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DIRECTORATE OF  
INTELLIGENCE

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## Intelligence Report

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

**Secret**

**144**

26 June 1967  
No. 0356/67

## WARNING

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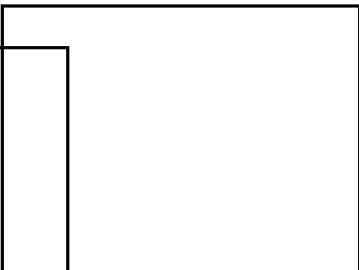
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2. Ky said that he also intends to hold a meeting of all province and district chiefs in Saigon on 26 June in order to explain the election mechanism and the "absolute necessity" of a fair and free contest. In addition, he revealed--and subsequently announced to the press--that he plans a meeting with all presidential candidates in early July to ensure that all have equal campaign opportunities--a requirement of the election law. He will offer each candidate government transportation and guarantee equal time on radio and television, in addition to adequate physical protection. As a further move, although not yet publicly announced, Ky said that he will allow the candidates to exercise some voice in the press censorship process as well as equal opportunities to present their platforms via the press.

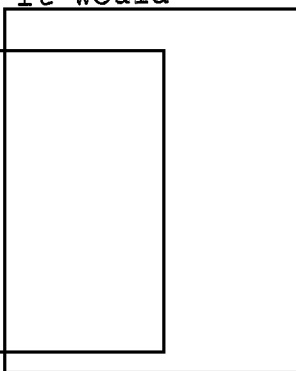
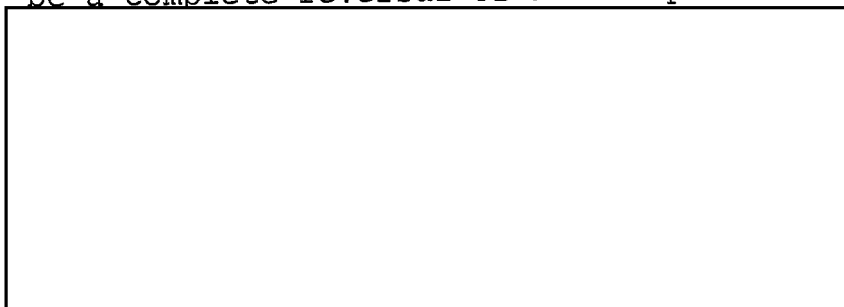
3. It remains to be seen how closely Ky will adhere to this new tack. His expressions of concern with campaign activities on his behalf were generally limited to Loan and to the thus far one-sided press coverage of his campaign.



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4. Should Ky genuinely allow other candidates a degree of control over press censorship, it would be a complete reversal of recent policies.



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II. REVOLUTIONARY DEVELOPMENT

General Thang has publicly announced his resignation from the army effective in January 1968. [REDACTED]

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According to Government of Vietnam statistics, 39 percent of all villages and 32 percent of all hamlets participated in recent local elections. Training of Vietnamese Army battalions for their RD mission has slowed somewhat, but all maneuver battalions should complete their training by August 1967. Veterans or the dependents of deceased veterans may receive increased employment opportunities in the fields of social welfare, labor, and education. The training of the newly elected village and hamlet officials is reportedly being carried on in almost all the provinces in the country. Recent RD cadre successes include the formation of combat youth groups in Quang Nam Province, improved leadership in Phuoc Tuy Province, and the elimination of the Communist hamlet cadre in Chau Doc Province.

General Thang Resigns as Head of Revolutionary Development

1. Commissioner General of Revolutionary Development General Nguyen Duc Thang has publicly confirmed an earlier report that he intended to resign from military service. His public statement, however, gives no indication of his intentions in regard to his post in the cabinet. Thang was reported to have wanted to resign from the army and the cabinet after the 3 September national elections, but apparently he has been prevailed upon to remain in the army at least until January 1968.

