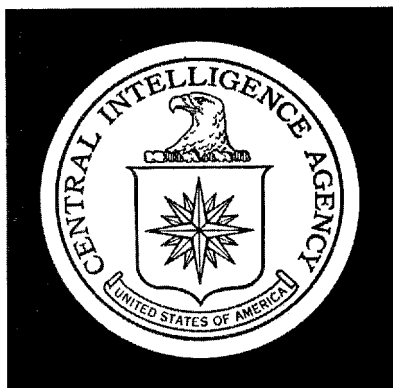


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Situation in South Vietnam *(Weekly)*

Secret

145

20 March 1967
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**CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence**

**THE SITUATION IN SOUTH VIETNAM
(13 March - 19 March 1967)**

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I. POLITICAL SITUATION

Premier Ky was able to secure the approval of the constitution from both the Constituent Assembly and the Directorate in time for the Guam conference by personally taking on the task of compromising the extreme positions of the Directorate and the assembly. In the process, however, Ky may have posed strains on future Directorate unity.

Now that the foundation for the presidential elections has been prepared, the competition between Ky and Chief of State Thieu for the leading executive office should soon surface in concrete actions.

In the meantime, efforts to revive anti-government activities in I Corps are under way, but they have not resulted in much public support so far.

Assembly and Directorate Agree on Constitution

1. The entire constitution was approved by the Constituent Assembly on 18 March and accepted without amendment by the Directorate and the cabinet on the 19th. Although the final version is a compromise between the extreme positions of both the assembly and the Directorate, it was the assembly that was granted most of the concessions in the final hours.

2. The compromise is the direct result of Premier Ky's private parleys with selected assemblymen in a series of nightly meetings last week, which were apparently not attended by the rest of the Directorate. The acceptable formula was achieved on the evening of the 16th, and Ky and the assembly delegation then proceeded to sell the compromise package to the Directorate and to the rest of the assembly. In the meantime, the other Directorate members had drafted a final list of recommended changes that were actually read to the assembly deputies on 17 March. However, Ky was able to inform the secretary general of the assembly shortly

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thereafter that he had received the approval of Thieu and the rest of the Directorate for the compromise he had arranged.

3. In the final meeting between Ky and the assembly delegation, the main point of disagreement was the specific status of the Directorate pending the election of a president. Once the deputies bought Ky's formula to keep the Directorate in power until the election, Ky granted the assembly practically every other concession it had desired, including the election of province chiefs, and the authority to vote "no-confidence" in the cabinet.

4. The compromise version specifies, in addition, that the assembly will draft and approve the laws for the presidential and assembly elections, the laws organizing the supreme court and the inspectorate, and the laws governing political party and press regulations. It will also have the power to ratify treaties. Following the election of the national executive officers, the assembly will assume full legislative powers until the first regular national assembly is convened. Elections for the regular assembly must be held within 12 months after the president takes office.

5. In his personal bid to arrange a quick, final agreement on the constitution, it appears that Ky risked future Directorate unity for the sake of presenting a finished document to the US at the Guam conference. The reaction in the Directorate, at least from Thieu and the civilians who had pursued a less lenient policy with the assembly, was one of irritation, according to the US Embassy. In approving the document, the Directorate has set aside private differences at least until after the Guam conference. According to Tran Van An, however, the civilians on the Directorate are considering resigning after the constitution is promulgated, possibly in protest over their lack of influence on the final decision.

6. Ky is certainly not unaware of the effect his deal with the assembly will have on his presidential potential. He may have calculated that the rise in his stock among the nonmilitary organizations that will provide future support to the government would more than offset the risk of his losing the confidence of the civilian Directorate members and Thieu's supporters.

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7. It is possible that some further disagreement over the exact terms of the constitution could still be voiced by the Directorate after the Guam meeting. Reportedly, the document will now be submitted to the Congress of the Armed Forces, the theoretical locus of final authority under the present governmental charter. Although action by this body is usually only a formality, it could be used to overturn the compromise as it now stands.

Thieu-Ky Rivalry

8. The counterproposals offered the assembly by Thieu and Ky may well reflect the growing rivalry between the two men in terms of their undeclared presidential candidacies. Premier Ky reportedly criticized Thieu in a talk with newsmen last week, and labeled him "unpopular." Chief of State Thieu, meanwhile, publicly declared that he would not volunteer as a presidential candidate, but would consider the nomination if the people or the armed forces proposed it.

