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HEREWITH MY THIRTY-FOURTH WEEKLY MESSAGE.

A. GENERAL

1. IN THE PRESENT MESSAGE, I AM ATTEMPTING TO GIVE AN OBJECTIVE EVALUATION OF THE EFFORTS AND ACHIEVEMENTS WHICH, IN COMMON WITH OUR VIETNAMESE AND OTHER FREE WORLD ALLIES, WE HAVE RECORDED DURING 1967. THIS REPRESENTS NOT ONLY MY OWN VIEWS BUT ALSO THOSE OF THE MAJOR ELEMENTS OF THE MISSION SO THAT IN EFFECT IT REPRESENTS A MISSION CONSENSUS. IN THE NEXT MESSAGE, I HOPE TO OUTLINE THE MAJOR PROBLEM AREAS WE FORESEE AND TO SUMMARIZE THE ACTIONS WE PLAN TO TAKE TO DEAL WITH THEM IN THE YEAR AHEAD.

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2. THE PAST YEAR HAS BEEN ONE OF SUSTAINED AND UNREMITTING EFFORT AND I BELIEVE HAS SEEN ENOUGH ACHIEVEMENTS TO GIVE US EVERY ENCOURAGEMENT TO CONTINUE ALONG THE PRESENT LINES. WE CAN HAVE CONFIDENCE THAT THE SUCCESSFUL DEFENSE OF THE REPUBLIC OF VIET-NAM AGAINST COMMUNIST AGGRESSION AND SUBVERSION IS ASSURED. OUR EFFORTS HAVE BEEN MAGNIFICENTLY SUPPORTED BY YOU AND BY THE AMERICAN PEOPLE, WHO HAVE CONTRIBUTED IN MEN AND MONEY TO A DEGREE UNPARALLELED IN OUR OWN HISTORY, TO THE DEFENSE OF A PEOPLE FAR FROM OUR SHORES. BUT AS YOU HAVE OFTEN SAID, THE COST IN MEN AND MONEY, HEAVY AS IT HAS BEEN, CANNOT BE COMPARED TO WHAT THE COST WOULD ULTIMATELY BE IF WE ALLOWED COMMUNIST AGGRESSION AND SUBVERSION TO SUCCEED IN VIET-NAM. ALL OF US WORKING IN THE MISSION HERE ARE CONVINCED THAT WHAT WE DO WILL AFFECT NOT

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56. MISSION PRESS CENTER ACTIVITIES DURING 1967 FOCUSED ON IMPROVING PUBLIC MEDIA COVERAGE OF US AND FREE WORLD EFFORTS IN VIET NAM. THE CENTER EMPHASIZED THE ENCOURAGING POLITICAL DEVELOPMENTS OF 1967 BY PROVIDING BACKGROUND LITERATURE AND FACILITATING COVERAGE OF THE ELECTIONS AND THE PRESIDENTIAL INAUGURATION.

57. BACKGROUNDING OF NEWSMEN WAS INCREASED DURING THE YEAR AS ACCREDITATION REACHED A NEW HIGH, RISING FROM A LOW OF 467 IN JANUARY TO A HIGH OF 575 IN EARLY SEPT, JUST BEFORE THE PRESIDENTIAL ELECTIONS. DURING THE YEAR 670 AMERICAN NEWSMEN AND 518 FROM 37 OTHER COUNTRIES ARRIVED TO SPEND SHORT PERIODS IN VIET NAM. BACKGROUNDING RANGED FROM MY MEETINGS WITH CORRESPONDENTS TO INDIVIDUAL SESSIONS HELD BY OFFICERS OF ALL MISSION ELEMENTS.

H. CONCLUSION

58. I AM AFRAID THIS BEEN AN OVERLY LONG MESSAGE, BUT I WANTED TO PUT TOGETHER ALL OF THE ELEMENTS WHICH HAVE GONE INTO OUR EFFORTS HERE. WE SHALL BE SENDING IN MORE DETAILED EVALUATIONS OF THE VARIOUS ACTIVITIES WHICH I HAVE DISCUSSED.

59. OVER I THINK THAT WE HAVE BEEN ON THE RIGHT TRACK AND THAT IF WE CONTINUE BROADLY ALONG PRESENT LINES, REINFORCING SUCCESS AND DRAWING APPROPRIATE CONCLUSIONS FROM FAILURE WE WILL ATTAIN OUR OBJECTIVES HERE.
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APPROXIMATELY VN 591 BILLION IN 1967 AS COMPARED TO VN 357 BILLION IN 1966.

48. FORTUNATELY, IMPORTS WERE VERY EFFECTIVE IN FILLING THE GAP IN 1967. DURING THE YEAR AS A WHOLE, IMPORTS (INCLUDING INVISIBLES) ARE ESTIMATED TO HAVE EXCEEDED ABOUT VN 685 BILLION OF DOMESTIC PURCHASING POWER, WHICH IS SLIGHTLY MORE THAN DOUBLE THE 1966 FIGURE. THIS LARGE INCREASE IN IMPORTS WAS MAINLY DUE TO A (A) THE ABOLITION DURING THE

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SUMMER OF 1966 OF MOST IMPORT QUOTAS AND RESTRICTIONS, (B) THE LICENSING OF OVER 200 NEW IMPORTERS, AND, MOST IMPORTANT, (C) THE DEVALUATION OF THE PIASTER IN JUNE 1966 FROM 60 TO 112 PIASTERS TO THE DOLLAR WHICH GREATLY INCREASED THE PIASTER ABSORPTION OF EACH DOLLAR'S WORTH OF IMPORTS.

49. FINALLY, THE OTHER SIDE OF INFLATION WAS THE INCREASE IN RURAL PROSPERITY, PARTICULARLY IN THE MEKONG DELTA, DURING 1967. HIGHER PRICES FOR AGRICULTURAL PRODUCTS, PARTICULARLY RICE, THE DECLINE IN RURAL UNEMPLOYMENT, AND AN INCREASINGLY EFFECTIVE DISTRIBUTION SYSTEM ALL CONTRIBUTED TO THIS ENCOURAGING DEVELOPMENT.