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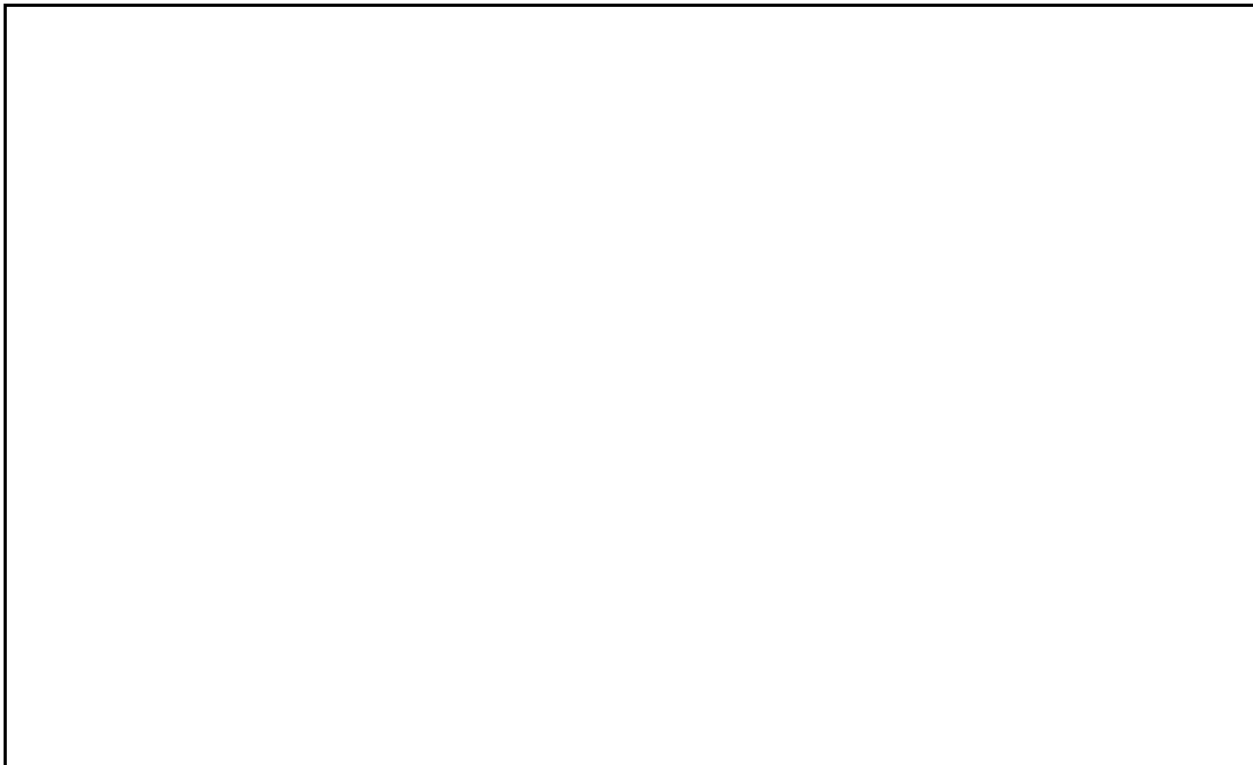
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Village and Hamlet Elections

7. The following chart compares the number of villages and hamlets in which the Government of South Vietnam (GVN) in early 1967 expected to hold local elections this spring and the number of villages and hamlets in which such elections actually took place during the period April to June. The GVN considers this to have been merely phase I of local elections, with voting in phase II to take place as security permits.

	<u>I Corps</u>	<u>II Corps</u>	<u>III Corps</u>	<u>IV Corps</u>	<u>TOTALS*</u>
Projected:					
Villages	182	428	295	392	1,297
Hamlets	590	1,608	1,164	2,131	5,493
Actual:					
Villages	154	285	204	341	984
Hamlets	545	1,252	869	1,810	4,476

\*All figures are those reported by the GVN's Special Commission for Administration (SCA). The SCA reports

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8. In February the government also decided to establish interim administrative agencies in the following number of villages and hamlets not participating in this spring's balloting:

	<u>I Corps</u>	<u>II Corps</u>	<u>III Corps</u>	<u>IV Corps</u>	<u>TOTALS</u>
Villages	244	198	122	329	893
Hamlets	1,253	1,075	251	905	3,484

Presumably, as these villages and hamlets become more secure and RD takes hold, they will be allowed to vote for their own officials. Tentative provisions have been made for some of these, and possibly some newly cleared localities, to vote in "Phase II" of the local elections from July 1967 on. With attentions now directed toward the national elections in September, however, it is possible that further village and hamlet elections may not take place until late this year or until the new national government has "settled in"--which may not be until 1968.

