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DIRECTORATE OF  
INTELLIGENCE

## Intelligence Report

# *The Situation in South Vietnam*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM  
(12 December - 18 December 1966)

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## I. POLITICAL SITUATION

The Constituent Assembly voted in favor of a plan to elect a president and a vice president by universal, secret ballot under the constitution it is preparing. The elected chief executive would, however, appoint a prime minister to render him administrative assistance. The assembly also chose a new member to fill the seat vacated by the assassination of Tran Van Van.

There have been some shifts in the alignment of the official political blocs in the assembly. The second and third largest blocs recently merged to form what is now the largest bloc. Moreover, the Greater People's Bloc, which was previously the largest, is reportedly losing some of its members who claim they want to avoid the "government" stigma that the bloc has allegedly acquired.

Meanwhile, Premier Ky is unwilling to reveal his presidential ambitions even to his closest advisers, according to a reliable Vietnamese source.

### Form of Future Government Taking Shape

1. The type of government envisioned under the new constitution is beginning to take shape in the Constituent Assembly. Last week, the deputies approved a modified presidential form of executive branch with a popularly elected president and vice president, and an appointed prime minister. Although the exact wording of the assembly proposals is not clear at this time, it appears that the prime minister and his appointed cabinet can be removed from office by the president acting alone or upon the demand of the national assembly (legislature). The prime minister, however, will merely be an administrative functionary in the proposed system in contrast to the relationship between the chief of state and the prime minister in the present government.

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New Constituent Assembly Member Approved

2. In the 14 December session, the deputies approved a motion that the vacant assembly seat of assassinated member Tran Van Van be filled by Dr. Huynh Kim Huu, who had finished behind Van in the 11 September election on the same slate. Dr. Huu is a southern Catholic.

Official Assembly Political Blocs Changing

3. Various sources have indicated that the official assembly blocs, which were formed during the election of permanent assembly officers in late October, are undergoing internal changes involving mergers and shifts in membership. The formation of the Democratic Alliance Bloc was formally announced in the assembly on 13 December. The new bloc is an amalgamation of the heavily northern Catholic, 16-member Democratic Bloc and the 25-member Hoa Hao - Cao Dai - VNQDD Alliance Bloc. With four other members picked up elsewhere in the assembly, it is now the largest bloc in the assembly, although it does not constitute a majority. The US Embassy has reported that the components of the bloc have been considered progovernment, and specifically in favor of Premier Ky.

4. According to one of the members of the new bloc, officers were elected and a policy statement was drafted by bloc members between 3 and 5 December. The reported policy statement deals entirely with constitutional points. This suggests that the merger was brought about by the change in basic issues facing the assembly from the election of assembly officers in October to the drafting of a constitution at present. An earlier report did state, however, that at least some of the impetus for this merger came from Catholic political sources who had been working for the formation of a broad, religious-oriented group.

5. Another delegate has reported that six members of the Greater People's Bloc--heretofore the assembly's largest--have withdrawn from bloc discipline and have joined the ranks of independent assembly delegates. Another 14 members of the bloc

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reportedly are considering a similar withdrawal. One of the chief reasons for such action is that many delegates consider the Greater People's Bloc --made up primarily of military, Catholic, and Dai Viet delegates from central and North Vietnam--to be the "government bloc."

6. According to a reliable medium-level official, a new bloc to be known as the Force of the Peasants, Workers, and Military will soon be introduced in the assembly. This group, which reportedly has already obtained the legally required minimum support of 12 assembly delegates, is directly linked to retired General Tran Van Don's southern-based political front group. Both Don and labor leader Tran Quoc Buu are to be listed as advisers to the bloc.

7. The precise status of assembly blocs in terms of their orientation and membership is not clear at present. Various factors, which have been outlined above and which have apparently played a part in the shifts now under way, indicate that these changes may neither be final nor necessarily significant in terms of forming political groupings for next year's national elections.

Premier Ky Still Hesitant on Revealing Presidential Ambitions

8. Premier Ky recently has frequently discussed his political future with three of his closest advisers, but has been unwilling thus far to commit himself to a definite course of action, according to a reliable Vietnamese source with excellent access to those involved in the discussions. Ky reportedly assesses his chances of winning the presidency--should he run--as very strong, but has ended every discussion without committing himself. Ky's advisers believe that Ky wants desperately to run, and that his current indecision is caused by his desire not to lose face, even with them, by committing himself and later being "rebuffed."