6. PUBLIC AFFAIRS

50. IN COOPERATION WITH THE GVN, JUSPAO RECORDED SOLID ACHIEVEMENTS IN 1967: PROMOTING THE EVOLUTION OF REPRESENTATIVE GOVERNMENT THROUGH POSTERS AND SUPPORT FOR RADIO, TV, AND DIRECT CONTACT PROGRAMS; SUPPORTING THE PACIFICATION EFFORTS WITH SIMILAR TECHNIQUES; AND ENCOURAGING DEFLECTIONS FROM THE ENEMY THROUGH PUBLICIZING THE CHIEU HOI PROGRAM.

51. JUSPAO ADVISORY SUPPORT TO THE GVN DIRECTORATE GENERAL OF INFORMATION AND PRESS WAS EMPLOYED TO STRENGTHEN GUIDANCE AND COORDINATION TO ADVISORS WORKING WITH GVN AGENCIES IN THE

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INFORMATION FIELD. THE AIM OF THIS EFFORT WAS TO IMPROVE THE GVN'S INTERNAL COMMUNICATIONS CAPABILITY AND TO MAKE ITS CONTACTS WITH THE ELECTORATE MORE PERSUASIVE AND ATTRACTIVE.

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SUBSTANTIAL BENEFIT WAS OBTAINED FROM VIGOROUS BUT ECON-
OMICAL USE OF AN IMPREST FUND TO FINANCE LOCAL EXPENDITURES
IN QUICK RESPONSE TO PSYCHOLOGICAL TARGETS OF OPPORTUNITY.

52. A NATIONWIDE HAMLET SURVEY SYSTEM WAS ESTABLISHED TO
PROVIDE FOR THE FIRST TIME A GLIMPSE OF THE ATTITUDES OF
THE RURAL POPULATION ON ISSUES OF INTEREST TO THE MISSION.
A SURVEY OF RALLIERS WAS MADE DURING THE 1967 TET SEASON
WHICH PROVIDED USEFUL FINDINGS ON VC PSYCHOLOGICAL
VULNERABILITIES WHICH PROVED TO BE OF VALUE THROUGHOUT
THE YEAR.

53. TV SETS INSTALLED ROSE FROM A LEVEL OF ABOUT 50,000 AT
THE BEGINNING OF THE YEAR TO ABOUT 150,000 AS THE YEAR ENDED.
THIS NOW INVOLVED A PEAK NIGHTLY AUDIENCE OF MORE THAN ONE
MILLION, WHEREAS THE NATION'S LARGEST DAILY NEWSPAPER PROBABLY
DOES NOT HAVE A CIRCULATION OF MORE THAN 50,000. BY EXPANDING
TELECAST FACILITIES TO COVER RURAL VIETNAM AND BY OUR
SUPPORT OF THE DISTRIBUTION OF ABOUT 2,000 COMMUNITY
RECEIVERS, WE PROVIDED MAJOR STIMULUS TO THE DEVELOPMENT.

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OF A NATION-WIDE TV AUDIENCE. SIXTY NINE PERCENT OF THE COUNTRY
IS NOW WITHIN RANGE OF A TV TRANSMITTER AND PLANS WERE SET IN
MOTION TO INCREASE COVERAGE TO 74 PERCENT IN 1968. TV HAS
GREAT IMPACT IN A COUNTRY LIKE SOUTH VIETNAM, WHERE
LITERACY LEVELS, THOUGH IMPROVING, IS STILL COMPARATIVELY LOW.

54. THE CULTURAL DRAMA TEAMS, SUPPORTED BY JUSPAO, PRO-
VIDED ENTERTAINMENT WITH A POLITICAL MESSAGE TO MORE THAN
THREE MILLION VILLAGE AND HAMLET DWELLERS IN 1967. THE
VC REACTED VIOLENTLY BY ATTACKING THE 12 TEAMS IN THE
FIELD, WHICH SUFFERED TWO PERCENT KILLED AND 12 PERCENT
WOUNDED DURING THE YEAR.

55. THE RELEASE OF TRANSLATIONS OF CAPTURED ENEMY DOC-
UMENTS TO SPOTLIGHT DEMORALIZING ADMISSIONS OF DIFFICULTIES
AND FAILURES, AND THE RESURRECTION OF NGUYEN VAN BE, "DEAD"
VC HERO-PATRIOT, WHO TURNED UP ALIVE AND SCARED IN GVN
CUSTODY, PROVIDED EXAMPLES OF SUCCESSFUL PSYCHOLOGICAL
OPERATIONS.
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ONLY THE FUTURE OF VIET-NAM BUT ALL OF THE COUNTRIES IN THIS PART OF THE WORLD WHO WISH TO BE FREE AND SO HAS A DIRECT BEARING ON OUR OWN VITAL NATIONAL INTERESTS.

3. THE ACHIEVEMENTS OF THE PAST YEAR, I BELIEVE, FALL INTO THREE MAIN CATEGORIES. IN THE FIELD OF MILITARY OPERATIONS THE BRINGING-INTO PROPER BALANCE OF THE RATIO

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OF COMBAT TO SUPPORT TROOPS IN THE U.S. FORCES AND THE STEADY IMPROVEMENT OF THE VIETNAMESE ARMED FORCES, TOGETHER WITH THE CONTRIBUTIONS OF OUR FREE WORLD ALLIES, RESULTED IN INCREASINGLY EFFECTIVE ACTIONS AGAINST THE ENEMY. HE HAS BEEN THWARTED IN HIS ATTEMPTS AT PENETRATION SOUTH OF THE DMZ, HIS BASES INCREASINGLY NEUTRALIZED, AND HE HAS BEEN STEADILY PUSHED BACK TOWARD THE LAOTIAN AND CAMBODIAN BORDERS. VIET CONG RECRUITMENT AND MORALE HAVE DECLINED. LINES OF COMMUNICATION HAVE BEEN STEADILY OPENED UP, COMMERCE AND TRADE THUS PERMITTED TO DEVELOP.