9. Strictly within the military establishment, there were some indications that Thieu might hold the balance of power in a showdown with Ky over the presidential nomination. One such assessment came from Bui Diem, one of Ky's most knowledgeable confidants, who further declared that Ky should quickly form a civilian political front and announce his candidacy through it before Thieu had a chance to arrange a military meeting to decide on a candidate.

10. There have been previous reports that both Thieu and Ky have quietly been lining up civilian support, but there is no firm evidence that Ky has actually decided to pursue the presidency independently of the military establishment. However, Ky's apparent differences with Thieu--and presumably with other Directorate members--over dealing with the assembly may lead them to believe that Ky is playing an independent role for personal benefit.

Political Developments in I Corps

11. Efforts to revive the Buddhist "struggle" movement are under way in Hue and elsewhere in Thua

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Thien Province, but have not drawn much public support thus far. Most of last year's "struggle" participants are apparently not taking part now for fear of being arrested or of incurring government economic sanctions. Local authorities have generally acted forcefully to stop any attempted "struggle" activity, and continue to believe that they can handle the situation provided they receive support from Saigon.

12. The attitudes of the "struggle" leaders themselves, however, may be another significant reason for the lack of more overt action at present. Although some of the more militant leaders are attempting to inspire strikes or demonstrations, Tri Quang remains the most influential figure in the movement, and he has apparently not yet favored the resumption of a public "struggle." Police reports from Hue state that Quang, who has been residing in Saigon under close police scrutiny, has sent word to Hue that the time is not right for such action. Other influential "struggle" leaders reportedly also are refraining from involvement in "struggle" efforts at present.

13. This situation could become somewhat complicated by the current province-wide conflict between the Dai Viet Nationalist Party and one faction of the VNQDD Nationalist Party, which contains many supporters of former I Corps commander General Nguyen Chanh Thi. The VNQDD faction fears that the Dai Viets are becoming too strong in the province, and may also believe that a Buddhist victory could hasten General Thi's return to Vietnam. Both of these factors could lead to increasing cooperation between the VNQDD faction and the Buddhists.

14. The general means that the Buddhists may employ to reassert their political strength have not become clear. A new full-scale "struggle" movement is always possible, although it is rather doubtful--in view of last year's failure--unless preceded by major political changes in Saigon. On the other hand, Tri Quang and his allies may decide to sponsor or support candidates for the upcoming presidential and legislative elections. Should the Buddhists adopt the latter--and more legal--course of action, local authorities

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may find themselves hard pressed to prevent the election of a significant number of Buddhist-backed representatives.

"False Peace" Demonstrations

15. Government-inspired demonstrations against "false peace"--or negotiations that would lead to a coalition government--have recently been spreading from Saigon, where they began on 25 February, into various Vietnamese towns and cities. In a recent assessment, the US Embassy commented that the primary reason for the demonstrations is a fear that the US Government might be tempted to make concessions to the Communists in unilateral negotiations. In view of the continuing demonstrations, the embassy has concluded that this fear is apparently deeper than previously realized. A secondary consideration behind the demonstrations continues to be a desire to create a domestic political environment favorable to the presidential candidacy of a military officer later this year.

16. It is not clear how much longer the demonstrations will continue. On 10 March, Premier Ky indicated to US officials that the demonstrations would be "damped down." [redacted] however, has reported that Premier Ky was recently advised by Bui Diem, his ambassador to the US, that opposition to the Vietnamese war is strong in the US. Ky may feel, therefore, that he is under pressure to continue the "anti - false peace" movement in some form or other. Last week, plans were continuing for a mammoth demonstration by civil servants in Saigon on 18 March, but it was apparently postponed at the last moment.

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17. Should the demonstrations continue much longer, they could result in an unhealthy climate of suspicion and mistrust regarding US policy in Vietnam. For example, by stimulating apprehension that the US might negotiate without the consent of the South Vietnamese Government, the demonstrations have already worked a few Vietnamese into such a suspicious state of mind that they believe a current rumor that the US is delaying rice shipments from abroad in order to extract concessions from the government.