9. The number of villages in which elections have taken place or interim administrations have been established is 1,877 or 74 percent of the total of the villages in the country. The number of hamlets in the same categories is 7,960 or 58 percent of the country's total. (Using the HES figure for the number of hamlets in the country, the percentage increases to 67.) Actual voting, according to SCA statistics, was carried on in 39 percent of all villages and 32 percent of all hamlets.

10. US officials in Saigon feel, based upon these percentages and on the numbers of voters who participated--2.5 million in the village and 2.3 million in the hamlet elections--that as many as seven million people--or possibly 55 percent of the rural population--

the total number of villages in the country as being 2,526, and the total number of hamlets as being 13,805. The MACV Hamlet Evaluation Survey, however, has recorded only 11,830 hamlets in country. The Ministry of Revolutionary Development has established 11,250 hamlets as the goal for development in the GVN's Revolutionary Development program.

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live in villages or hamlets where the government exerts a fair degree of control and has established a modicum of security. This does not mean, however, that holding an election is to be equated with holding the active allegiance of the people.

11. Although the government made a concerted effort to provide as much security as possible during the recent elections, the pattern of enemy anti-election activity suggests that the Communists may not have mounted as disruptive a campaign as they are probably capable of doing. The reasons for the Communists' relative acquiescence is not clear. The Communists may have felt that the degree of influence or control they can exert even in relatively secure areas sufficiently hinders the activities of the newly elected officials, or that nonselective terrorism--which almost certainly would have had to be employed to hamper the elections--would have had a regressive effect upon their image and long-term goals. The Communists have hoped--in light of the growing foreign presence, the xenophobic tendencies of most Vietnamese and the drain on the Vietnamese human and material resources caused by the years of strife--that their position could be enhanced through the electoral system and that their anti-election campaign, with certain exceptions, needed only to be perfunctory.

12. According to the US Mission, few irregularities were noted in the village/hamlet elections and most of those reported concerned alleged padding of total voting figures in a given area. This appears to have been done, so the mission believes, not to change the outcome of the elections but to present a more favorable impression of voter turnout.

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13. [redacted]  
[redacted] the generally lower turnover in those villages, hamlets adjoining and within urban areas--which are more secure--appears to have been a result of the facts that the population is more cynical, the government less personalized and the government's pressure less felt. At the same time, however, local officials in rural areas were apparently more able to tamper with votes since there was less chance of

their manipulations being brought to public attention. There are numerous indications that, in view of the generally dull campaigning, the scant interest evoked, and the widespread lack of public understanding of the electoral process, most of the people voted either by guess or in accordance with the directions of their village elders. A large percentage of the voters apparently went to the polls to avoid trouble from district level military or civilian officials. There are some notable exceptions to these general judgments, however. For example, self-interest caused certain religious and political groups to work hard to ensure that their adherents or supporters got to the polls to vote for their candidates. There are also tenuous indications that subtle pressures were exerted by the government to ensure that both candidates and those officials elected would be amenable to supporting a military candidate in the September presidential elections.

#### Military Forces in Support of RD

14. As of late April, the Republic of Vietnam had committed 53 army (ARVN) battalions, one Ranger battalion and one Regional Force battalion to the direct support of RD. After an inspection of 49 of these battalions during April, representatives from MACV and the Vietnamese Joint General Staff (JGS) rated only six as inadequately supporting RD.

15. On 1 May, the total number of battalions which had received the two-week RD training course stood at 86, including 73 maneuver, seven combat support, and six combat service battalions. It is anticipated that the remainder of the 120 maneuver battalions assigned in the corps areas will have completed training as of October, and that the remaining support and service battalions may conclude their training by the end of 1967. At the beginning of the year it was anticipated that all the maneuver battalions would receive their RD orientation by August; however, operational requirements including the upsurge of military activity in I Corps set back the training cycle.

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16. Of the approximately 334 Regional Force (RF) companies supporting RD, 214 have received RD training. MACV observers do not feel that the training received by the RF has been as good as ARVN's because of the lack of command emphasis and the absence of effective administrative and logistical support.

17. Between May 1967 and July 1968, MACV anticipates that 3,354 Popular Force (PF) platoons--representing slightly less than the total number of PF platoons in the country--will receive RD orientation under the revised motivation indoctrination/RD training program prepared by the JGS.

