Memo Control Form

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CLASSIFICATION OF MEMO (OCI)

☐ NOTICE NO 27-67 COVER SHEET ☒ DISSEM AUTHORIZATION

MEMO NO 0797/67 DATE 9 March 1967 Due Dates: D/OCI Review _____ Dissem _____

SUBJECT: South Arabian Dissident and Federal Armed Forces

REQUESTED OR ORIGINATED BY: Self-initiated

PURPOSE: Background for upcoming IRG (NE) discussion; has been discussed with C/NE/DDP

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ASSIGNED TO: [redacted] GRAPHICS Yes COORDINATE OUTSIDE OCI DDP

DISSEMINATION

☐ Preliminary (DDI, D/OCI, and their staffs)

☐ Category_____ Recommended to D/OC [redacted] 25X1

☐ Category E Finally Authorized By: [redacted]

☐ Specified Other _____

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OCI Special Paper Notice No. 27-67 Control No. 0797/67

SUBJECT: South Arabian Dissident and Federal Armed Forces Date 9 March 1967

INTERNAL

1-6 DDI
DCI
DDCI
EXEC. REG.

7-12 D/OCI,

13-17 DDI STAFF
EXEC. DIR.
25 D/ONE
26-28 PICL

18-22 OD/OCI STAFF
29 PTO
30-38 OPSCEN
39 DDP Duty Ofcr.

23,24 MCO
40,41 INDICO

42,43	D/NIPE	-2
44	G. COUNS.	-1
45	I.G.	-1
46	O/DCI [redacted]	-1
47-49	DD/S&T	-3
50	OSP, DD/S&T	-1
51-63	DDP [redacted] (COLLATERAL)	-13
	~~DDP (CODEWORD)~~	~~-7~~
64	DIR/PPB	-1
65,66	ONE	-2
67	ONE Reading Room	-1
68-72	D/ORR (CSS)	-5
73-77	D/OSI	-5
78,79	D/OCR (SR/OCR)	-2
80	Chief, DD/OCR (COLLATERAL)	-1
81-83	DIR/NPIC (LS/PID)	-3
84	DDI/CGS	-1

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85	NMCC (OPSCEN)	-1
86	DDI/RS	-1
	~~[illegible]~~ [redacted]	~~-1~~
	~~[illegible]~~ [redacted]	~~-1~~
	~~[illegible]~~ [redacted]	~~-6~~
	~~[illegible]~~ [redacted]	~~-1~~
96	SA/R	-1
97,98	CA/EUR	-1
99,100	CA/MEA	-2
101,102	CA/WH	-2
103,104	CA/FE	-2
105	CD/West [redacted]	-1
106-109	CS/PRES	-4
110	ADMIN (VM)	-1
111	DO/II	-1
112,113	Orig Div.	-2
114,115	Orig. Br.	-2

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Smith -5
The Vice President -1
Gen. Maxwell Taylor -1

STATE

DEFENSE
Hand -1

BUDGET
Clark -1

TREASURY
Fowler -1

USIA
Marks -1

AID
Gaud -1

ACDA
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NASA
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8 March 1967

Talking Paper for "South Arabian Dissident and Federal Armed Forces"

1. This paper was self-initiated by the Middle East Division. We felt that a memorandum was called for in order to pull together a large number of fragmentary reports on the formation of an Egyptian-sponsored armed force for use in South Arabia. We have been moved to produce the memorandum at this time because of indications that the "liberation army" was surfacing, and because we have been told that South Arabia is up for discussion by the IRG (NE) at an early date.

25X1A 2. [redacted] the Agency representative on the IRG (NE), has indicated that he would welcome such a memo as a contribution to the IRG. The initiative in producing it is, nonetheless, entirely that of OCI/MEA/ME.

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44

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DIRECTORATE OF INTELLIGENCE

Intelligence Report

The Situation in South Vietnam

(Weekly)

Secret

145

13 March 1967
No. 0341/67

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(6 March - 12 March 1967)

C O N T E N T S

	Section
POLITICAL SITUATION	I
Constitution nearly completed; Presidential contest; New diplomatic assignments; Exile group to hold possible rally in Paris.	
REVOLUTIONARY DEVELOPMENT	II
The Revolutionary Development situation in Phu Yen; Viet Cong efforts aimed at thwarting the GVN Revolutionary Development programs; Effectiveness of the static census cadre; Activities of the National Police.	
ECONOMIC SITUATION	III
Prices; Currency and gold; Rice situation; Pork situation; Changes in Ministry of Economy.	

ANNEX: Weekly Retail Prices in Saigon (table)
Saigon Free Market Gold and Current Prices (graph)

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I. POLITICAL SITUATION

With the exception of the preamble, the constitution has been completed. However, prior to submission to the Directorate later this month, there may be some alterations in the final wording of articles already approved. The Directorate has one month, before promulgation, to either approve the document or send it back to the Constituent Assembly with any changes.

Campaigning for the presidency should soon start in earnest, since the target date for the election is between four and seven months away.

More changes in diplomatic assignments were announced. In Paris, meanwhile, a group of neutralists among the Vietnamese exile community is pushing ahead with a plan to create a "third force," which might serve as an alternate to the South Vietnamese Government in negotiating peace.

Constitution Nearly Completed

1. On 10 March, the Constituent Assembly completed work on the last of nine chapters, consisting of 117 articles, that comprise the heart of the constitution. The only tasks remaining now are the approval of a preamble, the alteration and final wording of a few articles, and a probable final vote on the document as a whole. The final three chapters were completed with dispatch in less than a week. Chapters six through nine govern, respectively, special institutions, the establishment of political parties, the constitutional amending process, and the transition to the elected government.