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II. REVOLUTIONARY DEVELOPMENT

In Quang Ngai Province, provincial officials are shifting the RD teams from a military role to their primary task of development. The provision and distribution of potable water for urban and rural residents is an effort to open new land for settlement and improve living conditions. The number of returnees as of 11 March was 7,555 and if the trend continues, the 1967 response to the government's "Open Arms" (Chieu Hoi) program could double the 1966 total of 20,242.

Developments in Revolutionary Development in Quang Ngai Province

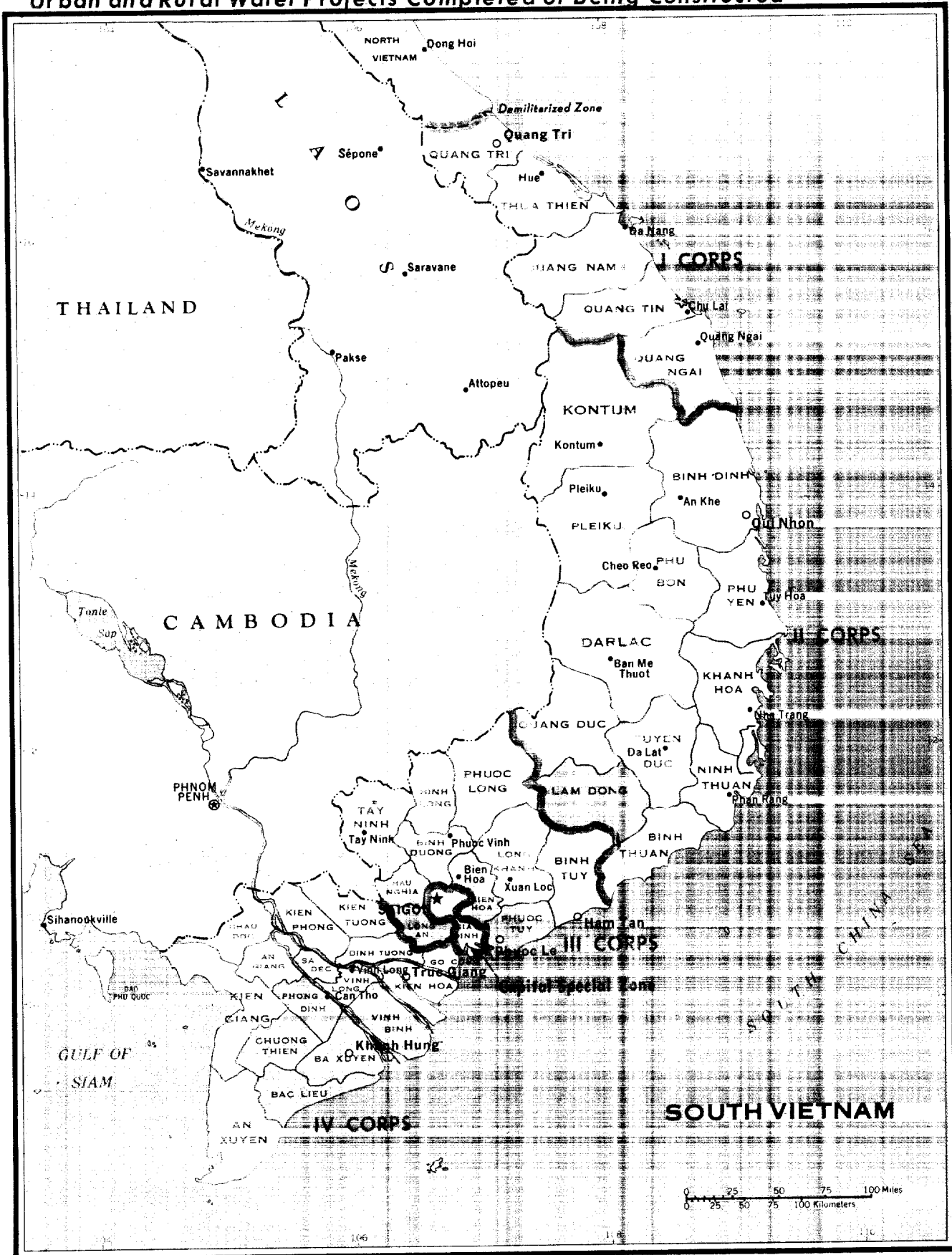
1. During the past two months, provincial officials in Quang Ngai Province have been engaged in reassessing and bolstering the Revolutionary Development (RD) program, which for some time has been vulnerable to allegations that the province's RD teams are "fighting, but not pacifying." When the teams were first formed in 1965, the local security situation had decayed to such an extent that the original teams devoted themselves primarily to armed action against the Viet Cong.
2. Since 30 December 1966, however, all RD teams have reportedly been used in other than strictly combat roles. In the last two months several teams have been transferred to more secure areas along the coast where they can engage in their primary task of development.
3. There are 43 Vietnamese RD teams in the province. Most of these are in the heavily populated areas around Quang Ngai city. There are also six Montagnard teams located in the island districts of the province. These teams appear to operate around the Special Forces camps.

