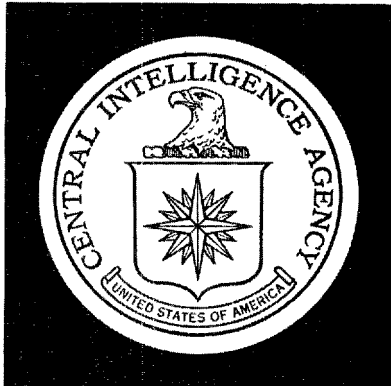


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DIRECTORATE OF
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Intelligence Report

The Situation in South Vietnam (Weekly)

USAID, State reviews completed

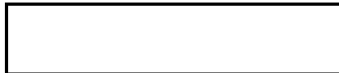
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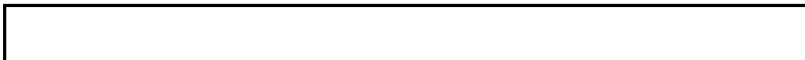
CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(19 December - 26 December 1966)

C O N T E N T S

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I. POLITICAL SITUATION

The Constituent Assembly has nearly completed its outline of the basic concept of government to be followed in actually writing the constitution. Most recently, the Assembly has adopted the principles of a bicameral legislature, an independent judiciary, and elected rather than appointed government officials at the province level and below. A specific proposal to hold elections for province chiefs has been approved in principle, but will probably undergo change since there is so much opposition to it outside the assembly.

The moderate Buddhist wing, under Thich Tam Chau, is trying to organize a "reformed" church out of the continued rift in the Unified Buddhist Association, while there are reports of further efforts by the militants to strengthen their political position. Followers of the dissident tribal group, FULRO, are dissatisfied with the government for not living up to its promises following the return of some FULRO members to the government. A renewed government attack on corrupt officials is reportedly planned.

Progress in the Constituent Assembly

1. The Constituent Assembly is still defining the fundamental concept of government around which the actual constitution will be written, but that part of its work is nearly completed. The latest principles adopted by the deputies include provisions for a bicameral legislature, an independent judiciary, an advisory "body or bodies" on economic and social matters, and the eventual election of the government officials in the 44 provinces and six autonomous cities.

2. There was widespread approval in the assembly of the need for a national legislature with an upper and a lower house. However, attempts to define the method of electing members to the upper house provoked diverse suggestions and the matter was left to be decided later.

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3. The principle of having an independent judiciary co-equal with the executive and legislative branches was approved during the assembly debate on 22 December. The deputies discussed what powers of review the supreme court should be accorded, especially relative to the constitutionality of legislative acts. Debate was inconclusive on this and a number of other judicial issues, including the establishment of special courts for ethnic groups and the status of the administrative courts. The specific functions and internal organization of the judiciary will therefore be stipulated at a later date when the assembly discusses the draft of the constitution.

4. At its 23 December session, the assembly failed to approve incorporating an independent inspectorate as a separate branch of the government equal to the executive, legislative, and judicial branches. Most deputies agreed, however, on the need for some anticorruption body, but its status was left undetermined. On 26 December, the deputies approved a constitutional provision for an advisory "body or bodies" to the executive and legislature on economic and social affairs. No vote was taken on whether there should be one such council or two separate ones, or on the selection of council members.

5. On 20 December, the assembly approved a constitutional provision for the direct election of mayors, and province chiefs in contrast to the present appointive system. The provision was passed with a surprisingly wide margin in view of the controversy it had aroused among the deputies during debate on 19 December. However, many of the delegates who voted in favor of the principle apparently recognize that it cannot be implemented immediately on a country-wide basis.