4. SLOW BUT STEADY PROGRESS IN PACIFICATION COMBINED WITH MILITARY SUCCESSES HAVE BROUGHT A STEADILY INCREASING PROPORTION OF THE POPULATION UNDER GOVERNMENT CONTROL, NOW ABOUT 67 PERCENT, WITH A CORRESPONDING DECREASE UNDER VIET CONG CONTROL, APPROXIMATELY 17 PERCENT, THE BALANCE BEING IN CONTESTED AREAS.

5. PROGRESS IN THESE TWO CATEGORIES WERE ESSENTIAL ELEMENTS IN THE PROGRESS ACHIEVED IN THE THIRD, THAT OF CONSTITUTIONAL DEVELOPMENT. PERHAPS THE MAJOR ACHIEVEMENT OF THE YEAR HAS BEEN THE STABILIZATION OF THE GOVERNMENT AND THE OPENING AND

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DEMOCRATIZATION OF THE POLITICAL SYSTEM. PEOPLE HAVE BEEN ABLE TO VOTE FOR LOCAL, VILLAGE, AND HAMLET OFFICIALS THUS MARKING THE BEGINNING OF THE REINSTITUTION OF LOCAL SELF-GOVERNMENT. THE PROMULGATION OF THE CONSTITUTION OPENED THE WAY FOR THE ELECTION OF A PRESIDENT, VICE PRESIDENT, AND A NATIONAL ASSEMBLY. THE INAUGURATION OF THE NEW GOVERNMENT MARKED A BEGINNING OF FULLY CONSTITUTIONAL PROCESSES AND THE CHANGE-OVER TO CIVILIAN RULE. THE IMMEDIATE PROBLEM NOW FACING US

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IS TO ENCOURAGE, PROD. PERSUADE, AND DRAW OUR VIETNAMESE ALLIES TO USE THEIR NEW POLITICAL AND GOVERNMENTAL STRUCTURE TO FACE UP TO AND RESOLVE MORE EFFECTIVELY THE PROBLEMS OF DEFENSE AND GROWTH THAT HAVE BESET THEM FOR MANY YEARS.

6. I THINK THESE ACHIEVEMENTS REFLECT FAVORABLY ON THE VIETNAMESE PEOPLE. FOR THEM THE STRUGGLE AGAINST THE COMMUNISTS HAS BEEN GOING ON FOR MORE THAN TWENTY YEARS, AND THEIR LOSSES HAVE BEEN HEAVY. BUT WE CAN NOW SEE GROWTH OF A CONVICTION AMONG THEM THAT THEY CAN AND WILL SEE THE STRUGGLE THROUGH TO A SUCCESSFUL CONCLUSION. THEIR CONCERNS NOW TURN MORE DIRECTLY ON THE NATURE AND FORM OF

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A FINAL SETTLEMENT AND THE POSITION IT WOULD LEAVE THEM IN, LOCATED IMMEDIATELY NEXT TO AN UNREMITTINGLY HOSTILE NEIGHBOR. THEIR CONCERN IS WITH THE CONSEQUENCES OF SUCCESS RATHER THAN WITH THE RESULTS OF FAILURE.

7. OUR DEFECTS IN THE FIELD OF PUBLIC AFFAIRS, BOTH HERE AS WELL AS IN WASHINGTON, HAVE REQUIRED IMAGINATION AND ENERGY. WE HAVE SOUGHT TO PRESENT THE TRUE DIMENSIONS OF THE CONFLICT IN VIET-NAM TO AMERICAN AND WORLD PUBLIC OPINION AS OBJECTIVELY AND FAIRLY AS WE CAN, BUT WE HAVE HAD TO DO THIS THROUGH A PRESS WHICH, IT SEEMS TO ME, HAS BEEN UNUSUALLY SKEPTICAL AND CYNICAL. ONE EXPERIENCED JOURNALIST GAVE AN EXPLANATION FOR THIS WHICH MAY HAVE SOME VALIDITY, I.E., THAT THERE IS A GENERATION GAP HERE IN THAT MANY OF THE YOUNG REPORTERS HAVE NEVER SEEN NOR EXPERIENCED WAR BEFORE AND CONSEQUENTLY SUFFER FROM AN EMOTIONAL TRAUMA WHICH RESULTS IN SUBJECTIVE REPORTING. HOWEVER THAT MAY BE THE RESULT OF ALL THIS IS THAT THERE TEND TO BE TWO SEPARATE AND ONLY PARTIALLY CONNECTED REALITIES: THE VIEW OF VIET-NAM AS WE SEE IT HERE IN VIET-NAM AND THE VIEW THAT IS BEING

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PRESENTED TO AMERICAN AND WORLD PUBLIC OPINION. THIS PROBLEM HAS ENGAGED MAJOR ATTENTION DURING THE PAST YEAR AND WILL CONTINUE TO HAVE OUR ATTENTION IN THE FUTURE. I THINK WE HAVE MADE SOME, THOUGH LIMITED, PROGRESS IN DEALING WITH IT.

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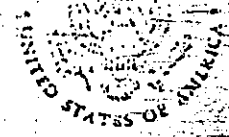
B. POLITICAL

6. THE PRINCIPAL POLITICAL ACHIEVEMENT OF 1967 IS THAT THE GOVERNMENT OF VIET NAM NOW OPERATES WITHIN A CONSTITUTIONAL FRAMEWORK, AND AN ELECTED GOVERNMENT IS IN POWER. INDEED, THE DRAFTING OF A CONSTITUTION BY AN ELECTED CONSTITUENT ASSEMBLY AND THE CONDUCT OF REASONABLY FAIR AND FREE ELECTIONS FOR A PRESIDENT, VICE PRESIDENT, AND A NATIONAL ASSEMBLY HAVE SIGNIFICANTLY ENHANCED THE PROSPECTS FOR FUTURE POLITICAL STABILITY AND PROGRESS. THE ADVENT TO POWER OF A LEGITIMATE POLITICAL REGIME IN THE SOUTH DIRECTLY CUTS AT THE BASE OF THE COMMUNIST CLAIM THAT THE NLF IS THE SOLE REPRESENTATIVE OF THE SOUTH VIETNAMESE PEOPLE.