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SOUTH VIETNAM:

Urban and Rural Water Projects Completed or Being Constructed



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4. The Quang Ngai Province chief and the provincial chief of RD both have considerable interest and experience in RD programs. In 1965 the two officials, acting independently, trained cadres and initiated a campaign which had some success in pacifying areas of Song Tinh, Nghia Thanh, Mo Duc and Tu Nghia Districts, around Quang Ngai city, and accounted for the resettlement of 50,000 refugees.

5. On 20 February 1967 the province chief made an inspection trip to Duc Quang village of Mo Duc District, where he conversed at length with the RD team at work there, explained concepts of Revolutionary Development in concrete terms, discussed the need to form youth, sport, social, and cooperative groups, and promoted esprit de corps among the RD workers. This visit was undertaken partly to counter the general laxity which followed the Tet holidays.

6. In recent months, the RD teams in Quang Ngai have established a rapport with local civilians which has led the latter to volunteer information on the enemy, even though intelligence collection is not the primary mission of the teams. Some 90 air strikes and five allied military operations in February were based on such volunteered information. For example, RD teams contributed substantially to information leading to ARVN Operation Lien Ket 81, from 16 to 22 February, in which approximately 500 Viet Cong were killed.

Urban and Rural Water Projects

7. The provision and distribution of potable water in both Saigon and the provinces under USAID and RD programs mark a significant step forward in eradicating a major source of illness and disease in Vietnam. This water resources program is part of an effort to open new land for settlement and to improve living conditions for both rural and urban residents. The program encompasses 50 urban projects and the drilling of wells in rural areas, particularly south of Saigon in the delta, which suffers from natural contamination of surface water sources.

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8. One of the largest projects--the Saigon/Cholon Metropolitan water treatment facility--was completed in late 1966 and is now functioning relatively smoothly. This system includes facilities for pumping, water treatment, and distribution to almost three million people. In addition, in at least a dozen provincial capitals the construction of water treatment plants and distribution facilities is being carried on. Recently, work has slowed on some projects because of a lack of GVN piaster funds, but this should be alleviated as funds are made available from the 1967 budget.

9. The provision of water to rural residents depends on the security which can be provided for the movement of drilling rigs. The security problem has been acute in the highlands area and little work has been completed there. The GVN, because of its low wage scale, has been unable to hire enough drill crews to use all the drilling rigs available. This may be partly alleviated if employment is accepted by those workers who will be laid off as the RMK-BRJ construction consortium reduces its labor force. In spite of obstacles, an estimated 235,000 rural residents have been provided with wells and/or distribution systems in the last six months.

Chieu Hoi Statistics

10. For the period 5-11 March the number of returnees (Hoi Chanh) in response to the government's "Open Arms" (Chieu Hoi) program was 1,198. As of 11 March, total ralliers for 1967 numbered 7,555, compared with 4,276 for the same period in 1966. If the 1967 weekly average of 700 continues, as many as 36,700 may rally, almost doubling the 1966 figure.

11. Although it is GVN policy to encourage as many Viet Cong defectors as possible, it is possible that the government's administrative apparatus could become overburdened by a large influx. Chieu Hoi centers in Binh Dinh, Phu Yen, Long An, Hau Nghia, Binh Duong, and Gia Dinh provinces are already overcrowded, and returnees in these provinces are being housed in standby quarters provided by the US Mission's Office of Civilian Operations.

