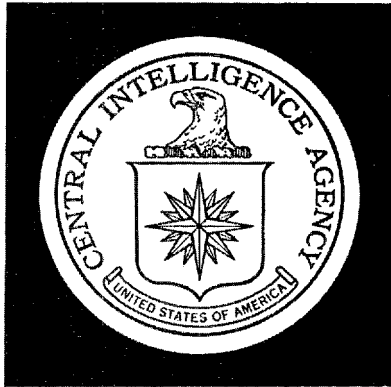


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Report

## *The Situation in South Vietnam* (Weekly)

USAID, ARMY, State reviews completed

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM  
(27 December 1966 - 2 January 1967)

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## I. POLITICAL SITUATION

The five-day dockworker strike at Saigon ended late on the afternoon of 30 December. A general strike called by the rebel union leaders for Saigon was, for the most part, a flop. Earlier in the week, an attempt to assassinate a prominent member of the Constituent Assembly was unsuccessful. The Directorate's official reply that it could not accept the recommendations for changes in the assembly charter was not well received by the assembly deputies. According to the US Embassy, the government is handling with considerable care the issue of how to gradually eliminate the French-run schools. Phase two of the return of the FULRO highlander forces to the government is in the planning stage.

### Strike at Saigon Port

1. An agreement between rebel union leaders and GVN and US officials was reached on 30 December to end the five-day walkout by some 5,000 stevedores at the Saigon port. An attempt earlier that day by the leader of the Saigon council of the Vietnamese Confederation of Labor (CVT) to widen the strike in Saigon was apparently not very successful. As a result, the leaders of the strike went to the bargaining table later in the day without the support of the national CVT representatives and other key union groups in Saigon. The dockworkers were reported to be returning to work at 8:00 PM on the 30th.

2. The strike began on the morning of 26 December allegedly in protest of the scheduled dismissal of 600 dockworkers from the new US military offloading facility, called New Port, upriver from the main port. However, the strike actually represented an effort by the Saigon Dockworkers' Union to apply pressure on the US Army for the long-term extension of contracts with six stevedore companies at the main port. The contracts were due to

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expire on 31 December, and renewal had been offered for periods of only one to three months.

3. Congestion at the port, which has been a thorny problem for some time, did not become critical during the strike because US troops were moved into the military sector to offload essential war cargo. The use of US troops to move cargo prompted claims that "strikebreaker" tactics were being used, but the charges did not generate enough sympathy from the other unions to enable the rebel leaders to press their demands. The president of the CVT, Tran Quoc Buu, probably regained some of his lagging prestige with the Saigon unions and with the government as a result of the peaceful settlement of the strike.

#### Attempt Made on Life of Constituent Assembly Member

4. An unsuccessful attempt to kill influential Saigon politician, Dr. Phan Quang Dan, was made late in the afternoon of 27 December. Shortly after Dan started his automobile, an explosive charge went off blowing a hole through the bottom of it. Two pedestrians died from injuries from the blast, but Dan suffered only superficial wounds to his legs. A suspect was supposedly apprehended, but there have been no subsequent reports from the Vietnamese police to suggest that he is the terrorist. Curiously, the clandestine Viet Cong radio in South Vietnam broadcast a story denouncing the Thieu-Ky clique as the perpetrators of the crime only six hours after it occurred.

5. The assassination attempt came only 20 days after prominent assembly member Tran Van Van was shot to death on his way to an assembly session. Dan has been one of the most outspoken independent deputies in the assembly and has spearheaded many floor discussions of controversial subjects. He has been especially critical of the Directorate's power to revise the draft constitution. Dan was the former chairman of the Gia Dinh Province council before winning a seat in the assembly.

#### Constituent Assembly Activities

6. During the 27 December session, the Constituent Assembly voted broad approval of a future council

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to advise the government on cultural and educational policies. Provision for the council will be made in the constitution.