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9. ADMINISTRATIVE REFORM AND THE ELIMINATION OF CORRUPTION HAVE RECEIVED SIGNIFICANT ATTENTION DURING THE YEAR. (A NUMBER OF OFFICIALS HAVE ALREADY BEEN PROSECUTED FOR CORRUPTION OR ARE CURRENTLY UNDER INVESTIGATION.) PLANS TO IMPROVE THE TRAINING AND EFFECTIVENESS OF PROVINCIAL AND DISTRICT CHIEFS HAVE BEEN PREPARED, AND THE PROGRAMS WILL BEGIN TO BE IMPLEMENTED SHORTLY AFTER TET. THE GOVERNMENT HAS INSTITUTED A SIX-DAY WORK WEEK IN ORDER TO IMPROVE ITS IMAGE OF SERVICE TO THE POPULATION.

10. THE ELECTION AND INAUGURATION OF PRES THIEU UNDER THE NEW CONSTITUTION BRINGS THE PROMISE OF A FUNDAMENTAL CHANGE, ALTHOUGH THIS CHANGE HAS NOT YET BEEN FULLY REALIZED. GOVERNMENT BY COMMITTEE AND DECREE HAS FORMALLY ENDED,

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AND GOVERNMENT BY A PRESIDENT IN WHOM ALL EXECUTIVE POWERS ARE VESTED HAS BEGUN. THIEU IS COMMANDER-IN-CHIEF OF THE ARMED FORCES; HE IS EMPOWERED TO APPOINT AND DISMISS CORPS COMMANDERS, MINISTERS, AND HIS PRIME MINISTER AT WILL; HE IS RESPONSIBLE FOR DETERMINING NATIONAL POLICY.

11. FEELING PROBABLY THAT HE COULD NOT MOVE TOO FAST WITHOUT EVOKING A STRONG AND PERHAPS UNMANAGEABLE REACTION FROM THE MILITARY, THIEU HAS EASED INTO HIS JOB GRADUALLY. THIS APPROACH IS ALSO CHARACTERISTIC OF HIS CAUTIOUS AND SOMEWHAT SECRETIVE NATURE. FOR EXAMPLE, PRIME MINISTER LOC, WHO WAS NOT HIS PERSONAL CHOICE FOR THE POSITION BUT RATHER THAT OF VICE PRES KY, WAS APPOINTED BY THIEU, IN MY OPINION WISELY, IN ORDER TO CEMENT HIS RELATIONS WITH KY. THIEU HAS NOT YET REPLACED ANY OF HIS CORPS

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COMMANDERS, NOR HAS HE YET TRIMMED THEIR CIVILIAN POWERS, THOUGH HE PLANS TO HAVE PROVINCE CHIEFS REPORT DIRECTLY TO THE MINISTRY OF INTERIOR, RATHER THAN TO CORPS COMMANDERS. LIKEWISE, THIEU HAS RETAINED IN OFFICE A NUMBER OF FIGURES FROM THE OLD REGIME WHOM HE PROBABLY WOULD PREFER

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TO REPLACE, SUCH AS GEN LOAN, THE NATIONAL POLICE DIRECTOR. I JUDGE THAT THIEU WILL EVENTUALLY HAVE TO DO SOME OR ALL OF THESE THINGS IF HE IS TO CARRY OUT HIS RESPONSIBILITIES. EFFECTIVELY AS A CONSTITUTIONALLY ELECTED PRESIDENT AND EMERGE AS A RESPECTED NATIONAL LEADER. THE ARMY AND THE ADMINISTRATION CANNOT BE REFORMED IF THE OLD SYSTEM OF POWER RELATIONSHIPS AMONG GENERALS IS NOT BROKEN DOWN AND ADJUSTED TO THE CHANGED BALANCE OF MILITARY AND CIVILIAN RESPONSIBILITIES IN THE CONSTITUTIONAL GOVERNMENT. THIS WILL REQUIRE SOME UNPLEASANT AND DIFFICULT DECISION AND POSSIBLE SHOWDOWNS WITH SOME OF THE LEADING GENERALS BEFORE IT IS EFFECTED.

12. RELATIONS BETWEEN MILITARY AND CIVILIAN LEADERS ARE ALSO A KEY PROBLEM. IT IS FAIR TO SAY THAT THE PRESENT GOVERNMENT HAS ALREADY ACHIEVED FAR MORE CIVILIAN PARTICIPATION AND MILITARY-CIVILIAN COOPERATION THAN ITS PREDECESSOR. CIVILIAN POLITICIANS AND THE MILITARY LEADERSHIP SEEM TO BE LEARNING THAT THEY MUST WORK TOGETHER, ALTHOUGH THEY ARE NOT QUITE SURE HOW TO DO IT. THE RELATIONSHIP IS IN MANY CASES STILL AN UNEASY MODUS VIVENDI RATHER THAN THE EFFECTIVE PARTNERSHIP WHICH WE HOPE TO SEE EMERGE.