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12. An analysis of 6,348 Chieu Hoi returnees, who constituted a third of all the returnees in the period July 1965-September 1966, shows that 71 percent were military and 29 percent were civilian members of the Viet Cong apparatus. The survey, conducted by the Rand Corporation and J2, MACV, indicates that approximately 18 percent of the returnees were civilian or military cadre, the groups likely to be most knowledgeable on the Communists' organization. Almost three quarters of the ralliers were low level Viet Cong--members of the irregular forces, of rank and file organizations, and of production/labor groups.

13. Previous surveys, although based on smaller and more random samplings, indicated that approximately 60 percent of ralliers were military. The increased percentage of military Hoi Chanh in the latest survey appears to represent mostly irregulars from provinces where Viet Cong provincial and regional forces have been hard pressed and where the government has been able to follow up with RD activities.

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III. ECONOMIC SITUATION

Retail prices in Saigon rose about six percent during the week ending 6 March, primarily because of a rapid increase in the price of rice. By 11 March, however, rice prices began to decline slightly as the GVN began to distribute imported rice which is arriving on schedule. Moreover, deliveries of rice from the delta are beginning to increase. Prices of imported commodities continued to decline during the week ending 7 March. Free market currency and gold prices remained relatively stable. Provincial prices have increased sharply since mid-December, especially in Regions I and IV. With the exception of the latter region, provincial prices remain well above those of Saigon. During 1966 South Vietnam's foreign trade continued to follow the trend of the past few years--a decline in exports accompanied by a rapid increase in imports.

Prices

1. The USAID weekly index of retail prices in Saigon jumped by about six percent on 6 March compared with 27 February, led by an increase of 39 percent in the price of rice. Soaring rice prices accounted for the entire 9.5 percent increase in the index for food items. Most other food prices remained stable and in some cases declined. Rice prices surged upward as a result of speculation and hoarding touched off by the reports of low deliveries from the delta and dwindling stocks in Saigon. Since 6 March, however, the situation reportedly has eased somewhat (see paragraphs 5-7). The prices of nonfood items rose slightly as the result of increases in the prices for charcoal, firewood, and certain services.

2. Prices of US-financed imported commodities continued to decline as fresh stocks arrived, and condensed milk prices declined as stocks remained adequate despite a limited liberalization of distribution. The

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price of wheat flour rose slightly, probably because of the increase in rice prices. (A table of weekly retail prices in Saigon is included in the Annex.)

Currency and Gold

3. Free market currency and gold prices remained stable in the week ending 6 March compared with the previous week. The price of dollars remained steady at 172 piasters per dollar, while the price of gold rose by one piaster to 226. The rate for MPC (scrip) declined by one piaster to 120 piasters per dollar. The price of MPC is still high compared with the rate prevalent during the past several months, but the embassy states that it has found no substantiation for the reported rumors of leaks in the control of currency exchange and PX supplies. (A graphic on monthly and weekly free market gold and currency prices is included in the Annex.)

Provincial Prices

4. Regional consumer price indexes based on incomplete province reporting show that provincial prices rose by an unweighted average of 17 percent during mid-December through mid-February compared with an average increase of only three percent from the end of October through mid-December. Price increases were greatest in Regions I and IV where the indexes showed gains of 23 and 21 percent, respectively. In Region II prices rose seven percent whereas prices in Region III increased 14 percent, or about the same increase noted in the Saigon consumer price index during this period. Although the approach of Tet was a major factor in these price rises, the reasons for the relatively greater price increases in Regions I and IV are not yet clear. In spite of the sharp increase in prices in Region IV, these prices still were below those of Saigon. Prices in the other three regions, however, continued to be well above those of Saigon.

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Rice Situation

5. GVN officials, led by National Bank Governor Hanh, appear to be taking firm hold of the current rice situation. On 13 March the GVN began to distribute imported rice through 279 retail outlets in Saigon, and sales reportedly proceeded in an orderly fashion at the officially fixed retail price of 16 piasters per kilogram. Imports are arriving as scheduled, deliveries of rice from the delta to Saigon have begun to increase, and prices have started to fall. The latest information available on the price of domestic rice used by the working class shows that the price per kilogram rose from 32 piasters on 6 March to 37 piasters on 10 March and then dropped to 34 piasters on 11 March. The embassy feels that the peak may have been passed. At the beginning of 1967, the price of this type of rice was 17 piasters per kilogram.

