Ton was quite pessimistic about the pork problem. He said that the cutting of roads in the delta by the Viet Cong and the recent floods had reduced deliveries of hogs to Saigon. Moreover, Ton felt that it is now too late to order more frozen pork from Europe and that former minister of economy Thanh should have done this prior to his resignation. Although the US argued that it might not be too late to import frozen pork Ton was disinclined to take action although he mentioned the possibility of importing live hogs. The US also noted that the official price of pork is too low for producers to make a profit, given the rising cost of feed. Although Ton agreed, he said he could not take any action. The US Embassy comments that the delay in the appointment of a new minister of economy--at a time when several major decisions should be taken--has caused increasing problems. The appointment of new members to the recently reorganized Ministry of Economy should contribute to the solution of these problems.

Release of GVN Foreign Exchange Reserves

6. Governor Hanh of the National Bank of Vietnam has announced that he will release \$150 million in GVN foreign exchange for imports in November and December, and that \$350 million in GVN foreign exchange will be made available during 1967. Based on the issuance of import licenses, GVN-financed imports during 1966 amounted to about \$165 million by the end

of August. The funds to be released during the last two months of this year are to be used primarily for imports of industrial equipment and raw materials in order to increase domestic production capabilities. Hanh also announced liberalized credit for industrial investment, but gave no details. It is too early to determine the reaction of import prices to these announcements. The US Mission, however, plans to meet with Hanh to discuss the implications of his announcements for the commercial import program and other US programs.

Provincial Economic Developments

7. The US Mission reports that there appears to be developing in the provinces a feeling that the resignation of former minister of economy Thanh will result in renewed inflation. Recent reports indicate general price increases in the provinces and hoarding by merchants in anticipation of higher prices at Christmas and Tet. In Bien Hoa, Binh Duong, and Long Khanh provinces, for example, the prices of steel and cement reportedly have doubled. Moreover, in IV Corps the Viet Cong are expounding the theme that the expected arrival of US troops in the delta will drive prices up further.

Possible Strike at Saigon Port

8. A labor dispute at the port of Saigon could result in a strike if current negotiations do not produce an agreement. At issue is the need to change the employment status of 40 surplus warehousemen and checkers who are now employed in the military section of the port. Until recently they had been working several hours of overtime at double pay each week. Although these workers have been guaranteed jobs in other sections of the port, their transfer could result in a reduction of earnings because the basic work week in other sections is without a guarantee of overtime. As a result, these employees and their union--the CVT-affiliated Union of Dockers and Allied Workers--are threatening a port strike if their existing earnings are not protected.

9. Although two meetings have now been held with officials of the Ministry of Labor, no settlement

has been reached. The union is adhering to its initial position that the existing wage level of the affected workers must be protected. Moreover, the thorny issue of security clearances was raised during these meetings. It appears that, under GVN regulations, the new positions being offered to these workers require security clearances, including individual character sponsors. The union maintains that because these men are well-known dock workers, a blanket sponsorship by the union should suffice. The Ministry of Labor has agreed to explore the security clearance problem with the head of the security service, and to hold another meeting with the union.

Increased Output of Electricity

10. During the first half of 1966, output of electricity in South Vietnam amounted to 287 million kilowatt hours (kwh), or 18 percent above the level produced during the corresponding period of 1965, according to official GVN data. Roughly 85 percent of this electricity was generated in the Saigon area. Total output of electricity in 1965 was 496 million kwh, or about 30 kwh per capita. The increase in output of electricity in 1966 results primarily from the completion last March of a 33 megawatt steam electric unit just north of Saigon at Thu Duc. The Thu Duc facility was constructed with US assistance in order to overcome the Saigon power shortage caused by Viet Cong sabotage of the Danhim power transmission line in May 1965.