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13. THE RECENT NATIONAL AND LOCAL ELECTIONS, HELD WHILE THE COUNTRY WAS ENGAGED IN A BITTER WAR, INVOLVED LARGE NUMBERS OF VIETNAMESE AND MUST BE CONSIDERED, I BELIEVE, QUITE A REMARKABLE ACHIEVEMENT. THE SIGNS OF DEVELOPMENT OF POLITICAL PARTIES THAT WILL BE ESSENTIAL TO PROPER OPERATIONS OF THE NEW CONSTITUTIONAL SYSTEM SHOULD NOT, HOWEVER, OBSCURE THE REALIZATION THAT LITTLE OF SUBSTANCE HAS BEEN SO FAR ACHIEVED. THE DEVELOPMENT OF SOLID AND ACTIVE POLITICAL

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PARTIES WILL BE ESSENTIAL TO THE EFFECTIVE FUNCTIONING OF VIETNAMESE DEMOCRACY. SHOULD THE WAR END SUDDENLY THE LONG ESTABLISHED AND HARDENED COMMUNIST POLITICAL APPARATUS WOULD BE WITHOUT EFFECTIVE COMPETITORS ON THE NATIONAL SCENE.

14. AS WE ARE ONLY TOO PAINFULLY AWARE, WE HAVE NOT MOVED EXPLICITLY ANY CLOSER TO PEACE EXCEPT AS OUR OVERALL PROGRESS BRINGS PEACE NEARER. THE FIGHTING HAS BEEN HEAVY

AND THE CASUALTIES ON ALL SIDES -- COMMUNIST, GVN, AND US -- HAVE BEEN HIGHER THAN BEFORE, WITH THE PROSPECT THAT 1968 MAY SEE CASUALTIES MOUNTING EVEN FURTHER.

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15. NEVERTHELESS, 1967 SAW A VERY CONSIDERABLE CLARIFICATION OF THE ISSUES IN VIET NAM AND A STEADY IMPROVEMENT IN THE ATTITUDE OF MAJOR FAR EASTERN COUNTRIES TOWARDS OUR STAND HERE. THERE IS NO DOUBT THAT THE VERY SUBSTANTIAL MILITARY EFFORT MADE BY THE NORTH VIETNAMESE, WHO CONSTITUTE MORE THAN HALF OF THE TOTAL COMMUNIST MAIN FORCE UNITS, HAS LED TO NO SIGNIFICANT RESULTS, OTHER THAN TO INCREASE THEIR CASUALTIES. THE COMMUNISTS ALMOST CERTAINLY KNOW THAT THEY CANNOT WIN A MILITARY VICTORY, EVEN THOUGH THEIR PROPAGANDA TO THEIR TROOPS AND TO THE PEOPLE UNDER THEIR CONTROL CONTINUES TO EMPHASIZE MILITARY VICTORY AS THEIR GOAL.

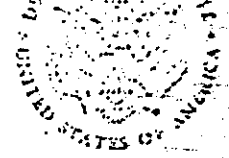
16. THE FORMULATION INTRODUCED BY DRV FOREIGN MINISTER NGUYEN DUY TRINH IN DEC TO THE EFFECT THAT TALKS "WILL", RATHER THAN "COULD" OR "WOULD", FOLLOW AN UNCONDITIONAL BOMBING CESSATION TAKEN INTO CONJUNCTION WITH THE EMERGENCE OF THE THEME OF ESTABLISHMENT OF A COALITION GOVERNMENT IN THE COMMUNIST DOCUMENTS OVER THE PAST THREE MONTHS OR SO MAY HAVE SIGNIFICANCE IN INDICATING WANING CONFIDENCE OF THE DRV IN MILITARY SUCCESS AND A TURNING TOWARD POLITICAL MANEUVER.

17. IN VIET NAM THE ATMOSPHERE IN WHICH THE WAR IS BEING FOUGHT HAS SLOWLY CHANGED FOR THE BETTER, AS A RESULT OF THE ELECTIONS, THE ESTABLISHMENT OF STABLE GOVERNMENT, THE STEADY IF SLOW PROGRESS IN PACIFICATION, AND THE COMMUNIST FAILURE ON THE BATTLEFIELD. THERE IS A GROWING CONVICTION AMONG KNOWLEDGABLE VIETNAMESE HERE THAT 1968 WILL BE THE DECISIVE YEAR, BOTH MILITARILY AND POLITICALLY.

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18. THE ATMOSPHERE IN THE FAR EAST IN WHICH THE WAR IS BEING FOUGHT HAS ALSO CHANGED FOR THE BETTER. THERE HAS BEEN A FURTHER AND SUBSTANTIAL INCREASE IN THE FREE WORLD FORCES COMMITTED TO THE STRUGGLE. THE JAPANESE GOVERNMENT HAS REFLECTED A POSITIVE AND COMPREHENDING ATTITUDE TOWARDS THE WAR AND TOWARDS THE NEW VIETNAMESE GOVERNMENT, BOTH IN PRIVATE AND IN PUBLIC, IN SPITE OF HEAVY DOMESTIC OPPOSITION.

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INTERNAL UPHEAVALS IN COMMUNIST CHINA HAVE ALMOST CERTAINLY REINFORCED THE CAUTIOUS ATTITUDE ADOPTED BY MAO TSE-TUNG TOWARDS THE STRUGGLE, EVEN THOUGH THE PROPAGANDA DEFAMATIONS OF THE U.S. REMAIN AS BITTER AND VICIOUS AS EVER.

19. OUR POLICIES HAVE BEEN PRUDENT AND SOUND, OUR ACTIONS HAVE BEEN CAREFUL AND CONSIDERED. WE HAVE BUILT A FOUNDATION ON WHICH, I BELIEVE, WE CAN BUILD THE STRUCTURE OF SUCCESS.

C. MILITARY

20. MILITARY OPERATIONS CONDUCTED DURING 1967 WERE DESIGNED TO DEFEAT THE VC/NVA MAIN FORCE UNITS, DESTROY THE ENEMY'S BASE

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AREAS AND TO DENY HIM ACCESS TO AREAS OF HIGH POPULATION DENSITY AND CONCENTRATED RESOURCES. SIMULTANEOUSLY, US/FWMAF FORCES ASSISTED THE GVN IN IMPROVING ITS FORCES AND IN PROVIDING A SECURE ENVIRONMENT IN WHICH TO BUILD A NATION.