6. Hanh, who has just taken over the Ministry of Economy and Finance, stepped into the rice situation when stocks were at an all-time low and prices at an all-time high. With the cooperation of US officials and various GVN agencies, he launched a program of government sales of imported rice on the largest scale permitted by the level of stocks and the current arrivals of imports. ARVN claims on Saigon rice stocks were canceled. The minister of labor apparently persuaded the stevedores to work more than one shift in order to unload imports at the rate of 1,000 tons per day. The embassy reports that security at the warehouses, provided by the National Police, appears adequate. Special bank accounts for the rice retailers have been set up in all Saigon banks, and the retailers are required to make a cash deposit before they may receive a delivery of rice.

7. Meanwhile, deliveries of rice from the delta to Saigon have picked up momentum. Deliveries totaled 16,000 tons during the first 11 days in March, compared with 17,500 tons during the whole of February. Delta rice merchants presumably have decided to take advantage of the current high prices in Saigon.

Foreign Trade

8. GVN customs statistics for the first five months of 1966 show a continuation of the trend evident in the

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past few years--a decline in exports accompanied by a rapid increase in imports. Exports during January-May amounted to \$9 million and imports totaled \$158 million. The corresponding figures for the first five months of 1965 were \$15 and \$130 million, respectively. Data on export and import licensing for the entire year 1966 indicate that this trend continued throughout the year. Export licenses issued by the GVN during 1966 were valued at \$25 million compared with \$39 million in 1965 and actual 1965 export shipments of \$36 million. Import licenses issued during 1966 amounted to \$660 million compared with \$407 million in 1965 and actual 1965 import arrivals of \$357 million.

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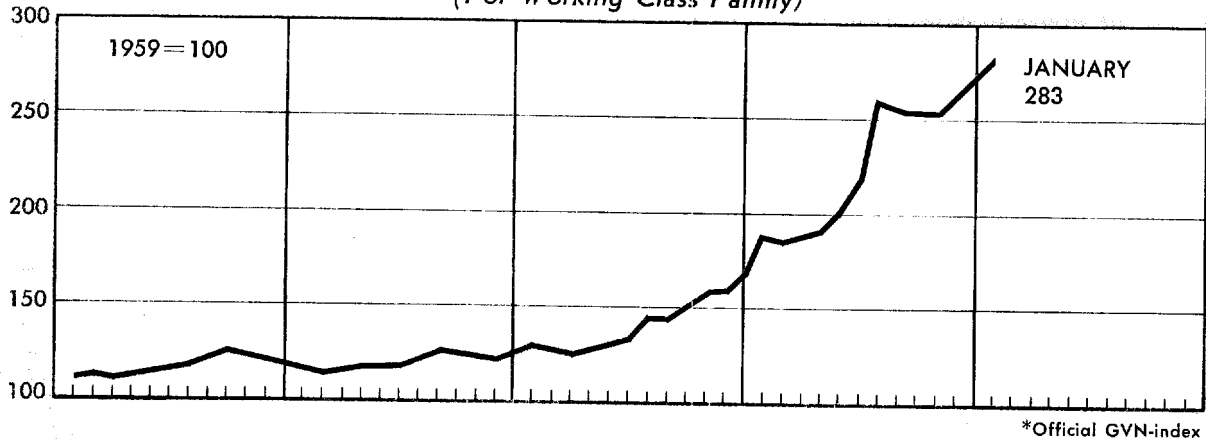
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TABLE
Weekly Retail Prices in Saigon a/