9. According to the source, Ky's hesitancy to take any action which might reflect his presidential

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ambitions could soon cause him difficulties. For example, Constituent Assembly delegates have unofficially been mulling over a constitutional provision with a minimum age requirement for the president, and thinking seems to be divided between a 35- and a 40-year minimum. Ky, who is 36, reportedly is so sensitive on the age question that he is dreading his scheduled briefing of the Assembly, with the attendant risk of possibly antagonizing any of the delegates while they are considering this question. On the other hand, he does not want to appear as if he is fawning upon the delegates. Despite Ky's unwillingness to influence the Assembly delegates in any way on this question, some of Ky's advisers may attempt to go ahead and take positive action to ensure Ky's eligibility for the presidency on the age basis.

10. Also central to the question of a military candidate for president are the attitudes and actions of Chief of State Thieu, who with Premier Ky forms the basic alliance upon which military unity rests. General Thieu thus far has not committed himself as a presidential candidate, and both Ky and Thieu appear to be waiting for the other to make the first move. Ky and his advisers somewhat naturally feel that he stands a better chance of winning a presidential campaign than would Thieu. They assess Ky as being more popular among the public at large, especially among Buddhists and northerners, and among the relatively younger military officers, while Thieu is favored by a majority of Constituent Assembly delegates in relation to Ky, and is preferred by the senior military officers.

11. Ky and his advisers feel that the Ky-Thieu relationship, and consequently the military unity necessary for political stability, can best be preserved in the future government by Ky running for president and by Thieu becoming a "supreme" military commander. They reportedly admit that the reverse would not be feasible, since Ky would not be an acceptable commander in chief to the senior military officers. In addition, Ky is not willing at this time to accept the post of prime minister under Thieu as it has been outlined in the future government, since he feels that that he would be at the mercy of both Thieu and a national assembly, and subject to removal by either at any time.

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## II. REVOLUTIONARY DEVELOPMENT

Premier Ky, on 15 December, once again affirmed that the primary mission of the ARVN for 1967 will be to provide a security screen for the revolutionary development. A recent communiqué of the Central Committee of the National Front for the Liberation of South Vietnam indicates that the committee views revolutionary development as a major threat and that a serious campaign probably will be mounted to reduce the program's effectiveness. The South Vietnamese budget for psychological warfare operations will come to \$US 36,568,000, and will support the efforts of the Ministry of Information and Chieu Hoi, and the Psychological Warfare Directorate of the armed forces. Politics, professional jealousies, and the disinterest of officials charged with supervising the cadre at the local level are at the root of problems still hampering the revolutionary development cadre program throughout the country. Since July of this year nearly 44,700 refugees have returned to GVN control in the I Corps area, often in very large groups.

### Ky Reaffirms New Role of GVN Military Forces

1. Premier Ky, on 15 December, stressed the importance of the military's role in recovering the rural areas from Communist control. Speaking at the graduation of the class of officers who will return to their parent military organizations to teach the fundamentals of pacification, Ky maintained that ARVN must demonstrate a spiritual as well as material regard for the people when it commences its primary task of providing the security screen for the revolutionary development program in 1967. He also restated his government's determination to press forward simultaneously with the policy of defeating the Communists and reconstructing the rural areas.

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### Viet Cong Concern About Revolutionary Development

2. A 5 December communiqué of the Central Committee of the Viet Cong's National Liberation Front, outlining tasks for the coming year, indicates increasing concern among the Communist ranks over the revolutionary development program. Although the communiqué claims the US/GVN pacification effort "has in the main been foiled," one of the political tasks it cites to be accomplished in the coming year is the "smashing" of GVN rural pacification plans. Both the claim of victory and the call for new victories over the revolutionary development effort suggest that the Communists view it as a major threat. The Viet Cong may be expected to make an expanded effort to disrupt the program and to negate any gains that it has registered.

### Psychological Warfare Operations

3. Funds budgeted by the GVN for psychological warfare activities during its fiscal year of 1967 (which coincides with the calendar year) are reported to amount to \$US 36,568,000. This budget, according to a USIS report, will support the combined activities of the Ministry of Information and Chieu Hoi (MICH), and the Psychological Warfare Directorate in the armed forces. The new budget, which is only slightly larger than that of 1966, will be divided as follows: for MICH, \$US 32,050,000; for the Psychological Warfare Directorate, \$US 4,518,000.

4. Personnel currently assigned to the psychological operations and Chieu Hoi activities total 21,773, while the military personnel will total 2,307. The bulk of the civilian personnel, 12,774, will be assigned to the field as Vietnam Information Service (VIS) personnel. The USIS report cautions that there is a significant amount of payroll padding in the case of the MICH.

### Revolutionary Development Cadre Program

5. Problems rooted in politics, religion, corruption, insecurity, and professional jealousy continued to restrict progress in the Revolutionary Development (RDC) effort in all corps areas during October.

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In all, only 16 provinces and Cam Ranh City reported progress in the program. Sixteen other provinces reported no significant progress in RDC activities, and 11 others reported no progress at all. There is reason to believe, on the basis of individual provincial reports that some provinces reporting no progress may actually have regressed.