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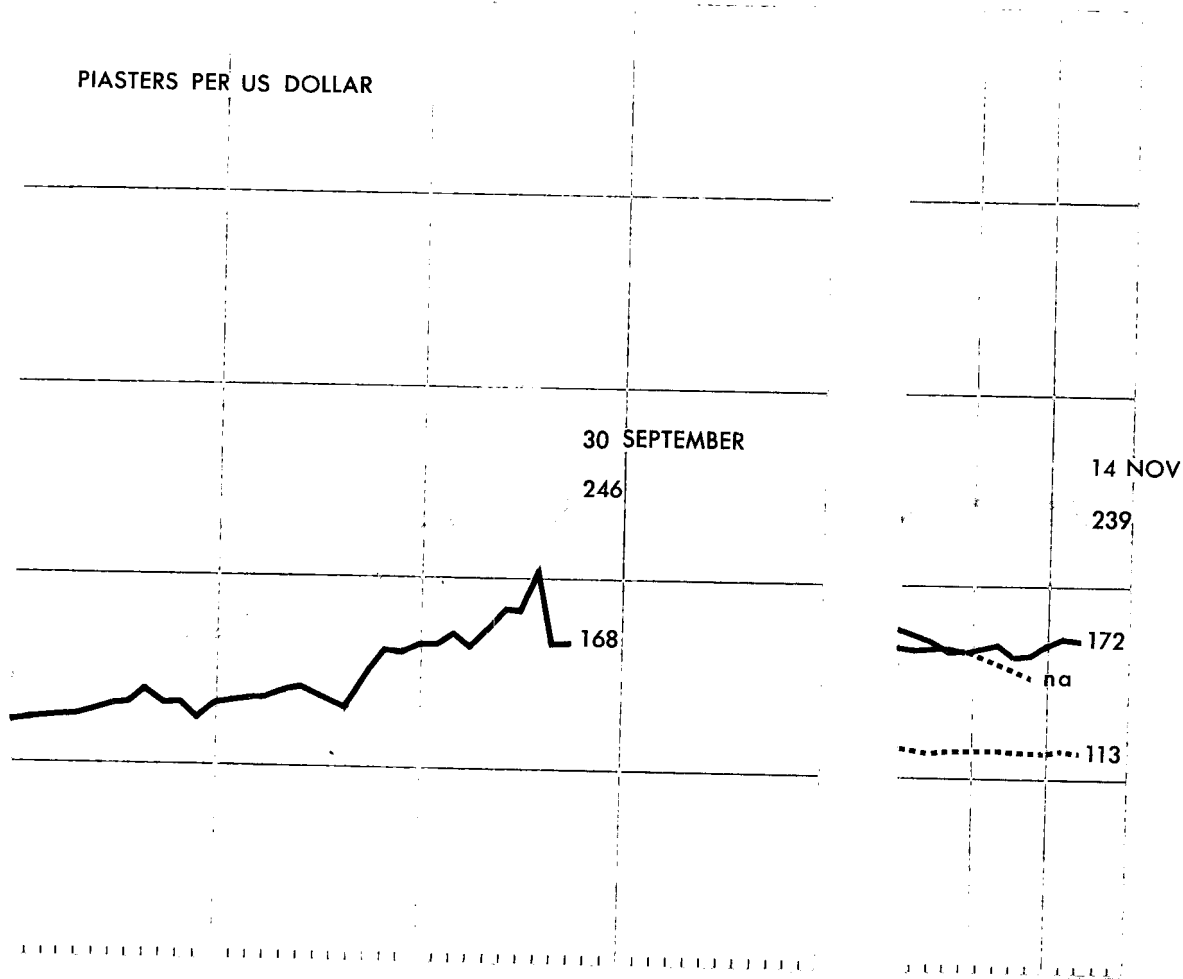
WEEKLY RETAIL PRICES IN SAIGON a/

	3 Jan 1966	24 Oct 1966	31 Oct 1966	7 Nov 1966	14 Nov 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>207</u>	<u>225</u>	<u>222</u>	<u>224</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>211</u>	<u>231</u>	<u>226</u> <u>c/</u>	<u>N.A.</u>
Of Which: (In Piasters)					
Rice-Soc Nau (100 kg.)	800	1,500	1,550	1,600	1,650
Pork Bellies (1 kg.)	70	85	130	170	N.A.
Fish-Ca Tre (1 kg.)	110	140	150	130	150
Nuoc Mam (jar)	50	85	85	85	85
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>196</u>	<u>203</u>	<u>202</u> <u>c/</u>	<u>202</u> <u>c/</u>
Of Which: (In Piasters)					
Charcoal (60 kg.)	440	630	650	650	650
Cigarettes (pack)	10	14	14	14	14
White Calico (meter)	27	33	37	36	35
Laundry Soap (1 kg.)	30	40	45	45	45

- a. Data are from USAID sources.
b. For all indexes, 1 January 1965 -- 100.
c. Preliminary.

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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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