6. The province chief in the present system is almost always a military officer and has become an extremely powerful political figure in the government, responsible only to the military commanders in his respective corps area or to the Saigon authorities. Several arguments against the election of province chiefs in time of war are still being advanced privately

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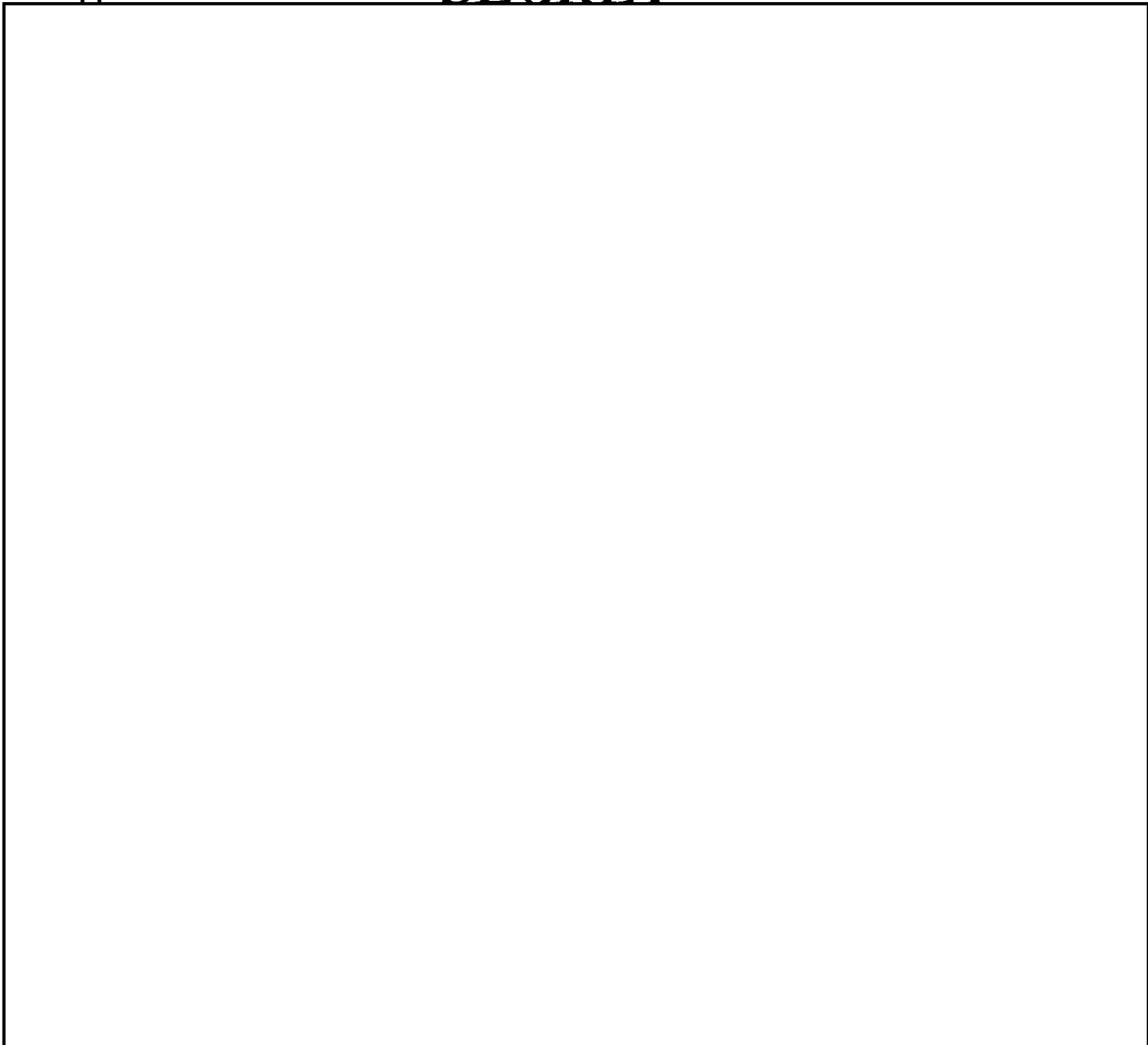
by various sources both inside and outside the assembly. The government is not in favor of elected province chiefs, and thus might use its revisionary power to delete a provision for such elections if it is actually drafted into the constitution. One deputy has told US Embassy officers that he believes the assembly will drop the issue if the government makes a strong enough case against it. At this stage, it appears that too many vested interests, coupled with fears of chaos at the province level, are involved in the issue of electing province chiefs to warrant changing the present system in the next year or so.