6. Both GVN and US advisers are trying to solve the problems that have arisen. The onus for failure seems to rest with those provincial and district officials who are either disinterested or lack an understanding of what the objectives of the RDC program are. The Ministry of Revolutionary Development (MRD) has taken steps to replace some of the inept and disinterested officials, a move which may improve performance in some areas of the country. A summary of progress and problems by corps areas follows.

#### I Corps Zone

7. Reports from this corps indicate erratic progress mingled with disturbing signs of slippage in the program. In the northernmost province, Quang Tri, weak provincial and district leadership has impeded RD progress in some areas. A mixture of ineffectiveness by the RD committee chief and inexperience of a recently appointed district chief has been cited as the source of difficulty with the RD program in this province. In Quang Nam and Quang Ngai provinces, 19-man technical teams (census grievance, civic action, and New Life Development elements) fresh from the National Training Center at Vung Tau have been successfully melded with the 40-man Peoples Action Teams (PAT) already in place. Initial results with these newly combined teams is reportedly very favorable. Clouding the picture somewhat in Quang Ngai Province, however, are the activities of the Vietnam Nationalist Party (VNQDD). This group is endeavoring to place its members on the RD committees in an effort to enhance their own political positions. In Quang Tin Province, lack of organization plus an adverse military situation have combined to hamper the RD effort there.

#### II Corps Zone

8. The RD effort in this Corps is suffering from inadequate leadership for the provincial programs.

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Also, lack of security in many areas has forced the RDC teams to devote most of their time to protecting themselves, and has given officials charged with supervising the programs an excuse for unproductive cadre operations. In Quang Duc, for example, province officials are reluctant to visit teams in insecure areas and are therefore unable to provide guidance or observe results. In Binh Thuan Province, the falsification of pacification results is an even more alarming tendency. In this province, teams have been moved arbitrarily from hamlet to hamlet, apparently without consideration for whether they have been secured or not. The problem may have been partially solved by the replacement of the Deputy Province Chief for Internal Security.

9. Montagnard cadre teams in Darlac Province are reported to be doing an effective job, and are seeking an expanded role in the RD effort. Although the dissident montagnard autonomy movement FULRO has been active in the area, it has not affected the operation of the montagnard cadres. In Kontum Province, a similar favorable account is given of montagnard cadre activities. In this province, the Vietnamese RDCs are also functioning more effectively under the impact of good leadership and the introduction of better trained cadre groups from the Vung Tau National Training Center.

### III Corps Zone

10. A major obstacle to the effective use of RDCs in this Corps zone is the reluctance of province officials to allow cadre groups adequate time to accomplish their tasks. The controversial commander of the ARVN 25th Division, General Phan Trong Chinh, has stepped-up the tempo of hamlet construction to one month, and consolidation phases to one and one-half months. Chinh's order has been issued in an apparent attempt to make the pacification effort in his area look good. Only in Long An Province has the province chief resisted Chinh's order and set a more practical time limit for pacifying a hamlet. In Long Khanh Province, montagnard cadre groups are proving to be the strongest element in the civic action program. Their success is largely the result of the intensive effort of chief of montagnard services in the province.

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#### IV Corps Zone

11. The same general problems--lack of leadership and disinterest--prevalent in the other three corps zones are also present in IV Corps. In three provinces--Chuong Thien, Vinh Binh, and Vinh Long--the lack of adequate security to screen the work of the RDCs in the hamlets has been cited as a major obstacle to RD progress. The population lacks confidence in the ability of the Regional Force and Popular Force to protect hamlets after the RDCs leave the area, and covert Viet Cong penetration of the hamlets is also a source of concern.

#### The Refugee Situation in I Corps

12. There has been an influx of some 44,700 refugees from Viet Cong-controlled areas of I Corps into government areas since July of this year. Some of this influx has been a mass movement of people: 17,000 persons fled from Quang Tri Province to Thua Thien Province after large US/ARVN forces entered the area just south of the DMZ during Operations HASTINGS and PRAIRIE, and 14,000 persons from the Phu Ky area of south central Quang Nam Province sought GVN refuge during operations by the Marines. All of these evacuations from areas of Viet Cong dominance represent a serious loss to the VC in terms of potential manpower reserves for their armed forces, agricultural workers, or other support roles. Additionally, the Communists suffer a severe propaganda blow when large numbers of persons opt to go over to the GVN side. Details below on two recent evacuations in Quang Tin and Quang Nam provinces show some of the reasons why people leave areas under Communist control and some of the steps that have been taken by the Viet Cong to prevent the exodus.