2. The final chapter may yet become the subject of some controversy. In the assembly's approved version, legislative powers spelled out by the constitution will be assumed during the transition

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period by the Constituent Assembly, which will have particular responsibility for drafting electoral laws and for regulating the election of the first president and vice president. The Directorate and cabinet of the present government will assume constitutional executive powers during the same period. The chapter also contains a timetable for establishing the new government: once the constitution is promulgated, elections for a president and vice president are to be held within six months; the election of a legislature and the organization of a supreme court and an inspectorate must be carried out within a year after the president takes office. Finally, this chapter waives during the first four-year term of the new president the principle of elected province chiefs that had been incorporated in an earlier chapter. Efforts by some deputies to extend the new president's authority to appoint province chiefs beyond his first term, at least in the case of insecure provinces, were unsuccessful.

3. It is not yet clear whether the transitional arrangements approved in the last chapter are acceptable to the present military rulers, although they have indicated that they would agree to some unspecified transitional role for the Constituent Assembly provided it remained "cooperative" on other constitutional issues. On 10 March, Chief of State Thieu stated both to the press and in a letter to the assembly that there were some "important remaining points" still to be ironed out between the Directorate and the assembly. He predicted, however, that the government would not have to exercise its power of veto. The Directorate apparently hopes that, after consultations with the assembly this week, the wording of some objectionable provisions can be modified as the assembly polishes up its draft before taking a final vote.

4. Unless some major problem arises with the Directorate, the assembly now seems likely to have the constitution finished for presentation to the Directorate by the target date of 27 March. Promulgation of the document is expected in the latter part of April. Should the Directorate veto or amend particular provisions, however, the constitution will be returned to the assembly where such changes can be over-ridden by a two-thirds majority veto.

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Presidential Contest

5. Premier Ky and Chief of State Thieu still have not come to terms over which one will run for the presidency as the military-backed candidate. Thieu indicated earlier that he preferred to wait until the constitution is promulgated before coming to a decision. Ky, however, appears less patient and reportedly is under some pressure from his close military associates to resolve the issue. Although the two powerful military leaders may yet reach a satisfactory decision between themselves, it now seems likely that the final verdict will be left up to the ten generals of the Directorate or, failing that, to the theoretically supreme Congress of the Armed Forces, which includes most of the senior command and staff officers.

25X1 6. In the meantime, [redacted] 25X1
[redacted] Ky has followed Thieu's lead in seeking a wider base of support among the traditional nationalist political parties and the religious sects. Ky instructed his civilian political advisers to contact the leaders of those groups in an effort to mold them into a united political front that would then draft Ky as its presidential nominee. Thieu reportedly initiated a similar campaign among civilian groups some three weeks ago.

7. Some of these groups, such as the delta-based Hoa Hao religious sect and the northern Catholic community around Saigon, could provide a significant bloc of votes to the military candidate. The nationalist political parties, such as the VNQDD and the Dai Viet, are generally well organized, but they suffer internal factions and do not control large segments of the population--with the possible exception of the Revolutionary Dai Viets in the two northernmost provinces. Reportedly, Ky and Thieu both are vying for the support of splinter Dai Viet groups in the south, the center, and in Saigon, where there is a group of influential but loosely organized Dai Viets who come from North Vietnam.

8. The northern Dai Viet emigrés are reported to be forming an alliance with other prominent politicians in the Saigon area. Although they are not

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firmly committed to a particular candidate, at this juncture they appear inclined to support a military candidate, with Ky their preference. Tran Quoc Buu, the president of the Vietnamese Confederation of Labor (CVT), appears to be associated with this group. If so, the CVT could potentially bring to such an alliance a base of power in the strategic Saigon constituency as well as in some rural areas.

9. The presently most active of the nationalist political organizations is the Revolutionary Dai Viet Party, which has already begun preparations to run its own candidate, Ha Thuc Ky, for president. Since his appeal is primarily in the northernmost part of I Corps, Ha Thuc Ky is considering one of three non - Dai Viet southerners--including a prominent lay Buddhist--as his possible vice presidential running mate in order to broaden his vote-getting potential.

10. Ha Thuc Ky, after surveying the political scene in I Corps, reportedly came away with the impression that a military candidate would be highly vulnerable on several issues during pre-election campaigning. The major issues identified were the rising cost of living, governmental corruption, military favoritism, and administrative inefficiency. On the other hand, he admitted that Premier Ky is probably the strongest potential candidate at present because he is in power, has influence and the necessary finances, and controls the security services through General Loan. Ha Thuc Ky's chances to win the presidency may not be favorable, but his efforts merit consideration because he conceivably could draw needed votes away from one front-running candidate to the advantage of another in a close election.

New Diplomatic Assignments

11. The GVN Foreign Ministry has announced a new round of diplomatic assignments. The former Tunisian ambassador was sent to the United Kingdom. The ambassador to Turkey was allotted the responsibility for four additional Near Eastern nations. One charge d'affaires was given the same assignment in another country, and the former consul general in Paris was reassigned as secretary general of the

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Foreign Ministry in Saigon. Most of these assignments represent a normal rotation of personnel. One significant change, however, was the appointment of General Tran Van Minh, who has been without a military assignment since 1965, as ambassador to Tunisia.

