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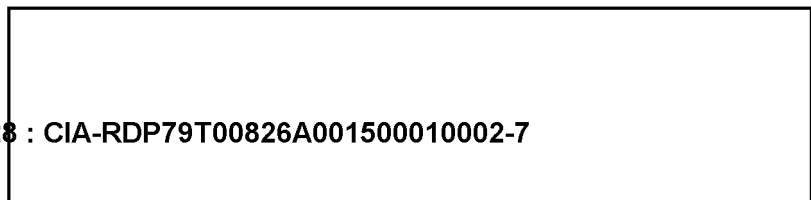
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## INTELLIGENCE REPORT

### THE SITUATION IN SOUTH VIETNAM

### DIRECTORATE OF INTELLIGENCE



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I. POLITICAL SITUATION

South Vietnam's Constituent Assembly, having approved wording on rights and duties of individual citizens for the draft constitution, is now discussing the form of the future government. Leaders of the present government, meanwhile, are considering proposals by the assembly for changes in the body's founding law, but are not expected to give up their quasi-veto power over the final version of the constitution.

Constituent Assembly Developments

1. On 26 November the Constituent Assembly began a debate on the general principles its drafting committee will follow in writing the constitution. Thus far, the assembly has concluded its debate on rights and duties of individual citizens to be specified in the constitution, and has begun to discuss the form of the future government. The constitution-drafting committee has proposed a straightforward presidential form of executive, but fears within the assembly of a possible return to a Diem-type dictatorship could result in the adoption of a modified system, with a prime minister responsible to the legislature in addition to an elected president.

2. In subsequent meetings, committee representatives recommended a bicameral legislature, an independent judiciary, and an inspectorate in addition to the executive branch of government. The

upper house of the legislature would contain 30 to 35 delegates, and members of the lower house would be elected for every 25,000 to 30,000 registered voters. The judiciary would be headed by a nine-man supreme court. The fourth branch of government, a nine-man inspectorate equal in status to the other branches, would be charged with investigating and monitoring their activities.

3. Previously, the assembly approved 14 rights and four duties of individuals. Duties consisted of obligations to defend the nation and the constitution, to pay taxes, and to fulfill military service. Many of the rights were the usual individual safeguards, such as compulsory and free elementary education; freedom of press, speech, and criticism of the government; right of assembly; and protection from unlawful arrest. Other rights, however, applied more to the specific Vietnamese context. For example, the issue of land reform was introduced as an individual right and produced a heated and disorderly debate. Dr. Phan Quang Dan, a well-known political independent, led the fight for a specific land reform pledge, but received little support; Hoa Hao delegates from the delta were the most vociferous opponents of any land reform provision. Finally, after prodding from assembly chairman Phan Khac Suu, the assembly adopted a provision declaring that the policy of the state would be to make citizens property owners.

4. Another sensitive Vietnamese topic touched upon during the debate on individual rights was civilian-military relations, which were considered as an adjunct to the individual's right to participate in the political process. After a reasonably restrained debate on this subject, the assembly approved the principle that "military personnel on active duty cannot join political parties or participate in the government." The final wording and nuances of this principle, as well as all others, will again be considered by the assembly when the draft constitution itself is presented by the drafting committee; thus the precise application of this principle is not yet clear. However, such a provision could seriously conflict with the government's present administrative system which depends heavily upon military officers all the way down to the district level.

Government Attitudes Toward the Assembly

5. This provision also could have some negative effect on the current thinking of the military leadership regarding proposed modifications of the assembly's founding law, which inter alia would eliminate the government's authority to make changes in the draft constitution reversible only by a two-thirds assembly vote. An assembly committee presented the government with this and other modifications of the founding law on 18 November, and a government reply is expected sometime this week.

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## II. REVOLUTIONARY DEVELOPMENT

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1967 to provide a security screen for Revolutionary Development activities may cause some serious morale problems in the officer corps. A total of 2,505 Viet Cong defectors came under government control during November, an all-time high for any month since the inception of the Chieu Hoi program. Meanwhile, the Viet Cong are reported to have initiated a program in Bien Hoa Province to sabotage the Chieu Hoi effort. In Quang Nam Province, the National Police are reported to be the target of a new and intensified program of subversion by the Viet Cong. Nearly 16,000 persons have become refugees in Tay Ninh Province since 31 August, largely as a result of recent allied operations.