#### Quang Nam Province

13. Some 2,200 persons recently resettled in the Nong Son coal mining area in south central Quang Nam relate a familiar story of Viet Cong oppression which forced them to seek shelter in GVN-controlled areas. Originating in the village of Son Phuoc in Duc Duc district, the southernmost of the province, these people took the first opportunity to flee from

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Communist control. This arose when a US Marine Corps operation moved into their area early this month. This refugee group estimates that there are another 1,000 persons in the Son Phuoc area who would probably come out if given the opportunity.

14. The Viet Cong made a determined effort to prevent the Son Phuoc refugees from fleeing their village. During the course of their flight, Communist snipers gunned down four of the escapees, killing one. Such a response on the part of the Viet Cong is apparently almost unprecedented, and was done at considerable risk to themselves since allied troops were still operating in the area.

15. Further deterioration of the Communist popular base may be taking place in this particular area of Quang Nam Province. Commanders of US units in the area say that there have been numerous instances of people in remote areas begging US troops either to stay in the area to protect them, or to evacuate them when the troops leave. One reason for the desire of villagers in these northern areas to leave Viet Cong-controlled zones is that the Communists are being increasingly denied rice from the major population centers along the coast; this is causing the Viet Cong to put more pressure on the population under their control. While the flow of rice to the Communists from coastal areas has not been stopped, there is evidence that the government's resources control efforts are becoming more effective. Increased logistical problems, particularly in the matter of food supplies, could possibly lead to serious political problems for the Communists.

#### Quang Tin Province

16. On 8 December, 16 kilometers east of the province capital of Tam Ky, 42 refugees approached elements of a US Marine unit participating in Operation CORTEZ, and requested evacuation from the area. They carried about 1,000 pounds of rice with them. Among the reasons cited by the group for fleeing their homes were: constant Communist harassment, heavy Communist taxation, impressment of their young men into the Viet Cong ranks, and fear of air strikes.

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17. According to a report from clandestine channels, the Viet Cong in the general area of Operation CORTEZ have levied a 20-percent tax on rice, as well as taxes on other agricultural produce, on boats, and on real estate. Recently, payment of all these taxes has been demanded in rice--a good indicator of the urgent need for this commodity. According to the same report, this Viet Cong taxation in kind has had the effect of taking 50 to 100 percent of the rice crop. In another area of Quang Tin Province, the agricultural tax of the Communists is reported to be 50 percent.

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### III. ECONOMIC SITUATION

Retail prices in Saigon reached a new high during the week ending 12 December as rice and pork prices continued to increase. The currency and gold market, however, remained relatively steady. Prices in the provinces during October were generally unchanged in spite of increased transportation difficulties caused mainly by adverse weather conditions. The GVN decided to raise the government buying price of rice. Other aspects of the new GVN rice policy are not yet clear, but the US Mission tentatively feels that the policy is workable. Ambassador Lodge has urged Premier Ky to take measures to solve the problem at the Saigon port. USAID reports that considerable progress was made in industrial development in South Vietnam during FY 1966.

#### Prices

1. For the second consecutive week, retail prices in Saigon reached another high, second only to the peak reached at the time of the September 1966 elections. According to the USAID retail price index, prices during the week ending 12 December rose four percent above the previous week. Food prices were up five percent and non-food items rose two percent. As during the previous week, these increases stemmed largely from soaring prices for rice and pork. On 12 December the price of the type of rice used by the working class reached another new 1966 high of 1,750 piasters per 100 kilograms, or 40 percent above the level prevailing just prior to the June devaluation and almost 120 percent above the price at the beginning of the year. The price of pork was 140 piasters per kilogram, or eight percent above the previous week and 65 percent above the price during the latter half of November. Lower deliveries of these commodities to Saigon continue to be the major factor causing the higher prices. Pork prices, which in turn influence the prices of other protein food, are also being affected by an increase in the cost of feed. Prices of non-food items were generally unchanged with the

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exception of charcoal and firewood, both of which increased because of lower deliveries to Saigon. (A table of weekly retail prices in Saigon is included in the Annex).

2. Prices of imported commodities were mixed; food items held steady and construction materials, fertilizers and chemicals showed slight increases. No changes were noted in the prices of condensed milk and wheat flour. Sugar declined slightly as the market continued to be well supplied. Iron and steel products, on the other hand, rose as a result of increased demand caused by the start of the new construction season. Fertilizers and chemicals also were higher because importers did not receive any new shipments.

#### Currency and Gold

3. Although the cost of living continues to rise, the currency and gold market remains reasonably steady. During the week ending 12 December, dollars and MPC (scrip) moved down to the level of two weeks ago. Gold, however, rose because of lower arrivals of gold and increased demand for jewelry for Tet. Currency price quotations for 12 December have not yet been reported. (Graphics on monthly and weekly free market gold and currency prices are included in the Annex).