12. The Foreign Ministry has been at odds with the military leaders in Saigon for some time over the latter's desire to place military officers or other selected candidates in choice overseas diplomatic positions regardless of their credentials. Other recent diplomatic assignments, in addition to that of Minh, are indicative of the political maneuvering that has affected the Foreign Ministry. These include the naming of two of Premier Ky's most trusted civilian advisers, Bui Diem and Dinh Trinh Chinh, as ambassadors to the United States and Thailand, respectively. The motives of these two influential northerners in leaving Ky's side before his possible bid for the presidency are not clear. In addition, the recent "resignation" of the ambassador to Laos for reasons of "ill health" was apparently forced in deference to military pressure.

Exile Group to Hold Possible Rally in Paris

13. The US Embassy in Paris reports that Ho Thong Minh, who served as defense minister early in the Diem regime, is planning to announce a "third force" of non-Communists among the Vietnamese exile community at a political rally in Paris on 19 March. Minh reportedly hopes to organize a group that would be acceptable to the Viet Cong Liberation Front (NFLSV) should it show a willingness in the future to negotiate an end to the war and to create a coalition government in South Vietnam. Minh's supporters in this effort come from the neutralist camp among the large exile community in France, but do not include some of the more prominent neutralists there.

14. There appears to be considerable concern on the part of GVN officials over reportedly growing sentiment among some groups in Saigon to end the war at the peace table. The recent government-organized demonstrations in Saigon protesting a nonexistent "coalition" government-in-exile allegedly were aimed in part at stemming such a trend.

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In this climate, it appears questionable whether a Paris-based movement, such as that reportedly envisaged by Ho Thong Minh, could drum up any enthusiam among political groups in South Vietnam. The US Embassy in Paris has also questioned the extent to which such a neutralist group there would serve the Liberation Front's interests. Moreover, if the French Government should conclude between now and the 19th that Minh's plans could generate an unfavorable international impression of French meddling or sponsorship, it may well try to put a stop to the exile group's activities.

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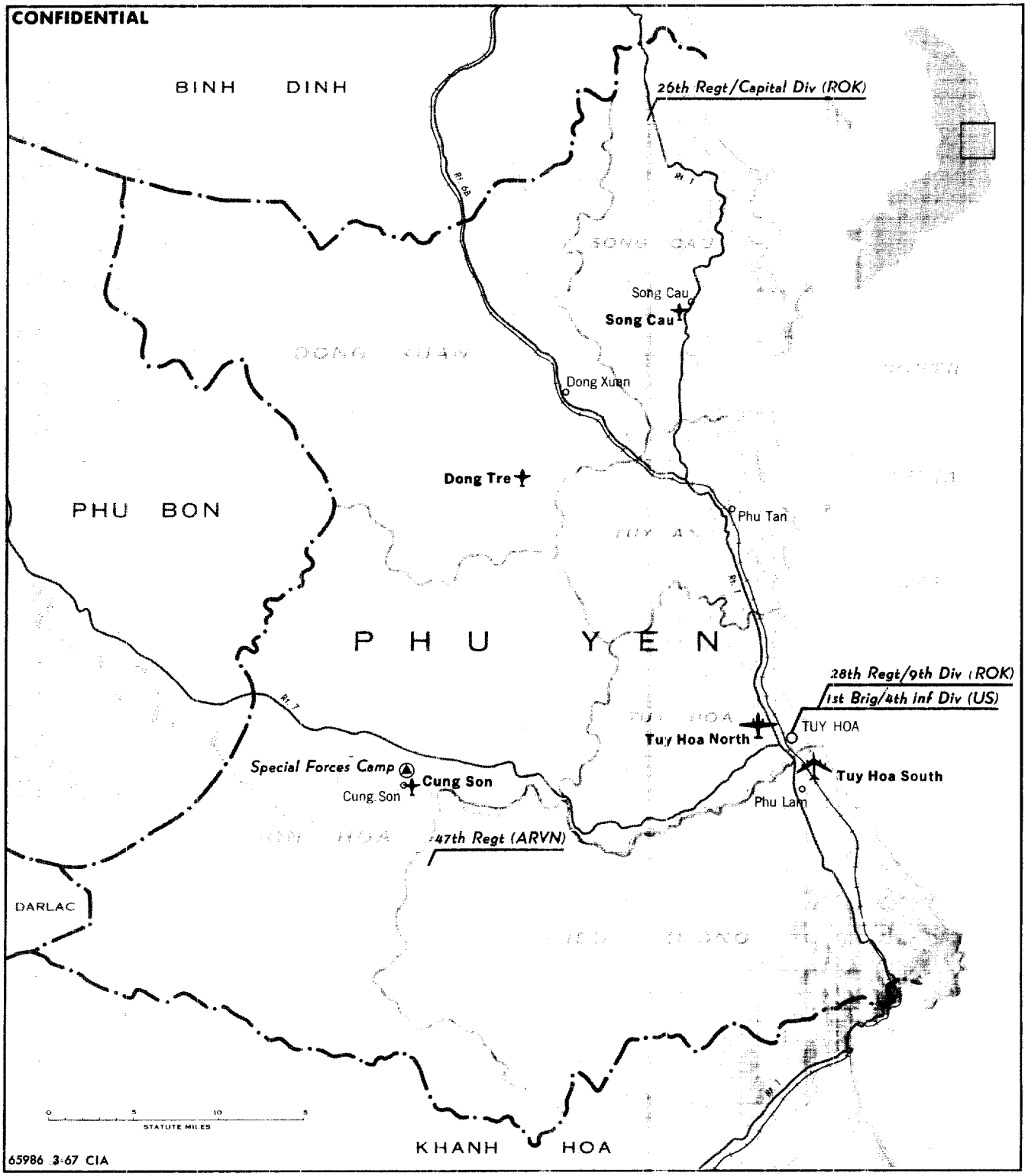
SOUTH VIETNAM: Phu Yen Provence