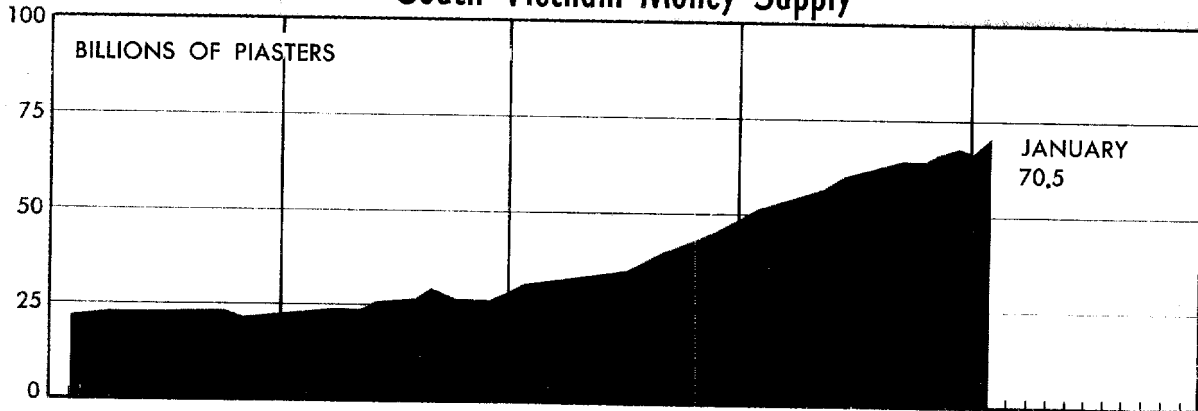
	13 June 1966 <u>b/</u>	16 Aug. 1966 <u>b/</u>	13 Feb. 1967	20 Feb. 1967	27 Feb. 1967	6 Mar. 1967
Index for All Items	<u>173</u>	<u>211</u>	<u>276</u>	<u>261</u>	<u>255</u>	<u>273</u>
Index for Food Items	<u>190</u>	<u>216</u>	<u>311</u>	<u>290</u>	<u>285</u>	<u>312</u> <u>c/</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	1,250	1,450	2,100	2,200	2,300	3,200
Pork Bellies (1 kg.)	90	100	250	170	150	150
Fish-Ca Tre (1 Kg.)	130	170	190	170	170	180
Nuoc Mam (jar)	70	85	120	120	120	120
Index for Nonfood Items	<u>140</u>	<u>190</u>	<u>210</u>	<u>206</u>	<u>201</u>	<u>203</u> <u>c/</u>
Of Which: (In Piasters)						
Charcoal (60 kg.)	460	600	680	660	650	670
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	37	30	30	31	31
Electricity (kwh)	4.2	N.A.	5.2	5.2	5.3	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.

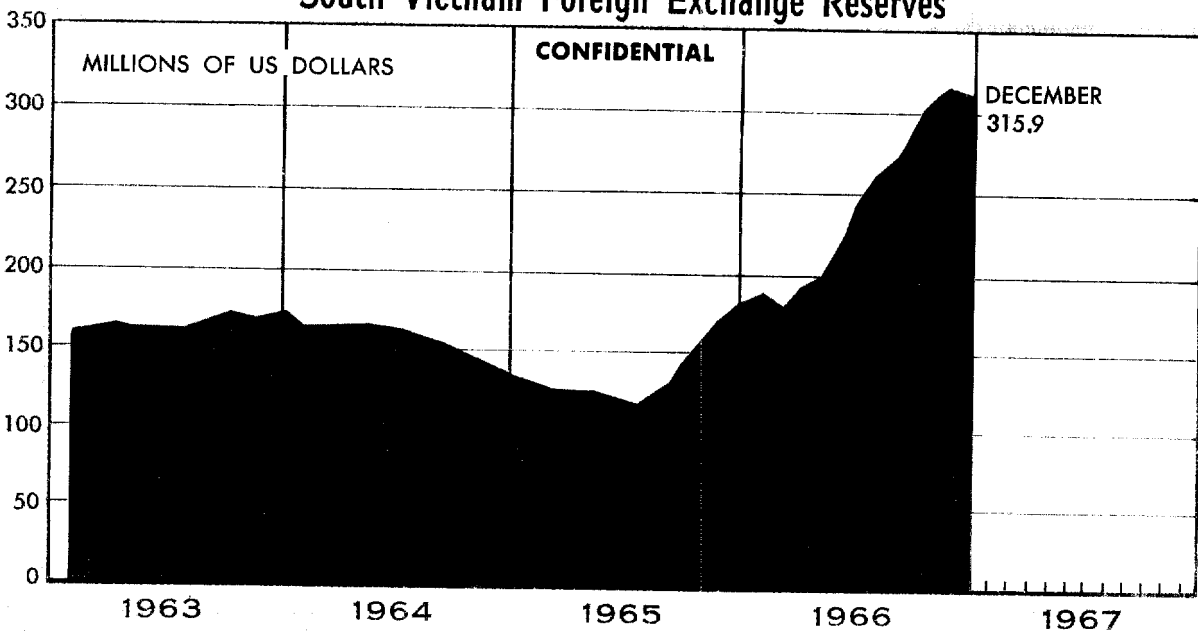
Saigon Cost of Living Index* (For Working Class Family)