7. In its morning session on 29 December, the assembly again discussed the question of providing for an inspectorate in the constitution, finally approving of it in principle. However, it still deferred a vote on whether the inspectorate would be a separate branch of the new government. The deputies also debated the subject of the role of political parties, and adopted three general constitutional principles: that parties play an essential role in a democratic regime, and that a two-party system should be encouraged by the state as should the formalization of a political opposition.

Directorate Officially Rejects Assembly Request to Amend Its Charter

8. Chief of State Nguyen Van Thieu officially advised the assembly that its appeal for amendments in its basic charter could not be honored. The amendments, if accepted by the Directorate, would have limited the Directorate's powers of revision over the draft copy of the constitution before it became law. The Directorate will retain its right to amend the draft constitution under Article 20 of the assembly's founding charter.

9. On 29 December, the assembly discussed the Directorate's reply. The deputies took no formal action on the reply other than to approve a proposal that the constitution be protected after its final assembly approval. The discussions clearly indicated that the assembly is not yet satisfied with the Directorate's position on the issue, and that the possibility of a showdown between the assembly and the government is not eliminated, but merely postponed.

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[redacted] assembly chairman Phan Khac Suu is still working on a compromise formula that he hopes to clear with the Directorate.

GVN Moving Cautiously in Eliminating French-run Schools

10. Commenting upon the recent recommendation of the advisory People's Army Council (PAC) for a gradual

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elimination of the French-run school system in South Vietnam, the US Embassy believes that the GVN is carefully handling this potentially explosive issue. The government appears to be investigating ramifications of taking over the French schools and to be avoiding precipitant action by such steps as consulting the PAC. The PAC has recommended renegotiation of the cultural agreement which permits France to operate the schools leading to closure of French primary schools by 1967-68 and a gradual transition in secondary schools. More than 26,000 pupils are involved, and hasty expulsion of French teachers and school administrators could result in a severe shortage of teaching personnel.

#### GVN - FULRO Negotiations

11. General Vinh Loc, the commander of II Corps, and several ethnic highland officials met recently to plan the future integration of troops still loyal to the FULRO organization, a dissident montagnard autonomy movement, into the GVN force structure. As an act of good faith, General Loc has agreed to furnish arms to 250 FULRO troops who have already rallied to the government and to include them in one of the highland paramilitary units. In return, the chief FULRO negotiator will arrange for the return of over 2,000 other FULRO troops to the government in late January. The GVN also plans to release about 100 FULRO prisoners from jail at that time. This phase of the GVN/FULRO accord, if successful, would then prepare the way for the return of the FULRO leader; his return is also reportedly dependent, however, on the inclusion of articles in the constitution benefiting the highlanders.

#### Recent GVN Decrees on Local Government

12. On 24 December, the government issued decrees authorizing the reorganization of village and hamlet governments. The election of the local officials, usually the chief and the council, are expected to take place in mid-1967. The governmental administrative units at these levels have been traditionally unresponsive to the central government as well as to their own local inhabitants. The reorganization is aimed in part at creating a popular base within which the people can identify with their nation.

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## II. REVOLUTIONARY DEVELOPMENT

During the period 22-28 December, 602 Communist defectors came over to the government, raising the total thus far in 1966 to 19,825. An embassy analysis of the Chieu Hoi program in I Corps area reveals several difficulties which have impeded that program. Psychological operations activities in I Corps have shown marked improvements in several respects. During 1966, 2,217 new classrooms were built; this represents about 91 percent of the year's goal of 2,403.

### Viet Cong Defectors (Chieu Hoi)

1. Defectors from the ranks of the Communists during the period 22-28 December totaled 602, a slight increase over the previous week's tally of 585. The number of returnees to the GVN for 1966 now stands at 19,825, or 8,701 more than for the whole of 1965. Some 47,614 Communists have rallied to the GVN since the inception of the Chieu Hoi program in mid-1963.