#### GVN Decision on Rice Policy

4. On 13 December the GVN finally decided to raise the government buying price of rice. The price to the producer for paddy is to be between 8.5 and 8.9 piasters per kilogram, or roughly double last year's price. This new GVN price is below that recently recommended by US officials--a target price of 10 piasters per kilogram with government buying stations offering a support price of 9.5 piasters per kilogram. It is estimated that the new price for paddy will result in a retail price in Saigon of roughly 16 to 16.5 piasters per kilogram for the cheapest type of rice as compared with the present price of 16.0 piasters. Thus, the GVN is, in effect, setting a retail price which is the same or only slightly above

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the existing price. Imported rice will be sold at around 13 to 14 piasters per kilogram, as compared with a recent price of 12.5 to 13.0 piasters.

5. On the controversial issue of provincial buying stations, the GVN has decided to ask the National Agricultural Credit Office (NACO), working together with the province chiefs, to act as a buying agent. The exact role of NACO in the provinces and its relationship to the Ministries of Agriculture and Commerce is unclear.

6. Premier Ky has requested that there be no publicity in the cities for the new rice policy. Moreover, acting on a US recommendation, the GVN will institute a vigorous program in urban areas of rice distribution from trucks. The new price policy will be widely publicized in the rural areas, however, by means of nationally printed information leaflets in order to inform delta farmers of the true price situation and prevent the merchants from again taking advantage of the farmer.

7. Although the GVN price increase is less than that proposed by the US, US officials believe that the new GVN rice policy will work out and intend to give all possible assistance to get the program launched. Several aspects of the program, however, remain unclear. The question of a credit policy for rice, for example, has not been determined. Moreover, although National Bank Governor Hanh and Acting Minister of Industry Ton apparently intend to play significant roles in implementing the program, it remains to be seen who will really be in charge of implementation and what role the province chiefs will play.

#### Provincial Economic Developments During October

8. Economic developments in the provinces during October were highlighted by greatly increased transportation difficulties which resulted from the rainy season in the northern part of the country and the flooding of the Mekong in the southern area. Viet Cong sabotage also contributed to transportation problems. With the exception of the provinces affected by the floods, however, provincial prices were generally steady. Rice

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prices and supplies were satisfactory in Region I, but higher rice prices were noted in both Regions II and IV, as a direct or indirect result of the floods.

9. Although Region I experienced transportation difficulties because of the monsoon rains, prices were generally steady throughout the region, and no shortages of construction materials were noted. There were, however, such seasonal price fluctuations as higher seafood prices because of shortages caused by heavy rains. Plentiful rice supplies, which stemmed from a good local harvest and ample imported stocks, resulted in lower prices for this commodity in almost all provinces of the region. These lower rice prices prevailed even though Viet Cong rice levies were stepped up in some provinces, such as Quang Tri and Quang Tin. A rice protection plan in Quang Tri Province was undertaken too late to prevent a large quantity of rice from falling into Viet Cong hands.

10. Prices in most provinces of Region II were also generally steady, although transportation difficulties were caused by the rains and Viet Cong activity. In Ninh Thuan Province, the Viet Cong destroyed three bridges on Route 11, temporarily blocking traffic to Da Lat. Viet Cong interdiction on the Da Lat - Saigon road in Tuyen Duc Province reduced farmers' income because their crops could not be shipped to Saigon, but resulted in lower prices for vegetables in the province. Rice prices were higher in some areas of Region II even though the rice harvest had been completed. These increases apparently resulted partly from the psychological effect of the flood in the Mekong Delta, partly from lower rice production caused by farm labor shortages. It was reported, for example, that a shortage of field workers in Ninh Thuan Province caused a loss of about ten percent of the recent rice crop. A shortage of farm labor also is adversely affecting vegetable production in Tuyen Duc Province.

11. In Region III prices were relatively stable in eight out of the 11 provinces. Prices rose 15 percent, however, in both Bien Hoa and Tay Ninh provinces. The price rise in the former province apparently stemmed from anticipation of food shortages caused by the Mekong floods, whereas the increased presence of troops and limited movement of goods to and from Saigon explained

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the rise in Tay Ninh. Although there was some easing of Viet Cong interdiction of roads in Region III, Viet Cong taxation on commerce increased.

12. Flood recovery operations dominated the economic scene in five provinces of Region IV. Reports from the flooded provinces indicated that rice crop damage, although severe, was less than originally estimated. In Chau Doc and Kien Tuong provinces, however, as much as 80 percent of the rice crop probably was lost. Kien Giang Province, on the other hand, lost only 12 percent of its rice crop. Secondary crops also were hard hit by the floods, with some areas experiencing a complete loss of crops. The floods also damaged roads and slowed transportation of commodities. As a result of these factors plus Viet Cong interdiction, prices rose in some provinces of Region IV. These transportation problems, however, benefited the consumer in some areas where increased supplies of goods normally shipped to Saigon resulted in lower local prices.