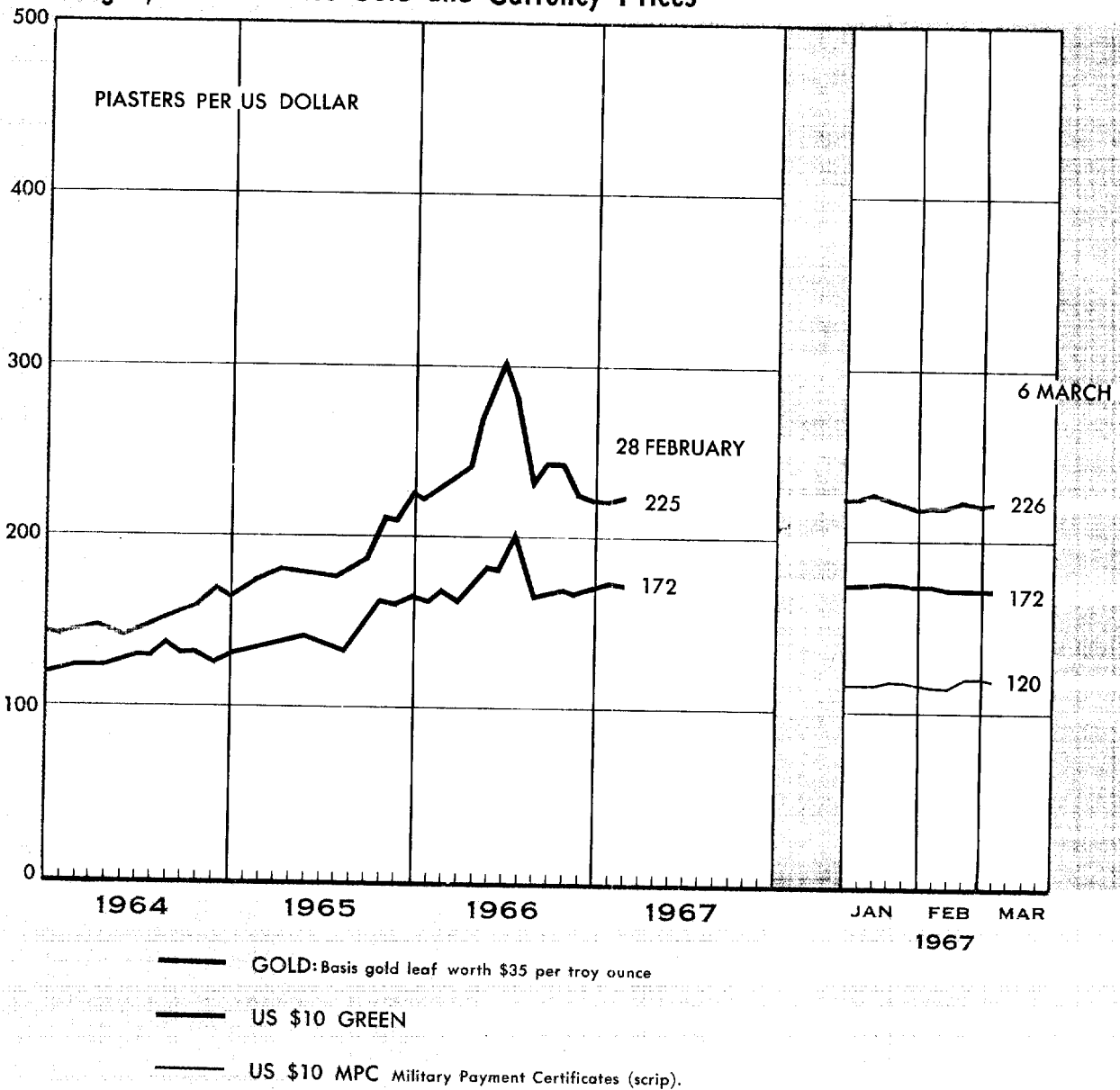
South Vietnam Money Supply



South Vietnam Foreign Exchange Reserves



Saigon, Free Market Gold and Currency Prices



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