### Effect of ARVN's 1967 Mission on Morale

1. General Do Cao Tri, who is presently unassigned but maintains many good connections among the military, believes there is apt to be bitterness in the officer corps over the plan for the ARVN to concentrate on providing the security screen for Revolutionary Development (RD) in 1967. According to Tri, morale is already very bad because of excessive favoritism in promotions, a situation which often results in the exclusion of combat officers. Tri also alleged that corruption and reluctance to fight on the part of many general officers are other factors eroding the spirit of the officer corps.

2. Leaving the primary task of combating the Communist main forces to Americans and Koreans will, Tri feels, give many ARVN officers the feeling that they are being relegated to a role which is beneath their dignity. Only proper preparation by the Joint General Staff for the ARVN's new role may, in his opinion, be able to avert further unrest among the officer corps.

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3. Although Tri's observations may be colored in part by his own anomalous status, there are some indications that some high ranking members of the government share his reservations about the present and future state of ARVN and the morale of its officers. The feeling is that ARVN officers will have to be re-oriented to make them think differently about themselves, their jobs, and the importance of the pacification mission.

#### Viet Cong Defectors (Chieu Hoi)

4. The total of returnees to government control in 1966 rose to 17,726 as of 30 November. During the week of 24-30 November, there were 772 returnees according to GVN statistics. This is the second highest weekly total for 1966. The previous weekly high occurred in late February when 922 returnees were tallied. The extremely high return in February was attributed largely to an intensive pre-Tet Chieu Hoi campaign mounted by the GVN. A breakdown of this week's returnees by Corps Tactical Zone follows:

I Corps	48
II Corps	526
III Corps	62
IV Corps	136
	<hr/>
	772 (384 military)

5. During November, there were 2,505 returnees (1,380 military)--an all-time high.

#### Viet Cong Counter-Chieu Hoi Program

6. According to information received from a rallier, the Viet Cong have established a counter-Chieu Hoi training center in Bien Hoa Province. According to this source, selected individuals are trained at this school to rally to the GVN side and then attempt to obtain jobs at Chieu Hoi centers. Once in place, these agents are supposed to attempt to incite ralliers against the government and

persuade them not to serve in the Vietnamese armed forces. Furthermore they are to work to exploit the complaints of the ralliers.

#### National Police Target of Subversion in Quang Nam

7. The Viet Cong Quang Da Provincial Planning Committee (responsible for what is approximately the GVN province of Quang Nam and Da Nang City) reportedly has directed its security sections to mount an intensive subversion effort against the National Police in their zones of responsibility. The plan is to be carried out in three phases: (1) investigation of individual members of the force, their families, and ideological and political leanings; (2) intensive subversion effort through every means of contact; (3) discrediting, abduction, or assassination of police who do not agree to cooperate.

8. This new Viet Cong effort, according to the source, is not unusual for its target, but for the fact that Viet Cong security sections have been assigned the mission. This is a measure of the importance which the leadership attaches to the effort. An intensive effort to undermine the police in Quang Nam may be part of a countrywide effort of the Communists to reduce the effectiveness of the National Police force, which is an important asset to the over-all Revolutionary Development program.

#### Refugee Situation in Tay Ninh

9. Preliminary reports from Tay Ninh Province indicate that as of mid-November, there were 23,059 refugees living in temporary shelters. This represents an increase of nearly 16,000 in the number of refugees in temporary shelter in this province since 31 August when only 7,085 refugees were listed as being in temporary shelters. The increase appears to result in large part from the disruption caused by Operation ATTLEBORO--a massive allied sweep of the province.

10. Tay Ninh Province has had the reputation of being able to absorb most of the refugees which have come from the province. Many refugees, for

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instance, re-establish themselves individually rather than in government sponsored projects. This new influx will probably prove more difficult to deal with.

11. Current plans for the resettlement of refugees call for the construction of two model hamlets to resettle 1,000 refugee families. These hamlets were to be constructed during 1967. Considering the magnitude of the current flood of refugees, present plans for resettling refugees will have to undergo serious revision.

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### III. ECONOMIC SITUATION

Price movements were generally favorable during the week ending 28 November. Retail prices of domestic and imported commodities dropped slightly from levels of the previous week. Free market gold prices fell significantly and currency prices declined also. The prices of protein food led the decline in food prices and, significantly, the prices of pork and rice were at or below the levels reached last week.