2. The II Corps Zone continues to generate a steady and significant flow of defectors. Within this Corps, two provinces, Binh Dinh and Phu Yen have yielded the bulk of returnees. During the current reporting period, Binh Dinh and Phu Yen together received 362 defectors--267 and 95, respectively. This phenomenon has been observed for several weeks and the embassy has called for an evaluation of the reasons for the continuing high returnee flow from these two provinces.

3. A breakdown of returnees by Corps zones follows:

I Corps	49
II Corps	409
III Corps	50
IV Corps	<u>94</u>
	602 (368 military)



~~SECRET~~The Chieu Hoi Picture in I Corps

4. A recent report compiled by MACV reveals that the I Corps area, which has approximately 16.6 percent of the country's population and 23.4 percent of the Viet Cong/North Vietnamese Army strength located there, produces only about 9.7 percent of the total of Chieu Hoi returnees. This percentage of Chieu Hoi returnees is well below that of the other Corps areas.

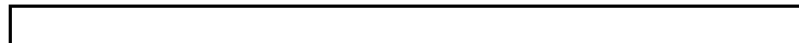
5. A follow-up report from the embassy points up some reasons for the poor performance of the defector program in this Corps. The principal reason, according to the embassy, seems to be that a greater number of North Vietnamese troops are located in this area and they almost literally have no place to which to defect. The individual NVA soldier may, instead, prefer to become a prisoner of war rather than a Hoi Chanh since he has no family in the South and he may fear reprisals against his family in the North if he defects.

6. Another reason cited for the apparent failure of the Chieu Hoi effort in this Corps is the idea, a holdover from the Thi era, that the best Communist is a dead one. Also, this region has had a long tradition of hard core Viet Cong support among the population.

7. The Chieu Hoi program in I Corps also suffers from some inherent weaknesses, the result of poor cadre assigned to administer it. Both the regional director and the Chieu Hoi chief in vital Quang Nam Province have proven to be unfit for their jobs. The latter has only recently been removed and the former reportedly is on his way out.

8. The program may now be on the upswing, in part because of the introduction of third country nationals as Chieu Hoi advisers throughout the Corps area. Specifically, there is reported to be progress in the Chieu Hoi effort in Quang Ngai Province.

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Psychological Operations in the I Corps Zone

9. There has been a significant contribution made to the psychological operations activities in I Corps by JUSPAO representatives by the development of composite information teams to assist US Marines in their operational activity in four districts of Quang Nam Province. These teams, which are used extensively by the USMC, are the result of a cooperative effort in both men and resources from ARVN, the Chieu Hoi organization, the Vietnam Information Service (VIS), and JUSPAO.

10. Also of some importance has been the rehabilitation of the Quang Nam VIS organization working out of the province capital of Hoi An. This team was shattered as an effective voice of the GVN during the period of the Buddhist "struggle" this past spring. Rehabilitation has been a slow process of education and morale building.

11. There has been a development of newspapers in the I Corps area during the year. In Quang Tri Province, the circulation of a bi-weekly publication has reached 7,500, while in more populous Thua Thien Province, a weekly paper produced there now has an average circulation of 8,500. In Da Nang there has been what is described as "an excellent reader acceptance" of a newly established weekly paper--average circulation, about 5,000. The Quang Nam provincial paper, published in Hoi An, has an average circulation of 7,500, every two weeks. Quang Ngai and Quang Tin provinces both maintain bi-weekly papers with circulations averaging 6,000 and 3,000, respectively.

Improvement in Educational Assets

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12. [REDACTED] it now appears that the 1966 goal of 2,403 classrooms to be built will be about 91 percent accomplished (2,217 units). This will be the largest number of classrooms completed in any year since the inception of this program. The second highest number, slightly over 1,400 units, was completed in 1964.



13. Also, almost 3,400 persons went through the 90-day teacher training course in 1966. This was also a record; the next best year was 1965 when 2,522 teachers were trained.