18. In I Corps, a battalion temporarily deployed in support of RD in Quang Tri Province in March has been withdrawn, and the security of the primary RD area has thus been reduced to marginal. US observers believe that, to establish and maintain minimum security for the RD area, at least one additional ARVN battalion and two RF companies must be committed to the direct support of RD. In adjacent Thua Thien Province, US and GVN coordination is effective, but the security of the RD areas remains a serious problem and no short term solution appears likely. In Quang Nam Province no changes have been reported in the security of RD areas since the fall of 1966, but ARVN forces have been attempting to resettle a large number of families in areas around Da Nang city in an effort to establish a buffer zone between the enemy forces and sections of this National Priority Area. The security of many areas undergoing RD in Quang Ngai Province remains poor, although the introduction of US troops of Task Force Oregon into the province has apparently had a favorable psycholocial effect upon local government officials and the RD teams. US forces in TF Oregon have succeeded, for the first time in over two years, in opening National Route 1 between Duc Pho, Quang Ngai Province and Chu Lai, Quang Tin Province. The only province in which positive improvement in the security of RD areas has been reported is Quang Tin, where reportedly progress has been recorded for the first time since November 1966.

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19. In the II Corps area, South Korean troops have succeeded in establishing a continuous tactical area of responsibility (TAOR) from Phan Rang city in Ninh Thuan Province to an area 24 miles north of Qui Nhon city in Binh Dinh Province. With the establishment of this continuous TAOR, US maneuver forces have been moved out of Phu Yen Province. In its April report, MACV noted that the security situation in Kontum Province had improved and that ARVN had established better provincial relations following the installation of a new Vietnamese commander of the 24th Special Zone (Pleiku and Kontum provinces). A step-up in enemy activity in Kontum during June, however, now threatens the advances which have been made in the last three months.

20. The ARVN 22nd Division in Binh Dinh continues to operate effectively in support of RD. Elements of the division in an effort to eliminate the Viet Cong infrastructure among the population of the Bong Son Plain, are moving more than 12,000 people from areas east of National Route 1 to temporary detention camps west of the road. The people will be kept in these camps for 60 to 90 days and cared for by the 22nd Division while National Police and ARVN forces screen them. Afterwards, the division will help the people re-settle in the area from which they came.

21. In the III Corps area, the success of the Australian Task Force in Phuoc Tuy Province in opening Route 23 between the district towns of Dat Do and Xuyen Moc should create a more favorable economic situation in these areas. Elsewhere in III Corps, Operation Fairfax--an RD security operation in Gia Dinh Province--has been extended until at least 1 September. In addition, the area of this operation has been expanded to include portions of Hoc Mon District, and now encompasses nearly the entire province.

22. The ARVN forces in support of RD in Bac Lieu Province of IV Corps have extended their TAOR to include the salt flats along the coast. In order to facilitate the transportation of salt and to

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stimulate the economic life of the area, an ARVN unit has secured and improved waterways to the salt flats. In Vinh Long Province the first operation conducted in several years along the Mang Thit-Nicholai Waterway occurred in April, and this initial government presence was reportedly well received by the people living along the canal.

#### Veterans

23. The CORDS Agriculture Liaison Office and the Ministry of Revolutionary Development (MORD) have held meetings concerning the possibility of employing more veterans in agriculture programs at the provincial level. In addition, USAID advisors have suggested that representatives from MORD and the Commission for War Veterans (CWV) contact provincial officials concerned with social welfare and labor and encourage them to hire the widows and orphans of deceased servicemen as workers or trainees in their provincial programs.

#### Training for Newly Elected Local Officials

24. Preliminary reports indicate that two-thirds of the provinces commenced the training of the newly elected village and hamlet officials during April and May with most of the other provinces scheduled to initiate training programs in June.

25. The final printing of the three-volume booklet which will assist in training village and hamlet officials is nearly complete and arrangements have been made to distribute approximately 25,000 sets to the provinces. About 200 copies of an English translation have been reproduced for distribution to American advisors in the field.