7. Other principles of local government approved by the assembly on 20 December included the election of village chiefs, and of councils with "wide powers" at the village, city, and province levels. In the interest of ensuring continuity at all local levels, the assembly also recommended that the government appoint civil servants and military officers to assist elected officials as deputies for administration and security.

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Little Recent Progress in GVN-FULRO Relations

11. US officials have reported increasing restiveness within FULRO--the dissident tribal autonomy organization which has significant influence among the montagnards in the central highlands. The US officials believe that the major cause of this trend is an almost complete lack of government follow-through since October in regard to a general GVN-FULRO agreement which was reached after many months of negotiations.

12. All US officials involved agree that II Corps commander General Vinh Loc exercises real control over government policy toward FULRO. Although Loc has at times exhibited a hard line toward FULRO, and the montagnards in general, US officials have

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[Redacted]

reported that in a discussion on 14 December General Loc appeared receptive to various suggestions designed to improve the employment and resettlement of FULRO members who have agreed to return to government control. US officials also reported that they intend to work with appropriate government officials to speed up the implementation of programs upon which agreement has already been reached.

Government to Move Against Corruption

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[Redacted]

Corruption among Vietnamese officials in Kien Giang has been an important issue in the province for several months and was the subject of some Saigon press commentary even before General Quang's removal. The IV Corps chief of staff reportedly believes that Quang did not have a direct hand in the provincial administration, but that his failure to take corrective action damaged his reputation. The replacement of the Phong Dinh Province chief has been widely expected ever since Quang's departure, [Redacted] because the incumbent province chief is a weak official who had depended upon his personal friendship with General Quang.

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II. REVOLUTIONARY DEVELOPMENT

Viet Cong defectors for the period 8 to 21 December numbered 1,033, raising the 1966 total to 19,223. Filipino advisers to the Chieu Hoi program have proven to be valuable assets. Various deficiencies in the Chieu Hoi reception centers have been highlighted by the Ministry of Information and Chieu Hoi in a recent letter and remedies suggested for them.

Viet Cong Defectors (Chieu Hoi)

1. Defectors to the government during the period 8 to 21 December numbered 1,033. Broken down by weekly increments, the flow of returnees was 448 for 8 to 14 December, and 585 for 15 to 21 December. A total of 19,223 returnees have been counted since the beginning of the year--8,099 more than the whole of last year. A breakdown of defectors by Corps areas for the two periods follows:

	8-14 December	15-21 December
I Corps:	43	51
II Corps:	165	362
III Corps:	63	47
IV Corps:	<u>177</u>	<u>125</u>
	448 (283 military)	585 (318 military)

2. The large increase in the number of defectors in II Corps during the week of 15 to 21 December is partially accounted for by increased defections (199) in Binh Dinh Province where a large-scale allied operation, THAYER II, is in progress. Most of the other returnees during this period in II Corps were from Phu Yen Province--139--where there are no major operations in progress.



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Third Country Chieu Hoi Advisers

3. The 45 Filipino advisers who commenced their activities late in October have proven to be an extremely valuable asset to the Chieu Hoi defector program. These advisers now are working at all levels; national, regional, and provincial. In some provinces where they are working the Chieu Hoi program is characterized as showing "really remarkable progress" for the short period that they have been on duty.

4. The Filipino advisory group was handpicked in the Philippines and carefully briefed on their duties there and in South Vietnam before being released to work with the South Vietnamese. So far, they have been able to carry out their assignments without antagonizing the South Vietnamese and without "taking over" or displacing them. The point about the Filipinos being advisers has been reiterated continually and their activities apparently are being carefully monitored by USAID.

Deficiencies in Chieu Hoi Centers

5. The Ministry of Information and Chieu Hoi has recognized several shortcomings connected with administering the Chieu Hoi program and has issued a list of deficiencies along with recommendations to remedy them. The letter, addressed to responsible officials associated with the "Open Arms" program, was distributed in September and was probably instrumental in bringing about recently reported improvements in Chieu Hoi reception centers.