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II. REVOLUTIONARY DEVELOPMENT

An assessment is made of the Revolutionary Development program in Phu Yen, one of the "showcase" areas for the program. An increasing number of reports indicate Viet Cong concern over the possibility of government success in the RD program. Static Census Grievance cadre, located in 38 of the 44 provinces, have often been instrumental in providing timely intelligence on Viet Cong activities or in inducing defections. The National Police have developed mobile police teams along parts of National Route 4 in the delta provinces to serve as traffic controllers and to detect Viet Cong movements and activities. During the period 26 February-4 March, 1,168 Viet Cong rallied to the government; this figure includes 716 military and 401 political ralliers.

The RD Situation in Phu Yen

1. Security in Phu Yen Province, considered poor throughout 1965, has improved considerably over the past year as a result of the introduction of US and Korean troops. Taking advantage of the increasingly favorable security conditions, government officials and their US advisers have pressed the implementation of Revolutionary Development (RD) goals in the province to such an extent that Phu Yen, along with areas in Binh Dinh and Vinh Binh provinces, has now become a "showcase" area for the RD program.

2. The province is subdivided into six districts and a "sub-district." The majority of the estimated 320,000 people in the province reside in the three coastal districts of Tuy An, Tuy Hoa, and Song Cau. Their major means of livelihood are fishing and rice production.

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3. The first allied troops were dispatched to Phu Yen Province in late 1965, and by January 1966 they included one US battalion, a Republic of Korea (ROK) marine brigade, and the 47th ARVN regiment. The Korean brigade was replaced during the year by a ROK army regiment, and the US battalion was augmented to brigade strength. In late 1966, a second Korean regiment initiated operations in the province.

4. Allied military operations during 1966 severely affected the NVA 5th Division and some local units based in the province, Half of the 5th Division is now rated only marginally combat effective. Since October 1966, Viet Cong activity within the province has been limited to harassing raids and sabotage.

5. The RD program in the province was also greatly expanded during 1966. In January, there were only 14 40-man Political Action Teams active in Phu Yen, but as of 1 February 1967, there were 22 full 59-man RD teams and two 40-man teams. In addition, five 65-man montagnard RD teams were organized in 1966 and are presently active in the highland areas of Son Hoa and Dong Xuan districts.

6. During 1966, 39 hamlets were constructed and/or consolidated by the RD teams. Among other achievements of the teams during the past year were their participation in registering hamlet voters and protecting polling locations for the Constituent Assembly elections in September, their "return to the village" campaign, their inducement of Viet Cong ralliers, and their civic action projects. The "return to the village" campaign has reportedly been responsible for bringing enough people back to previously insecure areas to enable 33,000 tons of rice to be added to the amount controlled by the government. Static Census Grievance cadres, who were first deployed in Tuy Hoa and Hieu Xuong districts, now number 161 and are beginning to be deployed in all districts.

7. Province RD activities are run by two control groups. These groups work under the supervision of the province RD council which is headed by the

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province chief and comprises government technical service chiefs and key members of the provincial administration. The first control group is the "permanent bureau" of the RD council. The chief of this bureau is an energetic ARVN captain who handles all administrative and logistical requirements necessary to carry out the various RD programs and projects at the village/hamlet level. The second, and more important, control group is the "RD committee." This committee, headed by another dynamic ARVN captain, is responsible for the recruiting, training, supply, and supervision of RD teams in the province. The committee has appointed intergroup leaders to provide better command direction. Each intergroup leader is responsible for three RD teams and reports directly to the chief of the RD committee.

8. The heads of the two control groups frequently--and often unannounced--visit the hamlets where RD teams are working, and give direct guidance, constructive criticism, and encouragement. On most visits they come into direct and informal contact with the hamlet residents and attempt to explain the aims of the RD program and to ascertain local needs and wants. In short, these two leaders are offering the type of middle echelon leadership which is so often found wanting in Vietnam, and without which little can be accomplished.

9. A second major factor contributing to the success of RD in Phu Yen is the deployment of provincial security elements to support the RD plan and the RD teams. This has been largely achieved through close coordination between the RD teams and the Popular Forces (PF). In one district, the PF platoons have been subordinated to the RD team leaders. In other areas, particularly where security is precarious, arrangements have been made for the PF to engage in continuous night time patrol and ambush tactics. In turn, the RD teams work in the hamlets and provide security during the day, allowing the PF to rest. RD workers are required by the province to remain in the hamlets at night. This establishes a continuous government presence and provides a reaction force in the event

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of attack. Provincial RD officials conduct spot checks to insure that the cadre are, in fact, staying in the hamlets 24 hours a day.

10. Phu Yen has also emphasized careful selection and training of its cadre in order to maintain high quality standards. After initial recruitment by the district chiefs and prior to being sent to the Vung Tau training center, all recruits are given a thorough physical examination and one month of paramilitary training. Upon returning from Vung Tau, and before being deployed to the field, the cadre receive another month of in-province training in which they learn to operate as a team. Further refresher training is also given by the province on a regular basis.