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### III. ECONOMIC SITUATION

Retail prices in Saigon during the week ending 27 December fell significantly from the level of the previous week. Rice and pork prices declined for the second week. The retail price indexes dropped to the levels of late November 1966. Prices of imported commodities increased, but moderately, despite the adverse port situation.

#### Prices:

1. Retail prices in Saigon for the week ending 27 December fell significantly. Rice and pork led the general decline of food prices and apparently influenced the price of other food items. Rice prices declined with the arrival of new crop rice although the relatively high moisture content of the new rice makes it a second choice. The cost of pork fell following the announcement of the sale of the 500 tons of frozen pork remaining from the September import of frozen pork. Sales of this pork began 24 December, continuing through 2 January. Prices of fish and shrimp reflected the lower prices for pork but also were influenced by relatively large arrivals in Saigon. Vegetable prices dropped because of more favorable weather conditions in the growing areas. Non-food prices also declined generally. Retail price indexes had dropped back approximately to the levels of late November 1966. (A table of weekly retail prices in Saigon is included in the Annex.)

2. Prices for imported commodities rose somewhat in Saigon during the week ending 27 December but less than might have been expected in view of the port difficulties during the week and purchases for the Tet season.

#### Gold and Currency

3. Prices for gold and currency for the week ending 27 December eased slightly. Gold leaf cost 224 piasters compared with 226 for the previous week.

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Prices for dollars and MPC (scrip) dropped slightly to 172 piasters and 112 piasters, respectively, compared with prices a week ago of 173 and 114. The tightness of credit and need for liquidity at this season reportedly accounted for the minor price changes. (Graphics on free market gold and currency prices are included in the Annex.)

#### Rice Policy and Rice Stocks

4. Although no general agreement on rice policy had been concluded between the US Mission and the GVN, on Monday, 26 December, Secretary of State for Commerce Ton reportedly announced to a meeting of Saigon rice merchants that the official government purchase price for paddy is to be 7.5 piasters per kilo of average grade. National bank financing was promised as were fair prices for government rice purchase contracts which will be opened early in February. The immediate reaction has been an increase in the price for new paddy at Soc Trang in Ba Xuyen Province from 6.5 piasters per kilo to 7.95 piasters as of 28 December.

5. Stocks of rice in Saigon on 12 December were reported to be approximately 18,000 metric tons while those in the delta were about 19,700 metric tons on 5 December. In rice deficit provinces, stocks totaled 22,800 tons on 15 December. In Saigon and in the delta rice stocks are roughly comparable to the level of 37,200 metric tons that prevailed in December last year. The over-all low level of rice stocks, less than one month's supply, reflects the seasonal draw-downs just before receipt of deliveries from the new rice crop.

#### Frozen Pork Imports

6. The GVN has announced plans to import 1,500 tons of frozen pork to meet increased demands during Tet. According to information from the US mission, the pork is scheduled to arrive in two shipments: 800 tons on 25 January and the remaining 700 tons in early February. Emarel of Tel Aviv won the contract, bidding through the local firm that was agent for the previous shipment. The pork reportedly will come from Argentina

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or Uruguay. The 500 tons of frozen pork remaining in storage from the shipment that arrived in Saigon in September is to be sold off before the new shipments arrive.

#### Joint Economic Development Study

7. On 17 December the GVN announced that it will undertake jointly with the US government a study of the long-range economic development of Vietnam. The GVN team will be headed by Professor Vu Quoc Thuc, an economist. Professor Thuc is a member of the Saigon University Faculty of Law and is one of the most eminent scholars and economists in Vietnam. He has worked with distinction in numerous governmental posts and is highly respected in government and academic circles in his country. Professor Thuc has been busily recruiting other members of the team and is ready to move ahead. The US team will be organized and directed by David Lilienthal, former chairman of the US Atomic Energy Commission and presently Chairman of Development and Resources Corporation.