6. Crowded conditions at centers were high on the list of deficiencies noted in the management of the Chieu Hoi program. The reason for these conditions was alleged to be poor planning by responsible officials. Other criticisms leveled at the handling of the returnees included: inadequate treatment of sick defectors; poor and monotonous training (reindoctrination) courses; non-payment of rewards for arms turned in by defectors and of other specified allowances due to the Hoi Chanh. Another major shortcoming noted in the handling of defectors is the delay in issuing them identification papers--often two or three months after they leave the center.

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III. ECONOMIC SITUATION

Retail prices in Saigon during the week ending 19 December remained steady at the high level reached the previous week. Increased deliveries of pork and the receipt in Saigon of deliveries of new crop rice lowered food prices slightly. The currency and gold market also remained steady. Negotiations are continuing between the US Mission and the GVN over the major issues in the new GVN rice policy.

Prices

1. Prices in Saigon for the week ending 19 December generally held steady at the high level reached the previous week. The over-all price index remained unchanged with the index for food declining slightly and that for non-food items increasing by a small margin. The decline in food prices was a result of lower prices for rice and pork. Rice prices were steady or declined because of receipt in Saigon of larger quantities of the cheaper new crop rice. The price of pork bellies declined 14 percent because of increased shipments of hogs to Saigon from the provinces. On the other hand, prices of vegetables increased, reportedly because of increased purchases by the US Army. Prices other than for food remained unchanged except for charcoal and firewood, both of which increased. (A table of weekly retail prices in Saigon is included in the Annex.)

2. Prices in Saigon for all imported commodities registered increases ranging up to nine percent. Increased prices of imported food stuffs were attributed to purchases for Tet. Although there were significant arrivals of construction materials, the increase in construction activity continued to push up prices for these materials.

Currency and Gold

3. The currency and gold market remained generally steady at approximately the levels maintained

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since August. During the week ending 19 December, gold prices declined slightly, reportedly because of increased arrivals of gold in Saigon. Prices for dollars and MPC (scrip) increased slightly. Currency price quotations for 19 December have not yet been reported. (Graphics on monthly free market gold and currency prices are included in the Annex.)

Negotiations Continue on GVN Rice Policy

4. The provisions of the GVN rice policy announced by Governor Hanh of the National Bank of Vietnam after the 13 December GVN cabinet meeting apparently did not represent firm GVN policy, and subsequent developments have invalidated much of what has been reported previously. Negotiations on the new rice policy are continuing between officials to the US Mission and the GVN.

5. On 18 December, Secretary of State for Commerce An and Secretary of State for Industry Ton met with USAID Director MacDonald, and the differences over basic issues in what the US Mission thought was a new GVN rice policy became apparent. The GVN-preferred policy, as stated on 18 December, proposed a 7.5 piaster per kilogram price to the farmer for paddy; a wholesale price in Saigon of 12 piasters for the cheapest type of domestic rice; and a retail price of 14 piasters, compared to the present retail price of about 16 piasters. In addition, the GVN would place on imported rice a wholesale price of 11 piasters and a retail price of 12 piasters, about the same as at present.

6. US proposals on the rice policy are designed to achieve maximum GVN encouragement for increased domestic production, to increase deliveries to Saigon, and to lessen dependence on imported rice. Principal US objections to the GVN proposals were that the rollback of the rice prices in Saigon and the 7.5 piaster price to the farmer would not provide the needed incentive to encourage increased domestic production. On the contrary, they would encourage dependence on imported rice, and would make more difficult an effective fertilizer program designed to increase the use of

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fertilizers on rice production. The US favors a retail price for imported rice of 14 piasters per kilogram, which under normal supply conditions and price spread would result in a retail price in Saigon for Vietnamese rice of 16 piasters.

7. In addition to the price issue, the matter of current purchases of foreign rice to insure adequate stocks during 1967 has not been resolved. There is some apparent misunderstanding by GVN officials on the size of the US commitment of PL 480 rice for calendar year 1967. GVN officials have not revealed their plan for buying rice with foreign exchange. These rice purchases, however, should be completed soon to avoid a serious draw-down of imported rice stocks in the spring.