11. As a result of the improved military situation in Phu Yen and adjacent provinces, convoys can now travel on coastal Route 1 from Nha Trang in Khanh Hoa Province through Phu Yen to Qui Nhon city in Binh Dinh Province. This opening of Route 1 has had a favorable impact on economic activities in Phu Yen. An even greater contribution to the economy of the region would be the re-establishment of railroad connections along the coast, but it will probably be some time before this is realized. Because of adverse weather conditions in late 1966 and early 1967, approximately 20 to 50 percent of the rice crop in Phu Yen--which normally averages 85,000 tons a year--was lost. Since rice is the basis of the provincial economy, it is likely that a serious economic problem will exist through at least mid-1967.

12. Foreign troops in the province number over 20,000, but have not been too obtrusive because they generally operate away from populated areas. Where they are near major towns, arrangements have been made with Vietnamese officials for strict curfews and for fairly effective "fair-price" regulations. Tuy Hoa, the provincial capital, was placed off limits to all US troops, except for advisers, in January 1967.

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13. South Vietnam's military and security forces and administration in Phu Yen still suffer important weaknesses. The ARVN 47th Regiment is rated a poor unit in both combat and pacification operations. Provincial Regional Forces--five companies--are doing a fair job in securing their assigned areas, but the Popular Forces (PF) used in defensive roles, are much under strength. Friction reportedly exists between the RF/PF commander and the province chief. The provincial National Police, who number approximately 120, are present in all district capitals, but their low strength and the lack of protective Police Field Force elements have restricted their operations elsewhere. Corruption persists in the province, and in one district, supplies arriving for the allies and the government are alleged to have gone directly into the black market channels. These situations suggest that allied forces may have to remain in Phu Yen for a considerable time if the gains to date are to be held and expanded.

Viet Cong Efforts Aimed at Thwarting the GVN Revolutionary Development Programs

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14. An increasing number of reports, derived primarily from [redacted] sources but supported by captured documents, indicate considerable Viet Cong concern over the possibility of government success in its Revolutionary Development (RD) program. In addition to this concern over the grassroots activities of the RD teams, these reports and documents reflect growing uneasiness over the Chieu Hoi ("Open Arms") program.

15. Reporting from at least 20 GVN provinces from December 1966 to February 1967, indicates that the Viet Cong are stepping up activities directed at: 1) countering the Revolutionary Development program by infiltrating covert supporters into the RD workers' ranks and village administrative organization, planned terrorism against RD workers, utilizing military forces to strike at RD teams and supporting troops, and forcing residents of GVN-controlled hamlets to relocate; and, 2) countering

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the Chieu Hoi program by infiltrating Viet Cong cadre as returnees, terrorizing and assassinating ralliers, and exerting military force against Chieu Hoi centers and resettlement hamlets.

16. Recent Viet Cong military forays against RD activities suggest that large-scale attacks may be attempted against GVN forces--Regional Forces/ Popular Force troops and RD teams--in areas where the GVN has been pressing forward with RD progress. In Quang Tri Province, for example, the Viet Cong launched a coordinated, two-battalion attack on 16 January 1967 against a segment of Trieu Phong District, which is a major RD target area for 1967; seven out of a provincial total of 20 Ap Doi Mois or "Real New Life Hamlets" are scheduled to be developed in this area. The attack inflicted moderate casualties on two Popular Forces platoons and on a RD team, and resulted in the death of an aggressive district chief. Several RD workers missing since the incident are reportedly being held by the Viet Cong. Although the attack was apparently intended to force the withdrawal of the RD teams, the latter are continuing to work in the district, thus helping to negate the psychological impact of the Viet Cong attack.

17. In Vinh Binh Province in the delta, a Viet Cong battalion attacked three RD teams and 60 hamlet defenders on 20 January 1967, but suffered severe losses itself. This attack was apparently successfully repulsed because the ratio of defenders to attackers was higher than in Quang Tri, and because provincial security plans and forces had been carefully meshed with RD plans and the deployment of RD teams.

18. A relationship between successful pacification operations and increasing numbers of ralliers is becoming more apparent as RD progresses, and the Viet Cong seem aware of this. A resolution in late 1966, emanating from the party committee of Viet Cong Region IV, stated that, "pacification team operations have resulted in demoralization of the population /in Viet Cong areas/ and an increase in

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the number of deserters and defectors /to the GVN/." RD team operations have also been successful in inducing defectors in other areas, particularly Phu Yen and Quang Ngai provinces of Viet Cong Region V. In the former province, an RD team succeeded in inducing the defection of an entire Viet Cong village organization, and in the latter, another RD team persuaded 23 to rally--inducing a Viet Cong hamlet chief and assistant chief.

19. Despite a more determined Viet Cong countereffort, these limited examples suggest that the Revolutionary Development program continues to be effective wherever there is a combination of well-motivated Vietnamese leadership, integrated RD-provincial security plans, and a plausible development program which meets the aspirations of the local inhabitants and engages their active commitment in RD programs.

Effectiveness of the Static Census Grievance Cadre

20. Several recent reports indicate that Static Census Grievance (SCG) cadres have been instrumental in providing timely intelligence on Viet Cong activities or in inducing Viet Cong defections.

21. Static census grievance hamlet cadres are located in 38 of the 44 provinces and in two of the six autonomous cities. The total number of cadre in the program is approximately 5,100. With the exception of the recently created delta province of Sa Dec, the provinces where SCG are absent are populated largely by montagnards and have a large number of montagnard Revolutionary Development workers to perform essentially the same task.

22. This cadre program is somewhat unique in that it operates in already "secure" hamlets. The cadre, who are known to the residents of the hamlet, attempt to gauge the attitudes and aspirations of the people. Sometimes, the cadre are directly approached by residents with their problems, but in areas where people are apprehensive or aloof, the cadre use various techniques of elicitation. The Vietnamese involved in this program are considered to constitute some of the most dedicated

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cadre serving the government. The high degree of motivation and esprit instilled in these cadre is partly a result of their numbers having been kept relatively small; successes in resolving problems at the local level have further contributed to their pride in their work.