#### Revolutionary Development Cadre Activities

26. The number of VC incidents against RD workers and teams in 1967 reached the 400 mark on 30 May with a total of 80 incidents reported during that month. In May, I Corps continued to lead the country in the total number of incidents with 33, II Corps had 16, III Corps had 15, and IV Corps had 17.

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27. In Quang Nam Province the RD teams constructing four hamlets in Hieu Nhon District have succeeded in training approximately 250 combat youth. Part of the credit for the organization and training of the combat youth belongs to the acting district chief who has shown interest in the activities of the RD teams.

28. Until late April, the RD team stationed in Binh Gia Village in Phuoc Tuy Province--the scene of a major battle in early 1965--lacked direction, leadership, and enthusiasm. To correct these deficiencies the provincial RD cadre adviser and the district adviser began a program of constant guidance to the team leader which has resulted in a gradual improvement in the team's over-all performance. In the beginning of May an elected village chief assumed his duties in Binh Gia and soon thereafter called a meeting of hamlet chiefs and the RD team leader in which plans were made to involve the local residents in the RD program. The results to date include the following:

On 20 and 21 May 300 villagers gave up their days off to work on village roads,

On 24 May 150 children and teenagers worked on the construction of a new school in one of the hamlets in the village.

The RD team supervised and participated in both projects.

29. In the southern delta province of Chau Doc an RD team --under the leadership of a newly appointed team leader--uncovered four covert members of the Viet Cong and 13 Viet Cong sympathizers in Binh Chanh Hamlet where the team is working.

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III. ECONOMIC SITUATION

Retail prices in Saigon during the week ending 12 June declined slightly for the second consecutive week as rice prices continued to fall. Currency and gold prices were slightly higher on 12 June compared with the previous week, after having risen sharply during the period 7-9 June in response to the Middle East crisis. US officials foresee no major declines in Saigon food prices during the summer months and estimate that prices for some items such as pork and condensed milk probably will rise while rice prices hold relatively steady. A recent US study of the GVN tax system concludes that a thorough reform is needed, but that only stopgap measures can be taken until the war is over.

Prices

1. Retail prices in Saigon during the week ending 12 June declined slightly for the second week in succession as rice prices continued to fall. Exclusive of rice, the USAID index would have shown an increase of less than one percent rather than a decline of this magnitude. Rice prices went down for the third week in succession, presumably reflecting continued sales of lower price remilled American rice. Most rice prices are now only slightly above the legal retail level for the first time since February. The price of the type of rice used by the working class declined to 24 piasters per kilogram, down from the March high of 37, but still 41 percent higher than at the beginning of the year. Prices for pork and chicken rose on 12 June, in part because of buying for a minor Chinese holiday. Vegetable prices were generally down, but the price of onion shoots rose for the fourth consecutive week. Apparently a shortage of onion seeds is producing high seed prices and, in turn, high onion prices.

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2. Prices of nonfood items held steady except for increases in the prices of charcoal and firewood. During the week ending 12 June the price of kerosene soared in a panic created by the Middle East crisis, but by the end of the week the price had returned to its normal level as GVN officials gave assurance that local petroleum stocks were adequate. (A table of weekly retail prices in Saigon is included in the Annex.)

3. Prices of selected US-financed imported commodities were only slightly lower on 13 June compared with the previous week. Fertilizer prices dropped somewhat in anticipation of the announcement by the GVN of new lower official wholesale prices that will pertain to all future imports of fertilizer to be handled by the Agricultural Development Bank.

#### Currency and Gold

4. Currency and gold prices jumped sharply during the period 7-9 June in response to the crisis in the Middle East, but by 12 June had almost returned to the levels of the previous week. Prices for dollars and gold were up by two piasters to 157 and 199 piasters per dollar, respectively. The rate for MPC (scrip) rose by one piaster to 112 piasters per dollar. (A graph on monthly and weekly currency and gold rates is included in the Annex.)

#### Outlook for Food Prices in Saigon

5. The number of factors affecting the retail market in Saigon makes it difficult to estimate the level of food prices this summer, but US officials in Saigon foresee no major declines and estimate that prices for items such as pork and condensed milk probably will rise while rice prices will hold relatively steady. Even in recent years of political and economic disturbances, the three-month period from February to May has been one of relative price stability, and May has been the month in which price increases begin. This same pattern has been

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true in 1967, if the rice crisis in early March is discounted. The major reason for this pattern is that the supply of domestically produced foodstuffs is generally largest during the February to May period and then falls off during the summer months.