The pork situation was discussed by US and GVN officials with a tentative agreement that official price ceilings on pork should be removed. This would depend, however, on establishing an adequate reserve stock of about 2,000 tons of frozen pork. Present facilities can accommodate only about 500 tons. The embassy favors construction of additional cold storage facilities to permit the holding of necessary reserve stocks of pork.

Discussions by embassy officers with GVN economic officials ranged over a number of topics. Although Secretary of State for Industry Ton did not attach much urgency to formulating a new rice policy, Secretary of State for Commerce Thien An shared embassy feelings of the urgency to do so. Thien An recognized, however, that political considerations will exert considerable influence on the rice policy adopted by the GVN.

Although problems have continued since the US took on an advisory and action role at the Saigon port, the embassy feels that a continuation of current efforts in the line of confiscating cargos left in warehouses, improving cargo accountability, and a correct credit policy will have some salutary effects on port operations.

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### Prices

1. Retail prices in Saigon during the week ending 28 November declined slightly with the over-all USAID retail price index down three percent from the previous week. Food prices declined three percent primarily because prices for protein foods fell or remained steady. The price of pork held steady a second week at the relatively low level of 85 piasters per kilogram, while the prices of beefsteak and fish declined. Rice prices held steady. Non-food items were mixed, with prices for charcoal and soap registering increases and other items holding steady. The USAID non-food index declined one percent below the level of the previous week. (A table of selected weekly retail prices in Saigon is included in the Annex).

2. Prices of imported commodities were generally unchanged: the USAID price index for selected US-financed imports declined only slightly from the level of the preceding week. Prices of condensed milk and flour were again a little lower than the level of the previous week as stocks continued ample. Chemicals remained relatively unchanged as fresh supplies reached the Saigon market. Despite the resumption of construction activity with the onset of the dry season, prices of construction materials, except cement, fell slightly with the arrival of new shipments.

### Currency and Gold

3. The free money market remained relatively strong. The price of US dollars and MPC (scrip) was down slightly to 170 and 112 piasters per dollar respectively. The price of gold fell significantly during the week from 239 to 227 piasters per dollar as the recent reduction in the official sale price of gold continued to affect market psychology. (Graphics on monthly and weekly free market gold and currency prices are included in the Annex).

### Pork Situation

4. US and GVN officials met on 18 November to discuss the over-all pork situation, particularly

increasing or removing official ceiling prices on live hogs and constructing new storage facilities for frozen pork. Although no substantive decisions were made at this meeting, the discussion was unusually frank and gave a clear picture of GVN thinking on pork.

5. The issue of GVN price ceilings provoked the most lively discussion. US officials contend that these price ceilings, which were originally imposed last December, have served no useful purpose and indeed, have suppressed production and disrupted arrivals of live hogs in Saigon. Moreover, the US feels that current and planned USAID programs, such as disease control, mixed feed plants and importation of improved stock, will not lead to increased production at current official prices. GVN representatives conceded that about one third of Saigon's pork supply currently comes through the black market and that because the official price applies only to live hogs at the slaughterhouse, the market price usually is well above the official level. Nevertheless, GVN officials were reluctant to reach the conclusion that official prices should be abandoned or at least greatly increased. Finally, however, they appeared willing to remove price ceilings provided an adequate reserve stock of about 2,000 tons of frozen pork could be established to regulate the market.

6. The US urged importation of both live hogs, at least through Tet, and frozen pork. In reply to a GVN inquiry about US financing for pork imports, it was pointed out that past pork imports had been financed by the GVN. The question of imports quickly became a question of cold storage facilities since present cold storage capacity is only 500 tons and the continued availability of this capacity is questionable. It was agreed that a cold storage facility of 2,000 ton capacity--roughly one month's consumption in Saigon--would be sufficient to supplement domestic supplies as required. US officials agreed to ascertain the cost and time required for construction of such a facility.

7. The embassy reports that the proper use of frozen pork could stabilize the market without displacing domestic production or lowering the return

to the producer below a fair market level. Moreover, in view of the importance of pork in the consumer price index, a stable pork market would contribute significantly to economic stabilization. For these reasons and because the GVN appears willing to remove price ceilings upon the establishment of an adequate reserve of pork, the embassy feels that there is merit in erecting a large cold storage warehouse.