#### Premier Against Luxury Imports

8. Governor Hanh of the National Bank of Vietnam told the US economic counselor that Premier Ky feels that there has been too much high living in Saigon and that luxury imports should be sharply reduced. The Premier gave instructions to Governor Hanh and Secretary of State for Commerce Ton to cut back on these imports.

9. The US Mission is also strongly in favor of austerity but seeks it by means of high taxes on the rich, including increased taxes on luxury goods, and vigorous enforcement of tax collections. Governor Hanh supports this US view. Unfortunately, stopping the flow of imports of consumer goods would mean a re-emergence of the lucrative black market in these goods. In addition, stopping the flow of consumer imports would be counter to the agreement with the GVN on open general licensing that was one of the stabilization measures adopted in June 1966.

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**SECRET**US Military Banking Facilities Threatened

10. Operations of US Military Banking Facilities (MBF) in the Saigon Branches of Bank of America and the Chase Manhattan Bank, are apparently threatened by new National Bank of Vietnam (NBVN) instructions issued in mid-December. These instructions would prohibit MPC accounts of the MBF from being transferable into US dollars outside Vietnam. This strikes at the heart of current operating procedures and, if implemented, would require drastic changes.

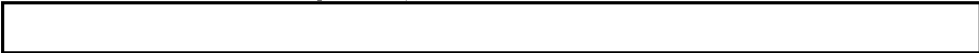
11. Military Banking Facilities, according to arrangements between the US Mission and the GVN, were established in September 1966 to permit maintenance of MPC checking accounts for in-country use, dollar checking accounts for out-of-country use, and piaster accounts for US official and quasi-official activities. The facilities were worked out by MACV and the US Treasury to provide added incentive for troops to hold deposits, thus reducing the inflationary impact of US troop spending. Governor Hanh of the National Bank of Vietnam welcomed the establishment of the MBF in September but indicated that he might later issue detailed operating instructions so that the facilities would be in conformance with the Vietnamese law. The chief operation of the MBF consists of maintaining MPC checking accounts for US troops and other authorized personnel. The MPC accounts can be drawn upon by checks which are cashable in MPC using areas, but are also redeemable at par in US dollars by the parent banks in the US. MPC deposited in MBF are counted in parent bank total deposits and thus add to loanable funds. If this exchange feature is prohibited by law, the profitability to the US banks of MBF operations would be nullified.

12. The convertibility of these accounts makes it necessary to control them to prevent illegal use. Controls are operated by MACV on the basis of information provided by the banks--daily reports of large transactions and monthly reports of unusual activity. MACV believes that controls are adequate to prevent any major illegal operations.

13. The US Mission has advised the US branch banks to continue operations. The US position as indicated to

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the National Bank of Vietnam is that Military Banking Facilities are US Government installations operated by the two American banks on instructions provided to them by the US Treasury. The American banks cannot alter MBF procedures without US Government approval. If operations of these facilities require different procedures, or additional regulations, these would have to be negotiated by the US Embassy.