6. This year, in addition to the normal slow-down, there may be special factors involved. The embassy believes that hog deliveries, which are traditionally low during the summer, may be lower than usual. Deliveries have been abnormally high since February, including more than the usual number of young pigs and sows, and there are fears that farmers may be unloading their stock because they no longer find pig production profitable. During the last year the cost of feed, mainly rice bran, has risen much faster than the retail price of pork and production will not be profitable unless the selling price of pork rises substantially. If deliveries decline considerably this summer, pork prices will rise, but renewed large deliveries of hogs to the market will follow only after a long lead time.

7. Another unsettling factor in the retail market is the prospect of further wage increases for the Vietnamese as a result of the recent 200 piaster rice bonus granted to GVN employees and dependents. The Saigon market is very sensitive to any increase in GVN spending and quickly anticipates future inflation. Embassy officials feel that the rice bonus probably was the minimum they could expect to see granted to GVN employees at this time, but fear that private employers will now be under increasing pressure to raise wages. A case in point is that the US Government and US civilian contractors are now considering a pay raise for their Vietnamese employees.

8. One positive factor in the market this summer is the rice situation. Stocks of imported rice should continue to grow. The recent and successful commencement of sales of remilled American rice at 19 piasters per kilogram should allow

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imported rice to take over a large share of the Saigon rice market during the last half of the year and thus prevent the price of the more expensive domestic rice from rising further. The embassy foresees no sharp increases in the price of rice unless the GVN proves itself administratively incapable of dealing expeditiously with a spot price panic.

9. It is difficult to analyze the largely unorganized markets in food items such as fish and vegetables. Prices of these foodstuffs vary with the seasons, and during the summer fish usually is in good supply while many vegetables are not. The price of Nuoc Mam, however, a fish sauce used by all Vietnamese with almost every meal, can be directly related to the prices of its two major ingredients, fish and salt. Traditional processing time for Nuoc Mam is 8 to 10 months, and the price increases for fish and salt in the last seven months of 1966 probably are being reflected in the current price for Nuoc Mam, which is 67 percent higher than at the beginning of the year. The exceptionally high price probably also reflects higher transportation and labor costs. Based on these factors, the embassy staff estimates that the price of Nuoc Mam will not increase notably in the coming months.

10. The joint USAID/Embassy economic staff in Saigon notes that they do not have the means to restrain the increase in prices of many of the commodities forming part of the daily diet of the average Vietnamese and that they must be cautious about restraining price rises even where they do have some influence, as in the case of imports. If the US were to try to lower the prices of commodities that are produced locally and also imported, there is the risk of a long-run depression of local production. In fact, the staff would like to see a moderate increase in price for some foodstuffs, such as pork, to encourage local production. In order to reduce GVN subsidies, they would also like to see an increase in the price of sweetened condensed milk and, in I and II Corps,

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an increase in the price of rice. The GVN already is considering dropping the subsidy on imported condensed milk, which amounts to about 6 piasters per can. Were this subsidy eliminated, the resulting price increase probably would be equivalent to the subsidy, but it would not occur abruptly because present stocks are large.

#### GVN Tax System

11. A study prepared recently by the US joint economic staff in Saigon recommends a thorough reform of the GVN tax system, but concludes that such a reform probably will have to wait until the war is over. For several years the GVN has been running a substantial budgetary deficit, financed by foreign aid and inflationary borrowing from the National Bank of Vietnam. The GVN, the US, and international agencies have been seeking ways to raise GVN revenues, but have been greatly hampered by the existing complex and outdated tax structure. The present tax system is largely a legacy of the French colonial period, but the Vietnamese substituted a variety of measures which made it unnecessarily complex and difficult to administer. The system is also fragile because of its excessive dependence on a small group of commodities such as tobacco and beer, and because it relies too heavily on import duties.

12. There are some interim steps that could be taken within the existing tax structure to increase revenues. The study recommends raising tax rates on sources with the ability to pay--some war-inflated sources are not paying taxes at all. An important source that now bears a relatively light tax burden in comparison with other countries is petroleum. In addition, there are too many firms exempted from paying the production tax. In the case of such products as ice and meat, where taxes are levied on a per unit basis, the taxes should be shifted to an ad valorem basis in order that receipts rise commensurately with prices. Earlier this year, the GVN adopted a withholding system in order to increase revenue from personal income taxes, but the effect of this system may be negated by its accompanying new schedule of exemptions.