8. Secretary of State for Commerce An, in meetings with US officials on 21 and 22 December, indicated that he has been under pressure by his government and by rice merchants to reach an agreed policy with the US and to make price announcements immediately. Although the US Mission continues to share this anxiety for an early solution, there is little inclination to accept the latest GVN proposals which would, in US opinion, be inadequate.

Income Tax Withholding

9. As of 1 January 1967, the GVN will initiate withholding of income tax on salaries and wages earned in both the public and private sectors of the economy. This progressive GVN decision was made partly in response to the recommendations of the US Internal Revenue Service team that surveyed the GVN tax system last summer. Because the US is the second largest employer of Vietnamese nationals, the embassy feels that the success of the new withholding system may depend heavily on US participation. Consequently, the embassy has recommended that the US facilitate collection of its employees' taxes in accordance with the new GVN law, provided that the GVN law will be strictly enforced with respect to other employers and that US participation will be in accord with US law.

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SECRETPort Labor Situation

10. A power struggle within the Vietnamese Confederation of Labor (CVT) and the apparent collusion of some CVT elements with stevedore companies have resulted in a waterfront strike in Saigon. The strike, initiated early on 26 December, so far affects only the main port of Saigon although it grew out of a labor dispute at New Port, serving the US military a few miles upriver.

11. The initial point at issue was an agreement signed on 7 December by CVT President Tran Quoc Buu on behalf of his organization. The agreement permitted the US to lay off several hundred Vietnamese dock workers who had been temporarily hired to work at New Port until a US Army Terminal Service battalion arrived. Buu signed the agreement on the ground that New Port is a completely military installation and that the US Army is within its rights to terminate the use of Vietnamese stevedoring services. The termination, delayed for two weeks from the date of the agreement, became effective 21 December. For the next several days, groups of workers picketed New Port, but created no disturbances. On 24 December the Dockworkers' Union called for a sympathy strike by military cargo handlers at Saigon's main port.

12. Buu contends that, with the port situation booming, the displaced workers can find new employment, although he intends to press certain other complaints of exploitation of workers at New Port. His rivals, however, are using the issue not only to discredit Buu and his protestations of defending dockworker interests, but to bring pressure on the US Army to grant long-term renewal of contracts with stevedore companies now handling military cargo at the main port. These contracts expire on 31 December, and so far the companies have been offered extensions of from one to three months only.

13. Vietnamese Minister of Labor Nguyen Huu Hung, who has been supporting Buu's position with regard to the dock workers, has been attempting to get the stevedore companies and the US Army to resolve the contract issue in the belief that this is the key to

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a quick settlement of the strike. Should Buu's rivals, however, persist in their agitation over the situation at New Port--where military cargo unloading by US troops is so far unaffected, the strike at the main port could be prolonged. The US Army's contingency plans call for US troops to move military cargo at the Saigon port.