#### Discussion With Ky on Port Congestion

13. On 8 December, Ambassador Lodge called on Premier Ky to discuss the Saigon port problem. The ambassador pointed out that US officials feel the port congestion has stemmed from three major factors: (a) lack of adequate credit for importers to finance removal of their goods from the port, (b) inability to provide importers with the location of their cargo in the port and to clear the goods promptly through customs, and (c) use of the port as a warehouse by importers. National Bank Governor Hanh's recent relaxation of credit has solved the credit problem, and some progress is being made in locating and clearing cargo. The major problem, therefore, is the unwillingness of importers to move their goods out of the warehouses.

14. Ambassador Lodge informed Premier Ky that the latter's decree of 28 July, which called for confiscation of goods left in the port more than 30 days, has not yet been implemented. As a result, the port remains congested, and this congestion is interfering with the program to halt inflation. Moreover, the large quantity of imports scheduled to arrive in December and January will further aggravate the problem. To solve

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this problem. Ambassador Lodge presented Ky with a list of goods that have been in the port much longer than 30 days and urged Ky to begin confiscation of these goods. In addition, the ambassador asked Ky to deny further import licenses to those importers who do not withdraw their cargo from port warehouses after 30 days. US officials believe that a suspension of these importers for six to nine months will make clear to the Vietnamese importing community that only those importers who remove their goods from the port promptly will be allowed to import.

15. Although Ky approved of blacklisting importers who do not remove their goods, he felt that wholesale confiscation was not the solution to the problem because the GVN would lose taxes and would not know what to do with most of the confiscated goods. Ky then said that the GVN intended to make examples of several big importers by at least imposing heavy fines on them. Ambassador Lodge explained that the US was not advocating wholesale confiscation, but rather selective confiscation based on the US list of gross offenders. Ky finally said he would take action on these matters promptly. In closing, Lodge pointed out that if the port congestion continues, the US would have to consider halting the shipment of goods to Vietnam.

#### Industrial Development in FY 1966

16. USAID considers progress in industrial development to be one of its five most significant accomplishments in South Vietnam during FY 1966. Other important accomplishments cited by USAID were: implementation of the economic reforms of last June, improvement in the supply of water and electric power, and progress in overcoming illiteracy. A significant indicator of industrial progress is the amount of USAID approvals for imports of industrial machinery--\$16 million during FY 1966, or almost half of the total for the past five years.

17. The textile industry is one of the most important industries in the development effort, with textile machinery accounting for almost half of the \$16 million. USAID estimates that when all the approved

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textile equipment is in full operation, South Vietnam will be able to satisfy more than four fifths of its requirement for textiles. Progress also is being made in the paper industry. Two major paper firms--Cogido and Cong Ty Giap Vietnam--ordered heavy equipment valued at about \$3 million. This equipment is being imported to complete a major expansion program, which will result in a total output of 30,000 metric tons annually. This amount represents an increase of 70 percent above current output of paper and will satisfy about three fourths of South Vietnam's requirements for paper.

18. Another important step toward industrial development during FY 1966 was the installation of Vietnam's first steel rolling mill. During early 1967, this mill will begin producing steel ingots from scrap by the converter process and production of rolled products is expected to reach about 15,000 metric tons annually.

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TABLE

Weekly Retail Prices in Saigon a/

	3 Jan. 1966	14 Nov. 1966	21 Nov. 1966	28 Nov. 1966	5 Dec. 1966	12 Dec. 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>224</u>	<u>227</u>	<u>217</u>	<u>231</u>	<u>243</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>230</u>	<u>236</u>	<u>224</u>	<u>243</u> <u>c/</u>	<u>256</u> <u>c/</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	800	1,650	1,600	1,600	1,700	1,750
Pork Bellies (1 kg.)	70	110	85	85	130	140
Fish-Ca Tre (1 kg.)	110	150	180	140	150	170
Nuoc Nam (jar)	50	85	85	85	90	90
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>202</u>	<u>197</u>	<u>195</u>	<u>200</u> <u>c/</u>	<u>206</u> <u>c/</u>
Of Which: (In Piasters)						
Charcoal (60 kg.)	440	650	620	630	650	680
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	35	35	34	40	40
Laundry Soap (1 kg.)	30	45	32	40	40	40

a. Data are from USAID sources.