23. A captured Viet Cong document, emanating from the security section of the Bac Lieu Province committee, observed that the Censes Grievance system in the province was being rapidly organized, was staffed by hard working cadre, and was very effective in striking at Viet Cong weaknesses. In Bac Lieu, the operations of 49 CG cadre are coordinated with those of 297 RD workers (five RD teams) and supported by elements of the 21st ARVN division, the most aggressive division in the South Vietnamese army.

24. A recent CG success occurred in Binh Duong Province, where a hamlet level cadre was responsible for the defection of 32 Viet Cong. The cadre had contacted the families of known Viet Cong, urging them in turn to contact their relatives and convince them of the futility of the Communist cause and the unnecessary hardship they were enduring. After the 32 rallied, the provincial Chieu Hoi center followed up on this breakthrough by having five of the ralliers write letters to their ex-comrades urging defection.

25. During the 1967 Lunar New Year holidays (Tet), the CG in Khanh Hoa Province conducted a "spring reunion" campaign. Families suspected to have relatives with the Viet Cong were kept under watch during the lunar holidays in an effort to detect Viet Cong visitors. Afterward, these families were contacted by the CG. As a result of these efforts, two families in Vinh Xuong District (adjacent to Nha Trang) induced their sons to rally, and the provincial security services were able to build up a file on the local Communist infrastructure.

26. The program is not without weaknesses, however. The CG cadres can only report local aspirations to higher authorities, who then have the responsibility for taking positive action. Where district or provincial officials fail to follow-up CG reports aggressively, the effectiveness of the program is limited. Increasing coordination

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

and assistance by MACV and OCO advisers may, however, help to bridge such gaps.

Activities of the National Police

27. In October 1966 the National Police in the delta inaugurated a highway patrol alert system along National Route 4. Route 4 runs from Saigon to the Ca Mau peninsula and is the main artery connecting the capitals of at least seven delta provinces.

28. By January 1967, every district in the provinces of Long An, Dinh Tuong, and Vinh Long--which contains a portion of Route 4--was equipped with a jeep providing radio contact with district police headquarters. The district has, in turn, radio contact with the provincial police headquarters. In each district, the police are now conducting daytime patrols at irregular intervals of their section of the road, and are serving as an alert system as well as traffic controllers. The patrols have been successful both in keeping the traffic moving and in detecting and reporting a number of Viet Cong movements and activities. As villagers have become accustomed to the patrols, they have, on several occasions, stopped them to report on Viet Cong activity along the roadway. Little information is available, however, on follow-up actions which may have been taken in response to the patrol reports.

29. In a second phase, the road alert system is to be expanded to operate in districts having secondary roadways connecting Route 4 with other arteries leading to the provincial capitals of Kien Hoa, Vinh Binh, and Go Cong. Although no timetable appears to have been established for this phase, the extension of these patrols presumably will occur as manpower becomes available and security conditions--particularly in Kien Hoa Province--improve.

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

NOTE

The figures used in the article, "Developments in the RD Program," in the section on Revolutionary Development in the 20 February 1967 issue of The Situation in South Vietnam have been revised and clarified by the US Mission. The increase in 1966 in secured hamlets should be 444, not 552. The figure of 11,250 hamlets, cited in the article, is the total goal of hamlets to be secured in the RD program; the total number of hamlets in South Vietnam is over 13,000. The population of the 1,100 hamlets in which RD efforts will be made in 1967 should be 1.3 vice 1.4 million. The secured population goal for 1967 is 10.8 million, or 65.45 percent of an estimated 16.5 million total population, the base to be used in 1967. The total secured population at the end of 1966 was 8.7 million or 57.9 percent, based on a 1966 population estimate of 15.1 million. The use of the above figures has been agreed upon by representatives of the Department of Defense, Defense Intelligence Agency, the Agency for International Development, and the Central Intelligence Agency.

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

III. ECONOMIC SITUATION

Retail prices in Saigon declined slightly during the week ending 27 February, but these prices still are above their pre-holiday level. Moreover, the price of rice continues to spiral because of an almost complete lack of GVN rice stocks. Imported rice now being unloaded in Saigon should stem this price rise. The price of pork has declined as a result of increased deliveries of hogs to Saigon. Free market currency and gold rates have returned to the levels prevailing just prior to the recent rise which was sparked by rumors of devaluation. US Embassy officials have been told that National Bank Governor Hanh has agreed to head a super Ministry of Economy and Finance, replacing Truong Thai Ton who has held this position since 27 January.

Prices

1. Retail prices in Saigon declined slightly during the week ending 27 February, but these prices still are above their pre-holiday level as measured by the USAID retail price index. Although most food and non-food items shared in this decline, the price of rice continued to rise. On 27 February the price of the type of rice used by the working class reached another new high of 2,300 piasters per 100 kilograms, or 35 percent above the level at the beginning of the year. Moreover, rice prices continued to spiral during the following week (see paragraphs 4-5). The price of pork, on the other hand, continued to fall for the second consecutive week as a result of increased deliveries of hogs to Saigon. (A table of weekly retail prices in Saigon is included in the Annex).

2. Prices of imported commodities fell more noticeably--about six percent--during the week ending 28 February and are now at the level of mid-January. The most significant decline was in the

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

price of cement which fell by about 20 percent as new supplies arrived. Seasonal demand variations and arrivals of new stocks appeared to be the major factors contributing to the decline in the prices of most other imported goods.