#### Discussions with Ton

dustry Ton said that Premier Ky had announced to the GVN cabinet a 1967 budget ceiling of 75 billion piasters, which would be in line with US thinking on the budget. Ky did not, however, indicate the size of the civilian and military portions. According to Ton, Ky also expressed an intention to scrutinize the various ministerial budgets.

9. Ton again confirmed that the GVN was thinking of granting a ten percent wage increase for all GVN employees in early January or just after Tet. Because of concern about the impact of such a wage increase on prices, however, the GVN is exploring the possibility of disguising this proposed wage increase in the form of increased allowances or across the board step increases.

10. With regard to the recent reorganization of the Ministry of Economy, Ton said that Ky had announced the appointment of Ton as chairman of the Economic and Finance Committee. This economic policy committee had formerly been chaired by the Minister of Economy. It is interesting that, while Governor Hanh was away at the Asian Development Bank meeting in Tokyo, Ky chose to reject Hanh's suggestion that Ky chair the committee with Hanh as vice-chairman.

11. Ton's comments on rice policy indicated that he does not attach much urgency to formulating a new rice policy. He reported that the province chiefs were reluctant to become responsible for establishing rice buying stations because they did

not have adequate warehouses and were afraid of losses. Moreover, Ton felt that there were real dangers in getting ARVN too involved in rice collections.

Secretary of State for Commerce Thien An on Rice Policy

12. Secretary of State for Commerce Thien An in discussing rice policy with embassy officers gave the general impression that he would support an increase in the price for rice but that because of possible political repercussions it might not be acceptable to Premier Ky at this time. He confirmed the statement by Acting Secretary of State for Industry Ton that the GVN would not be capable of mounting a buying operation in the provinces. He agreed with the embassy, however, that the rice policy should be announced soon, by 15 December at the latest. This would mean that it would be discussed in a fairly final stage at the next cabinet meeting. This sense of urgency contrasts with that expressed by Ton.

Situation at the Saigon Port

13. The US Embassy feels that in placing the US military in an advisory and action role at the Saigon port last summer, the US adopted the best course of action to increase cargo movements through the port with the least disruption to Vietnamese administration of the port. To date, the following measures have been taken to relieve port congestion: re-organization of the port; approval of a new tariff which sharply increases warehouse charges; establishment of a cargo accountability system; improvement in warehouse management; completion of additional barge landing sites; and Ky's approval for enforcement of the 28 July confiscation decree.



14. In spite of these measures, however, the key port problem--the unwillingness of importers to remove their cargo from port warehouses--has not yet been solved.

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Hopefully, selective confiscation will take place in the near future. There remains, however, the problem of making available to importers adequate credit in order that they can pick up their goods on arrival. Overdue cargo reports are now being supplied weekly to commercial banks to allow them to bring pressure on consignees to remove their cargo. In addition, the GVN has recently proposed that credit for customs charges be extended to importers in an attempt to get them to move their goods out of the port more rapidly.

15. The embassy feels that the only other alternative--a complete US takeover of the port--would not solve the problem of importers' reluctance to remove their goods. Moreover, the US would be confronted with a host of difficult problems including liability for losses of goods, the handling of certain GVN services such as customs, assumption of title for all port equipment, and maintenance of a complicated bookkeeping and financial system for port operations. More important, however, is the fact that it is unlikely that the GVN would ever accept outright US operation of the port. For these reasons, the embassy feels that the best course of action is a continuation of all current efforts--confiscation, cargo accountability and a correct credit policy--to get importers to remove their goods.