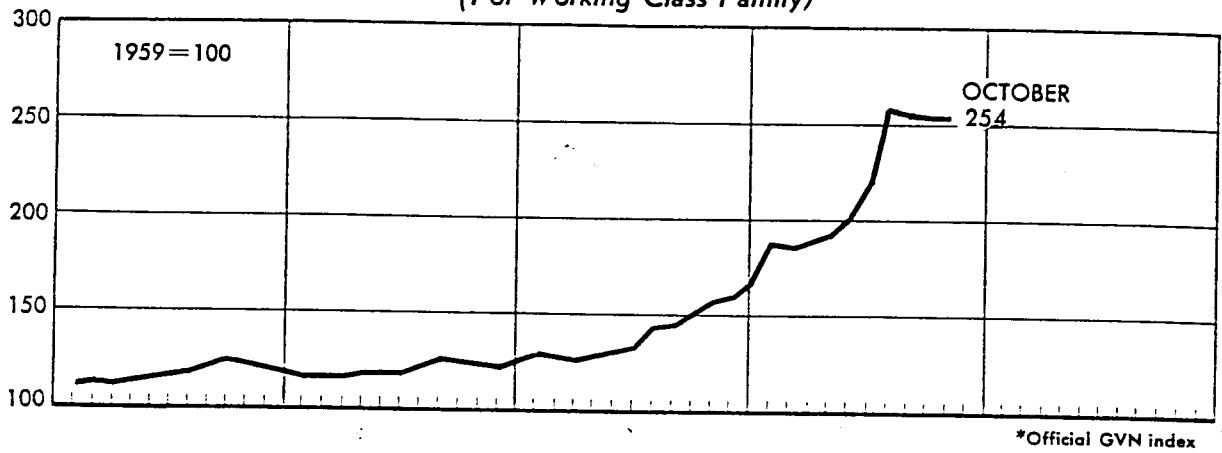
b. For all indexes, 1 January 1965 = 100.

c. Preliminary.

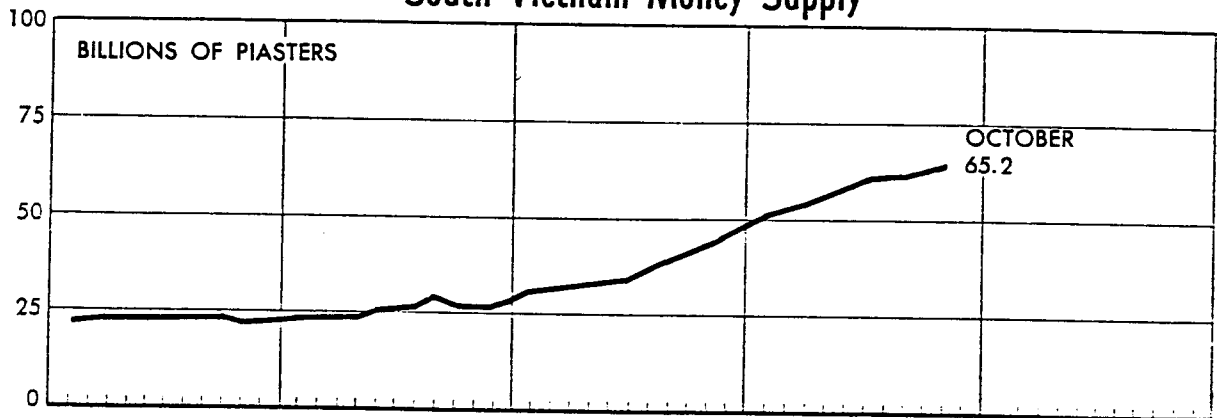
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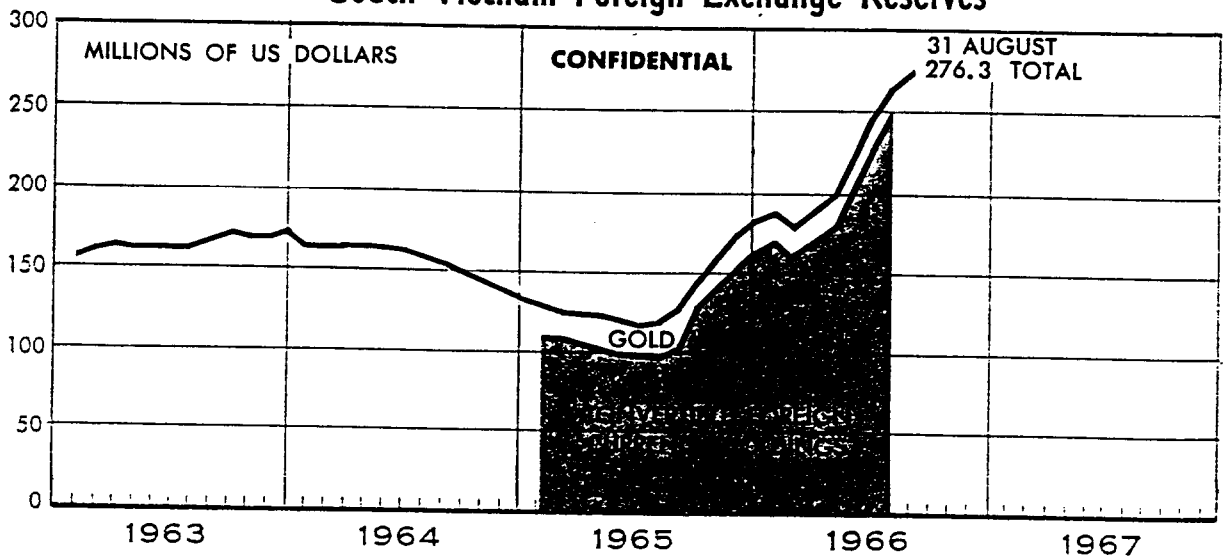
### Saigon Cost of Living Index \* (For Working Class Family)