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A. 1967 CAMPAIGN GOALS: SINCE JAN 1967 LOSSES HAVE BEEN INFLICTED ON THE ENEMY AT A RATE WHICH EXCEEDS HIS INPUT OF PERSONNEL. KNOWN AND ESTIMATED INPUT THROUGH INFILTRATION AND IN-COUNTRY RECRUITING HAS AVERAGED ABOUT 9500 PER MONTH WHILE THE KNOWN LOSSES HAVE AVERAGED ABOUT 12,000 MEN PER MONTH; 16 OF THE 41 PRIORITY VC/NVA IN-COUNTRY BASE AREAS ARE NEUTRALIZED AND 11 PARTIALLY NEUTRALIZED. ON THE BASIS OF MILITARY CRITERIA, 99.7 PERCENT OF THE ROADS ESSENTIAL TO FRIENDLY MILITARY OPERATIONS ARE OPEN AND 68.9 PERCENT ARE SECURE; 37.5 PERCENT OF RAILROADS ARE OPEN WITH 31 PERCENT SECURE; ALL RAILROADS IN THE NATIONAL PRIORITY PACIFICATION AREAS OF II AND II CORPS ARE SECURE; 92 PERCENT OF THE WATERWAYS IN THE NATIONAL PACIFICATION PRIORITY AREAS OF III AND IV CORPS ARE OPEN AND 47 PERCENT ARE SECURE.

S. NATIONAL ELECTION: THE COORDINATED SECURITY SCREEN PROVIDED BY VN POLICE/RVNAF/US/FWMAF FORESTALLED ALL MAJOR ASSAULTS AND RESTRICTED THE ACTIVITIES OF THE VC/NVA DURING THIS CRUCIAL PERIOD, THEREBY PERMITTING A RECORD 83 PERCENT OF THE ELIGIBLE VOTERS TO CAST THEIR BALLOTS ON SEPT 3.

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C. IMPROVEMENT OF RVNAF: DURING 1967 MAJOR GAINS WERE ACHIEVED IN MANY AREAS INCLUDING: 1) IMPROVED LEADERSHIP AND TRAINING BY NEW TRAINING COURSES AND TECHNIQUES, AND THE ESTABLISHMENT OF A NATIONAL DEFENSE COLLEGE; 2) ENHANCED MOTIVATION AND MORALE BY IMPROVEMENT OF THE GARRISON RATION, FREE OPERATION IN THE FIELD, INCREASED HOUSING, ESTABLISHMENT OF AN ARVN COMMISSARY, PAYMENT OF A RICE ALLOWANCE TO EACH SERVICEMAN AND HIS DEPENDENTS, AND PF PAY INCREASE; 3) EQUIPMENT MODERNIZATION BY ISSUANCE OF NEW EQUIPMENT TO SELECTED UNITS (INCLUDING 19,317 M16 RIFLES) AND IMPROVEMENT OF COMMUNICATIONS IN ARVN MANEUVER BATTALIONS AND RF/PF. TWO MAJOR PROGRAMS, THE MILITARY TELECOMMUNICATIONS NETWORK, VIETNAM, AND THE SIGNAL MODERNIZATION PLAN, ACCOUNTED FOR AN OVERALL 96 PERCENT INCREASE IN THE RVNAF COMMUNICATION CAPABILITY DURING 1967.

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OTHER SIGNIFICANT PROGRAMS SUCH AS THE REORGANIZATION OF RVNAF AND THE IMPROVEMENT IN THE COMMAND, CONTROL AND SUPPORT IN THE RF/PF WERE INITIATED DURING THE YEAR.

D. RVNAF ACHIEVEMENTS: A REVIEW OF RVNAF OPERATIONS AND RESULTS ACHIEVED REFLECT A NOTABLE INCREASE IN MORALE, CONFIDENCE AND AGGRESSIVENESS. DESERTIONS DURING THE FIRST ELEVEN MONTHS OF

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CY 67 WERE APPROXIMATELY 32 PERCENT LOWER THAN DURING THE SAME PERIOD LAST YEAR, WHILE THE NUMBER OF PERSONNEL MISSING IN ACTION IS DOWN ABOUT 41 PERCENT FROM LAST YEAR. ARVN AND RF/PF UNITS ARE SHOWING AN INCREASING WILLINGNESS TO STAND AND FIGHT IT OUT WITH THE ENEMY, IN CLOSE COORDINATION WITH US/FWMAF FORCES. LIKEWISE, THE VNN AND THE VNAF CONTINUE TO SHOW STEADY IMPROVEMENT. THE VNN HAS MORE THAN DOUBLED ITS MARKET TIME OPERATIONS AND THE VNAF, WITH 16.5 PERCENT OF TACTICAL AIRCRAFT IN-COUNTRY, ACCOUNTED FOR APPROXIMATELY 18 PERCENT OF ALL TACTICAL SORTIES FLOWN.

E. LOGISTICAL BASE: AN ADEQUATE LOGISTICAL BASE CAPABLE OF SUPPORTING SUSTAINED COMBAT OPERATIONS HAS BEEN ACHIEVED. EMPHASIS IS NOW SHIFTING TOWARD MAKING THE U.S. SYSTEM MORE EFFECTIVE AND EFFICIENT AND TOWARD IMPROVING THE RVNAF LOGISTICS SYSTEM. ADJUSTMENT IN CONSTRUCTION OF BASE AND SERVICE SUPPORT STRUCTURE WERE MADE TO ACHIEVE GREATER EFFICIENCY AND ECONOMY.