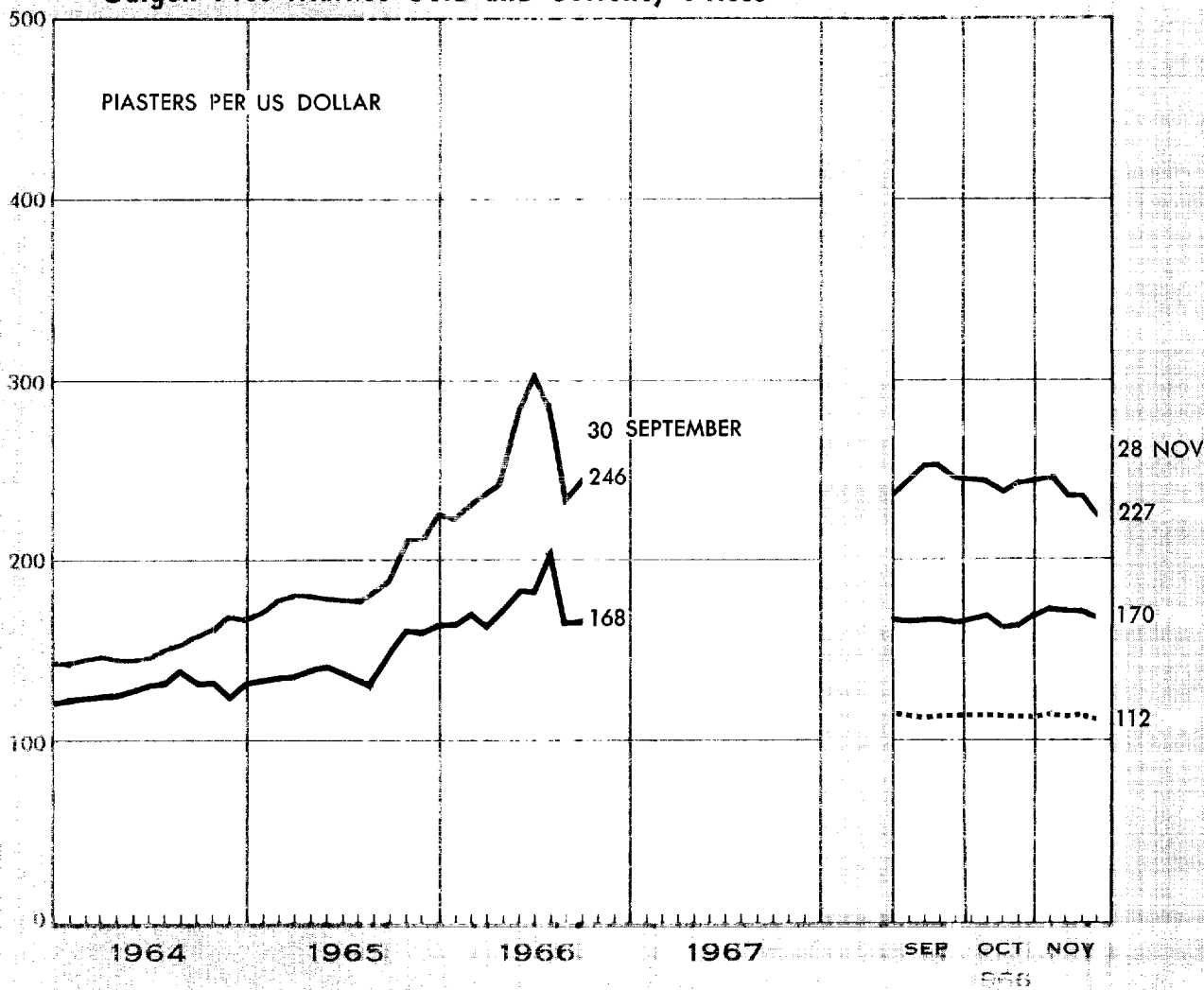
ANNEX

WEEKLY RETAIL PRICES IN SAIGON a/

	3 Jan 1966	7 Nov 1966	14 Nov 1966	21 Nov 1966	28 Nov 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>222</u>	<u>224</u>	<u>227</u>	<u>217</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>228</u>	<u>230</u>	<u>237 c/</u>	<u>226 c/</u>
Of Which: (In Piasters)					
Rice-Soc Nau (100 Kg.)	800	1,600	1,650	1,600	1,600
Pork Bellies (1 kg.)	70	170	110	85	85
Fish-Ca Tre (1 kg.)	110	130	150	180	140
Nuoc Mam (jar)	50	85	85	85	85
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>202</u>	<u>202</u>	<u>191 c/</u>	<u>195 c/</u>
Of Which: (In Piasters)					
Charcoal (60 kg.)	440	650	650	620	630
Cigarettes (pack)	10	14	14	14	14
White Calico (meter)	27	36	35	35	34
Laundry Soap (1 kg.)	30	45	45	32	40

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

### Saigon Free Market Gold and Currency Prices



— GOLD Basis: gold leaf worth \$35 per troy ounce  
— US \$10 GREEN  
..... US \$10 MPC Military Payment Certificates (scrip)

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