Currency and Gold

3. On 27 February free market currency and gold prices, which had risen sharply on 21 February as a result of rumors of a devaluation and a GVN wage increase, generally returned to their 20 February levels. Compared with the rates on 20 February, the price of gold declined one piaster to 225 piasters per dollar, whereas dollars held steady at 172 piasters per dollar. The rate for MPC (scrip), however, remained high at 121 piasters per dollar apparently because of a continuation of leaks in the control of currency exchange and PX supplies. For the past several months the rate for scrip has fluctuated between 111 and 115 piasters per dollar compared with an official rate of 118 piasters. (A graphic on monthly and weekly free market gold and currency prices is included in the Annex).

Rice Situation

4. Since the beginning of March, rice prices have been rising about one piaster per day per kilogram. By 6 March the price of the cheapest type of rice (No. 1--25 percent broken) was 2,800 piasters per 100 kilograms compared with 2,100 piasters a week earlier and 1,500 piasters at the beginning of the year. The almost complete lack of GVN rice stocks in Saigon prevents the implementation of measures, such as the sale of rice from trucks, to halt the price spiral. Rice stocks in Saigon on 8 March amounted to only 14,000 tons compared with about 90,000 tons a year ago. Of the 14,000 tons, about 11,000 tons are already committed to the army, rice merchants, and provinces. Most of the remainder is spoiled and inedible. Data on rice stocks in 22 provinces indicate that provincial stocks also are low. Moreover, although current paddy prices should provide an adequate incentive to the producers, deliveries of rice from the delta to Saigon during February amounted to only 17,500

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

tons, or 4,000 to 5,000 tons below the quantity of deliveries expected during the month and about 12,000 tons below deliveries during February 1966. A USAID-OCO team plans to make a quick survey of prospects for deliveries during the next two or three months with a view to providing short-term remedial measures.

5. About 12,500 tons of imported rice were unloaded in Saigon during the first week of March and about 37,000 tons should be discharged by the end of the month. As a result of the arrival of this imported rice, the US Embassy expects that current needs will be met and stocks will be replenished gradually during the remainder of March. In order to bolster confidence, the embassy plans to conduct a vigorous press campaign to dramatize the scheduled ship arrivals and publicize the amount of rice that the GVN plans to import during 1967.

Pork Situation

6. The supply and marketing of pork in Saigon has improved considerably since mid-November 1966 when US and GVN officials agreed that deliveries of hogs to Saigon could be increased by removing official price ceilings on hogs. Although no action was forthcoming from this meeting, the Saigon prefecture on 22 January stopped enforcing price controls and, partly as a result of this action, deliveries of hogs to the Saigon slaughterhouse increased considerably. In fact, a substantial surplus of hogs was recently transshipped to hog deficit provinces east and north of Saigon. With ample supplies now coming through legal channels, the black market in pork reportedly has disappeared. Following the freeing of the market, price increases for hogs were moderate, with prices ranging between 8,000 and 9,000 piasters per 100 kilograms live hog compared with previous black market prices of 9,500 to 10,500 piasters and an official price of 7,000 piasters.

7. There are a number of reasons for the increase in hog deliveries from the delta to Saigon since late January. The suspension of price ceilings undoubtedly was a major factor, but arrivals increased even before price ceilings were suspended,

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

probably because of fears that the arrival of 1,500 tons of frozen pork would drive prices down and also because of increased US military operations in the delta. To the extent that these latter factors are responsible, it is possible that short supplies and/or high prices may return. Last October, when the sale of frozen pork stopped, the arrivals of live hogs dropped sharply. If farmers are selling off their stock in anticipation of military operations, they are not likely to replace them.

8. The 1,500 tons of frozen pork, which was scheduled to arrive in Saigon on 1 March, are to provide a reserve stock sufficient to regulate supplies on the market. The shipment reportedly is being managed solely by the GVN Office of Supply, which, together with the Saigon prefecture, appears to have taken over the role of the GVN Ministries of Commerce and Agriculture in formulating pork policy. On the basis of past experience, the US Mission fears that the Office of Supply may not be able to handle the shipment of frozen pork correctly. Plans are to store 1,000 to 1,200 tons in facilities currently available at a French bottling plant and to sell this amount during a six-month period. Most of the remainder is to be sold now. With the current adequate supplies and relatively low price of fresh pork, however, it may be difficult to sell the frozen pork, and there are no excess storage facilities.

9. Long-range policy on pork is yet to be established, but US officials believe it must be based on the official removal of ceiling prices in order to give incentives to producers and on the construction of government cold storage facilities in order to maintain adequate stocks. Although present policy appears to be meeting these ends, the current favorable situation may be all too temporary.

Changes in Ministry of Economy

10. US Embassy officials have been told that Governor Hanh of the National Bank of Vietnam (NBVN) has agreed to head a super Ministry of Economy and Finance, which will supervise the ministries of

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

finance, commerce, labor, industry, and communications and transportation. Hanh will replace Truong Thai Ton, who has held the position since 27 January and is now reported seriously ill. At the same time, Luu Van Tinh will replace Tran Van Kien as minister of finance while retaining his present position of director of the budget, and Khuong Huu Dieu will become minister of commerce replacing Nguyen Kien Thien An. Kien has been an ineffective minister who has not made much progress in the important fields of taxation and customs. Tinh, his replacement, has had wide experience in economic and financial affairs and reportedly is competent and hardworking. Although Thien An was only recently put into the commerce position at Hanh's request, he is lacking in the stature and experience needed for this difficult office. His successor is presently chief of the GVN Industrial Development Center.