F. ASSESSMENT - A YEAR OF PROGRESS: AT THE END OF 1967, THE MILITARY INITIATIVE CLEARLY RESTS WITH GVN/US/FWMAF FORCES. THE ENEMY WAS THWARTED IN EVERY SIGNIFICANT ENGAGEMENT AND HE HAS NOT WON A MAJOR BATTLE IN MORE THAN A YEAR. IN GENERAL, HE C

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FIGHT HIS LARGE FORCES ONLY AT THE EDGES OF HIS SANCTUARIES. EVEN HERE, FRIENDLY FORCES, THROUGH SUPERIOR MOBILITY AND FIREPOWER, MAINTAIN CONSTANT PRESSURE ON THE ENEMY. THE IMPROVED MILITARY SITUATION IS BEGINNING TO PAY DIVIDENDS IN THE PACIFICATION EFFORT. AS THE ENEMY'S COERCIVE CONTROL OVER THE PEOPLE IS FURTHER LOOSENED, THESE DIVIDENDS ARE EXPECTED TO INCREASE. THE IMPROVEMENT OF RVNAF WAS CLEARLY DISTINGUISHED IN 1967. EFFORTS WILL BE MADE,

REINFORCE SUCCESSSES AND TO INTENSIFY THESE IMPROVEMENTS DURING 1968.

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D. PACIFICATION

22. MORE HIGH-LEVEL ATTENTION WAS GIVEN, MORE WAS SAID ABOUT, AND MORE WAS ACCOMPLISHED IN PACIFICATION DURING 1967 THAN IN PREVIOUS YEARS. IT WAS A YEAR OF FORWARD MOVEMENT ON THE PACIFICATION FRONT, THOUGH LESS PRODUCTIVE THAN WE HAD HOPED. THE REORGANIZED CIVIL/MILITARY TEAM UNDER GEN WESTMORELAND, WITH BOB KOMER AS HIS DEPUTY, HAS WORKED OUT EVEN BETTER THAN EXPECTED. BUT PACIFICATION BY ITS NATURE HAS TO BE LARGELY A VIETNAMESE ENTERPRISE, AND VIETNAMESE PERFORMANCE--THOUGH BETTER--STILL LEAVES MUCH TO BE DESIRED. THE ELECTORAL PROCESS, STARTING WITH LOCAL ELECTIONS IN THE SPRING AND ENDING WITH THE LOWER HOUSE ELECTION IN OCT, DIVERTED GVN ENERGIES TO SOME EXTENT. EVEN SO, ALL KEY TRENDS ARE UP OVER A YEAR AGO, AND WE HAVE LAID A SOLID FOUNDATION

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FOR YET A BETTER PERFORMANCE IN 1968.

23. PACIFICATION IS TOUGH TO MEASURE--ITS SOMETHING THAT ONE JUDGES BY FEEL, LIKE POLITICS, PERHAPS THE BEST WAY IS TO LOOK AT IN TERMS OF HOW KEY PROGRAMS ARE FARING. BOB KOMER PUT SPECIAL EMPHASIS ON THESE VIA HIS PROJECT TAKOFF.

24. OUR BEST MEASURE OF PACIFICATION PROGRESS, THE NEW HAMLET EVALUATION SYSTEM INSTALLED IN JAN 67, SHOWS A MODEST INCREASE IN SECURE HAMLETS DURING 1967, BUT A MUCH MORE SUBSTANTIAL INCREASE IN THE POPULATION IN RELATIVELY SECURE AREAS. YEAR-END REPORTS ON 12,722 HAMLETS SHOW

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-2- SAIGON 15899, JAN 13, SECTION FOUR OF SEVEN

11,510,000 PEOPLE (67 PERCENT OF TOTAL POPULATION INCLUDING URBAN AREAS) LIVING UNDER RELATIVELY GOOD ENVIRONMENTAL AND DEVELOPMENTAL CONDITIONS. THIS IS AN INCREASE OF 1,323,300 PEOPLE IN THE "SECURE" CATEGORY SINCE END-JAN 1967, WHEN ONLY 62PERCENT OF THE POPULATION WAS CONSIDERED SECURE. DURING THE SAME PERIOD VC-DOMINATED POPULATION DECREASED 315,200 TO 17PERCENT OF THE TOTAL POPULATION. HOWEVER, HAMLET SECURITY SCORES SHOW THAT A NET OF ONLY 268 MORE HAMLETS (CONTAINING ABOUT 300,000 PEOPLE) ARE IN THE SECURE CATEGORY TODAY THAN 11 MONTHS AGO, THOUGH A LARGER NUMBER WERE UPGRADED FROM VC TO "CONTESTED". THIS SUGGESTS

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THAT EXPANSION OF LOCAL SECURITY HAS LAGGED BEHIND SUCH FACTORS AS BETTER LOCAL GOVERNMENT, MORE HAMLET SCHOOLS, IMPROVED MEDICAL CARE, A GREATER NUMBER OF LOCAL SELF-HELP PROJECTS. MOST OF THE INCREASE IN POPULATION LIVING UNDER GVN PROTECTION REPRESENTS MOVEMENT INTO ALREADY SECURE AREAS. MOREOVER, SINCE MANY MORE THAN 268 RD HAMLETS WERE UPGRADED INTO THE "SECURE" CATEGORY, THIS WAS OFFSET BY REGRESSION IN OTHER ALREADY SECURE HAMLETS. HENCE WE ARE GOING TO MOUNT A SPECIAL CAMPAIGN AGAINST SUCH REGRESSION IN 68.