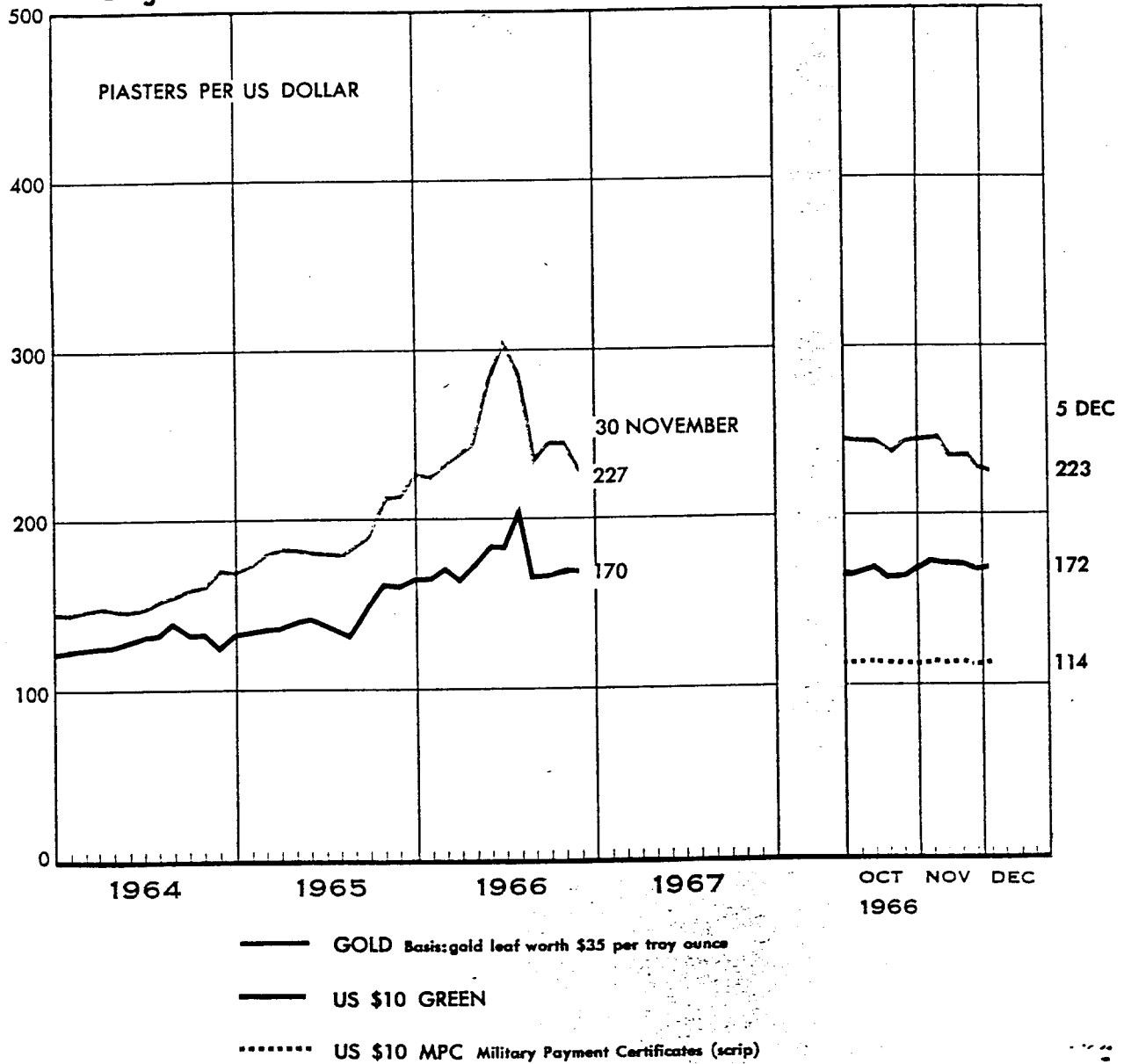
### South Vietnam Money Supply



### South Vietnam Foreign Exchange Reserves



# Saigon Free Market Gold and Currency Prices





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