11. Governor Hanh has been a major force in GVN economic circles, but has previously declined to accept any cabinet position. The embassy feels he has now accepted this post because he has been unable to suggest any other suitable candidates. Acceptance of this new position by Hanh--a knowledgeable and confident administrator--should be a major step forward in solving the administrative problems that have impeded the formulation and execution of strong economic policies.

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

ANNEX

WEEKLY RETAIL PRICES IN SAIGON a/

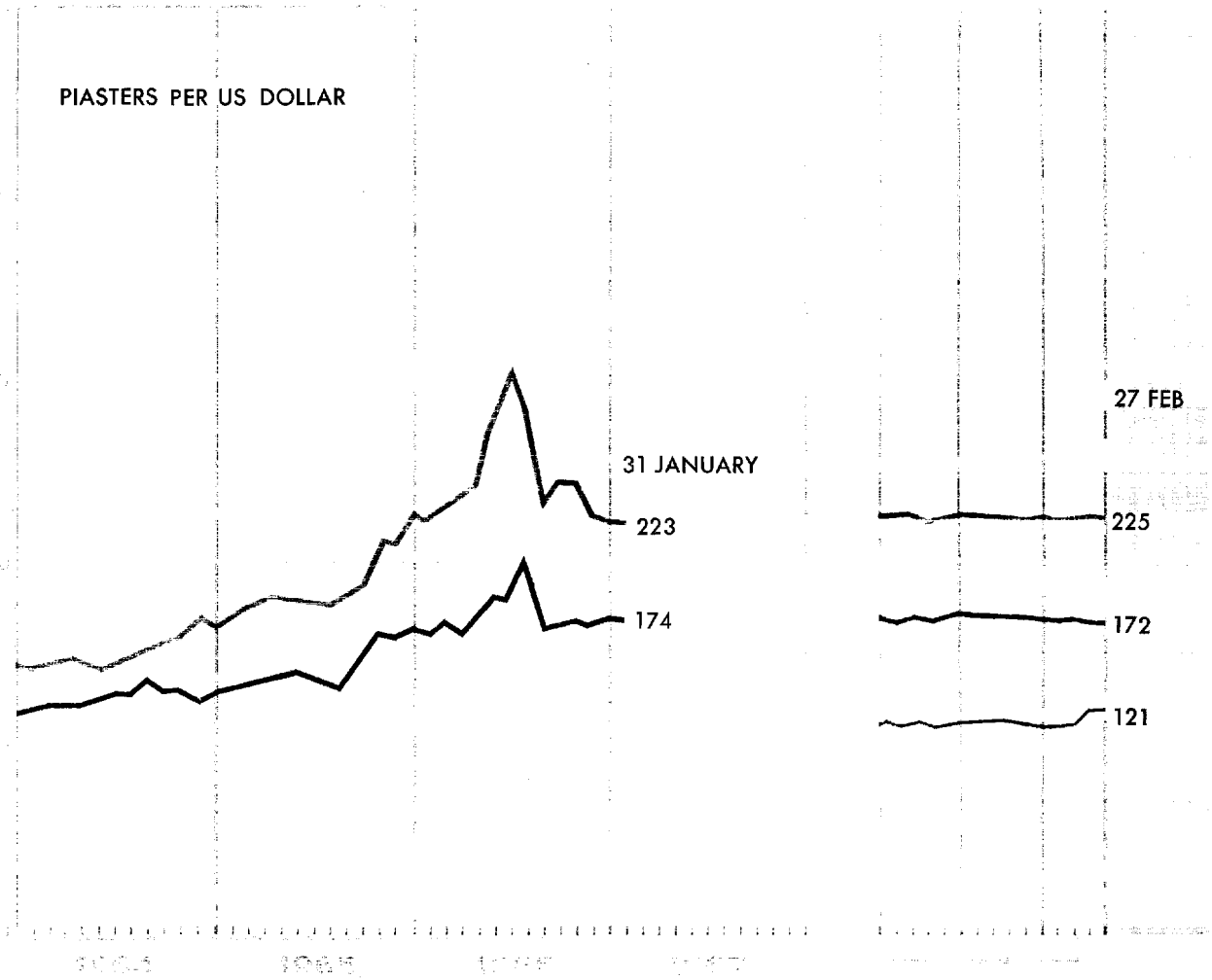
	13 Jun 1966 b/	16 Aug 1966 b/	6 Feb 1967	13 Feb 1967	20 Feb 1967	27 Feb 1967
Index for All Items	173	211	259	276	261	255
Index for Food Items	190	216	283	311	290	287 c/
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	1,250	1,450	2,150	2,100	2,200	2,300
Pork Bellies (1 kg.)	90	100	150	250	170	150
Fish-Ca Tre (1 kg.)	130	170	180	190	170	170
Nuoc Mam (jar)	70	85	120	120	120	120
Index for Non-Food Items	140	190	212	210	206	204 c/
Of Which: (In Piasters)						
Charcoal (60 kg.)	460	600	700	680	660	650
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	37	30	30	30	31
Electricity (kwh)	4.2	N.A.	5.2	5.2	5.2	5.3

a. Data are from USAID sources. For all indexes 1 January 1965 = 100.
b. Price levels just prior to and two months after the 18 June devaluation.
c. Preliminary.

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

Approved For Release 2006/10/20 : CIA-RDP79T00826A001700010043-9

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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