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13. Other problems requiring immediate attention are decentralization of taxing powers and the schedule of customs duties. US officials believe that the tax system should be redesigned to provide more regional autonomy in order to strengthen local government and limit extra-legal taxation in the provinces. As for customs, no real tariff review accompanied the economic reforms in mid-1966, and a review of customs rates is long overdue. In addition, customs procedures must be revised because revenues are subject to gross fraud, and importers are often granted long deferrals of payments.

14. Military operations have also adversely affected the collection of revenues. The war has cut off the central government from many rural tax sources, with the result that more than 90 percent of total revenues now come from the Saigon area. The military draft has taken trained personnel, severely limiting the operations of the Directorate of Taxation, whose efficiency is now very low.

15. Some of the proposed remedies for the tax system involve simple changes in tax rates, while others, such as the transfer of central government taxing powers, pose complex political problems. US officials do not expect any major changes in the tax system, but feel that some minor rate changes are mandatory in order to achieve the desired 40 percent increase in domestic tax revenues this year.

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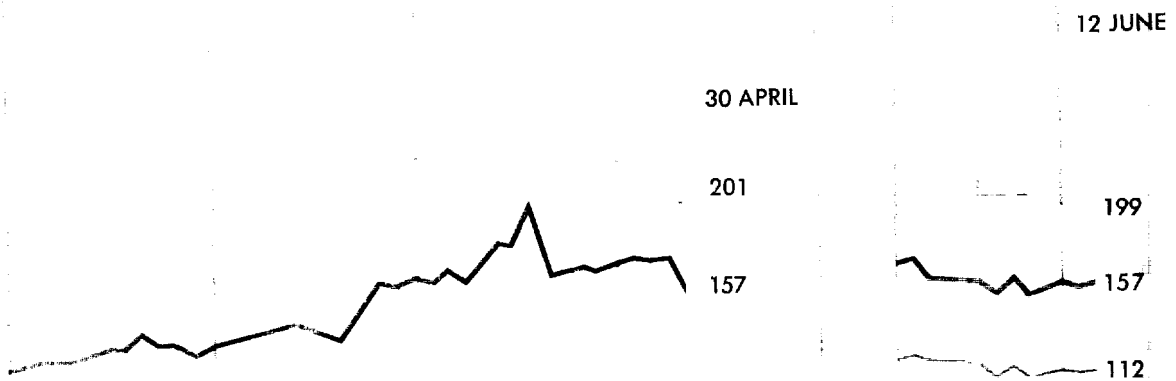
TABLE  
Weekly Retail Prices in Saigon a/

	13 June 1966 b/	3 Jan. 1967	22 May 1967	29 May 1967	5 June 1967	12 June 1967
Index for All Items	<u>173</u>	<u>225</u>	<u>276</u>	<u>276</u>	<u>271</u>	<u>269</u>
Index for Food Items	<u>190</u>	<u>242</u>	<u>310</u>	<u>311</u>	<u>300</u>	<u>295</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	1,250	1,700	2,750	2,650	2,550	2,400
Pork Bellies (1 kg.)	90	130	150	160	150	160
Fish-Ca Tre (1 kg.)	130	150	170	170	160	160
Nuoc Mam (jar)	70	90	150	150	150	150
Index for Nonfood Items	<u>140</u>	<u>195</u>	<u>214</u>	<u>210</u>	<u>217</u>	<u>221</u>
Of Which: (In Piasters)						
Firewood (cu. meter)	360	560	550	530	550	600
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	33	33	32	32	32
Kerosene (liter)	7.8	10.5	10	10	10	10

- a. Data are from USAID sources. For all indexes 1 January 1965 = 100.  
 b. Price level just prior to the 18 June devaluation.

## Saigon Free Market Gold and Currency Prices

PIASTERS PER US DOLLAR



GOLD: Basis gold leaf worth \$35 per troy ounce

— US \$10 GREEN

— US \$10 MPC Military Payment Certificates (scrip).

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