ANNEX

TABLE

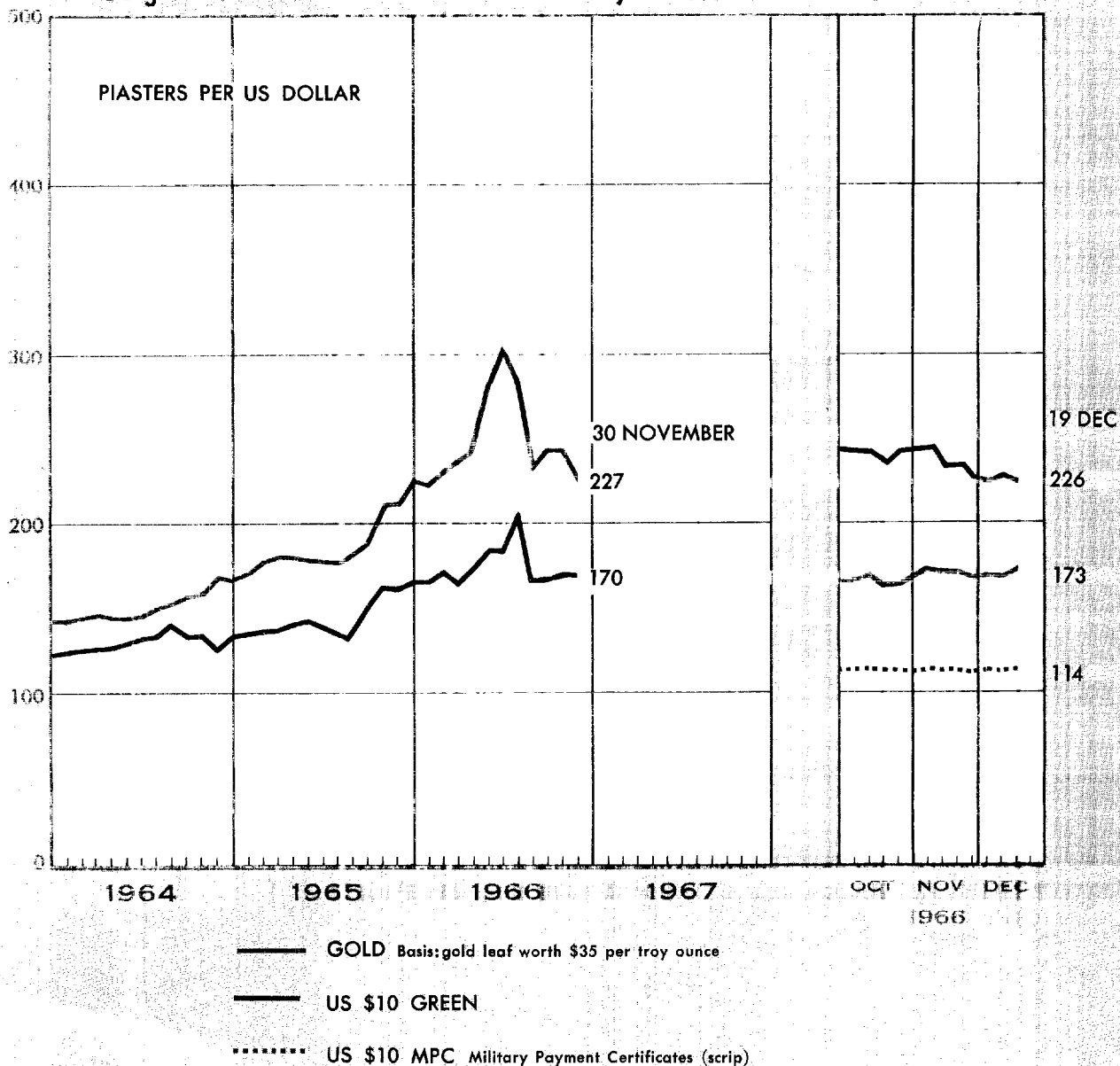
Weekly Retail Prices in Saigon a/

	3 Jan 1966	28 Nov 1966	5 Dec 1966	12 Dec 1966	19 Dec 1966	27 Dec 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>217</u>	<u>231</u>	<u>243</u>	<u>243</u> <u>c/</u>	<u>218</u> <u>c/</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>224</u>	<u>239</u>	<u>253</u>	<u>254</u> <u>c/</u>	<u>225</u> <u>c/</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 Kg.)	800	1,600	1,700	1,750	1,750	1,650
Pork Bellies (1 Kg.)	70	85	130	140	120	100
Fish-Ca Tre (1 Kg.)	110	140	150	170	170	130
Nuoc Nam (jar)	50	85	90	90	90	90
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>195</u>	<u>200</u>	<u>207</u>	<u>208</u> <u>c/</u>	<u>198</u> <u>c/</u>
Of Which: (In Piasters)						
Charcoal (60 Kg.)	440	630	650	680	690	640
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	34	40	40	40	35
Laundry Soap (1 Kg.)	30	40	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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