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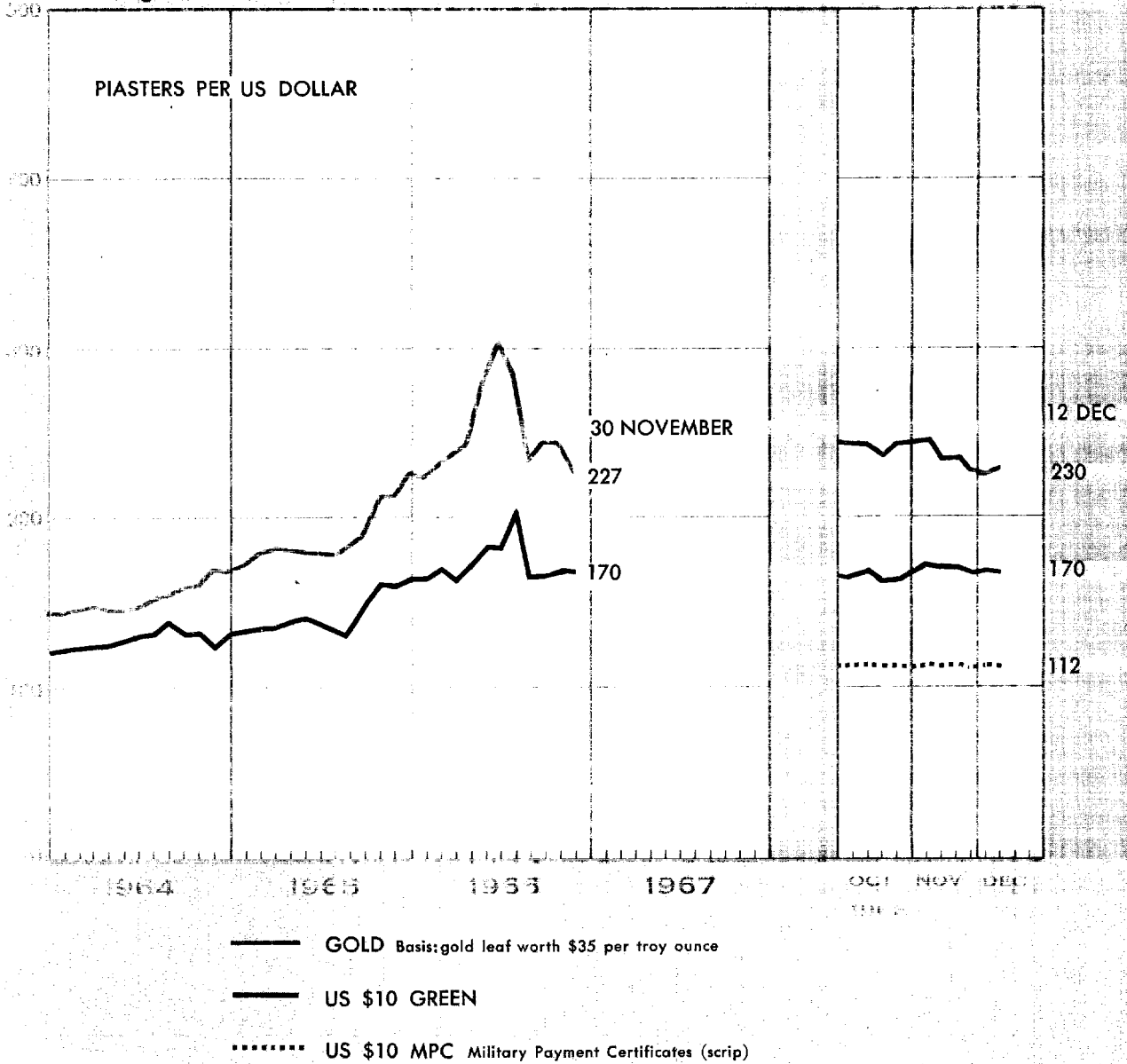
SECRETANNEXWEEKLY RETAIL PRICES IN SAIGON a/

	3 Jan 1966	21 Nov 1966	28 Nov 1966	5 Dec 1966	12 Dec 1966	19 Dec 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>227</u>	<u>217</u>	<u>231</u>	<u>243</u>	<u>243</u> <u>c/</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>236</u>	<u>224</u>	<u>239</u>	<u>256</u> <u>c/</u>	<u>254</u> <u>c/</u>
Of Which:						
(In Piasters)						
Rice-Soc Nau (100 kg.)	800	1,600	1,600	1,700	1,750	1,750
Pork Bellies (1 kg.)	70	85	85	130	140	120
Fish-Ca Tre (1 Kg.)	110	180	140	150	170	170
Nuoc Nam (jar)	50	85	85	90	90	90
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>197</u>	<u>195</u>	<u>200</u>	<u>206</u> <u>c/</u>	<u>208</u> <u>c/</u>
Of Which:						
(In Piasters)						
Charcoal (60 kg.)	440	620	630	650	680	690
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	35	34	40	40	40
Laundry Soap (1 kg.)	30	32	40	40	40	40

- 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



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