25. ATTACK ON THE INFRASTRUCTURE. SINCE LITTLE HAD BEEN ACCOMPLISHED IN ERODING THE VC INFRASTRUCTURE, PARTLY BECAUSE OF ALMOST TOTAL LACK OF COORDINATED GVN EFFORT, WE CHOSE THIS AS ANOTHER TOP-PRIORITY TASK. TO INFLUENCE BY EXAMPLE, WE FIRST SET UP A UNIFIED MANAGEMENT STRUCTURE ON THE US SIDE. OPERATING AT DISTRICT AND PROVINCE LEVEL, WE CONVINCED THE VIETNAMESE TO FOLLOW SUIT. AS A RESULT, 103 DISTRICT CENTERS HAVE BEEN ESTABLISHED TO TIE TOGETHER INTELLIGENCE AND EXPLOITATION FORCES DOWN AT THE CUTTING EDGE. THE 15 DEC WE FINALLY GOT THE GVN TO INITIATE A LONG SOUGHT AFTER NATIONAL PROGRAM, WHICH IT CALLS PHOENIX. THE NATIONAL POLICE WILL HAVE THE CHIEF LABORING OAR, BUT ALL GVA AGENCIES WILL COOPERATE IN PUTTING PRESSURE ON THE VC

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INFRASTRUCTURE. WE HAVE DESIGNED A NEW REPORTING SYSTEM. FOUR NEW FIELD COURTS ARE OPERATING TO TRY SUSPECTS. PLANS HAVE BEEN DRAWN UP FOR MORE THAN 12,000 ADDITIONAL DETENTION CENTER SPACES TO HANDLE CONVICTED INFRASTRUCTURE MEMBERS. THERE SHOULD BE AN INCREASING PAYOFF IN 68.

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26. NATIONAL POLICE STRENGTH AND CAPABILITIES OVER 1967, PARTICULARLY AFTER WE SINGLED OUT POLICE AS A TOP PRIORITY. BY 31 DEC NP STRENGTH STOOD AT 70,571, MUCH OF THE INCREASE BEING IN RURAL AREAS. THE POLICE FIELD FORCE (NOW SOME 12,000 MEN) HAS BEEN RETARGETED AGAINST THE VC INFRASTRUCTURE TO FILL A CRITICAL VOID. RESOURCE DENIAL, WHICH FORMERLY HURT THE ECONOMY MORE THAN IT RESTRICTED THE ENEMY, IS BEING REDIRECTED TO CONTESTED AREAS. IN SAIGON, WHERE TERRORIST CELLS HAVE BEEN REPEATEDLY SMASHED POLICE PERFORMANCE HAS BEEN EXCELLENT.

27. THE WORK OF RD TEAMS. THOUGH OFTEN INCORRECTLY REGARDED AS THE WHOLE OF PACIFICATION, EXPANDED AND IMPROVED DURING 1967. THANG'S ENERGY AND LEADERSHIP, TOGETHER WITH VUNG TAU MOTIVATIONAL TRAINING, CONTRIBUTED TO STRENGTHENING THIS RELATIVELY NEW PROGRAM WHICH YOU HELPED LAUNCH AT HONOLULU. IN 1967, FOR THE FIRST TIME, MOST OF THE RD TEAMS IN THE FIELD WERE VUNG TAU-TRAINED. THE NUMBER OF TEAMS INCREASED

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FROM 420 TO 555, AVERAGE STRENGTH PER TEAM WENT UP, AND THE HIGH RATE OF ATTRITION (PARTLY BECAUSE OF INTENSIFIED VC PRESSURE AGAINST RD AREAS) DECLINED. THOUGH IT IS STILL TOO HIGH. MONTAGNARD CADRE TEAMS, FOR USE IN THE HIGHLANDS, INCREASED FROM 84 TO 120. ABOUT FORTY SPECIAL CIVIL-MILITARY TEAMS, MADE UP OF AN RF/PF PLATOON AND LOCAL OFFICIALS, ROUNDED OUT THE EFFORT. THANG SHOULD COME TO CLOSE TO HIS 1967 GOAL OF PACIFYING AT LEAST 1000 HAMLETS BY THE END OF JAN. AT TET, BECAUSE WE ALREADY CARRY 910 OF THESE HAMLETS IN THE "SECURE" CATEGORY. THIS IS A VAST IMPROVEMENT OVER THE 1966 RD PERFORMANCE.
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28. SUSTAINED LOCAL SECURITY, THE KEY TO PACIFICATION, BECAME A TOP-PRIORITY EFFORT IN 1967. CARRYING OUT ITS MANILA PLEDGE, GVN MARKEDLY INCREASED ITS MILITARY ASSETS DEVOTED TO TERRITORIAL SECURITY. IN 1967, 54 ARVN BATTALIONS WERE ASSIGNED FOR THE FIRST TIME TO DIRECT SUPPORT OF RD-TO MAKE UP FOR INADEQUATE NUMB

OF RF/PF. BY THE END OF THE YEAR THEY HAD BEEN JOINED BY 213 RF COMPANIES AND 733 PF PLATOONS. ALL THESE WERE ORGANIZED FOR THE FIRST TIME INTO "RD CAMPAIGNS" TO INTEGRATE PACIFICATION RESOURCES IN PRIORITY "OIL SPOT" AREAS UNDER A SINGLE COMMANDER. MEANWHILE MACV HAS BEEN PRESSING A MAJOR RF/PF IMPROVEMENT PROGRAM, WHICH INCLUDES BEEFING UP ADVISORS SERVING IN THE FIELD

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WITH SMALL RF/PF UNITS. IMPROVED RF/PF KILL AND WEAPONS CAPTURED RATIOS ATTEST TO IMPROVEMENTS MADE. BUT THERE ARE STILL CRITICAL PROBLEMS OF LEADERSHIP, TRAINING, EQUIPMENT AND MOTIVATION. WE HAVE BEEN COUNTING ON THE PROMISING RVNAF RE-ORGANIZATION, WHICH MADE THANG RF/PF COMMANDER, TO HELP ON THIS SCORE, BUT IT IS NOT YET OFF THE GROUND.

29. REFUGEE CARE ALSO RECEIVED TOP PRIORITY FROM THE NEW INTEGRATED CIVIL/MILITARY PACIFICATION TEAM UNDER MACV. THE NEW GVN MINISTRY HANDLING REFUGEES ALSO GREW IN STRENGTH AND PERFORMA

THROUGHOUT THE YEAR, PARTLY THE RESULT OF DOUBLING THE NUMBER OF US ADVISORS. BOTH AS A RESULT OF MANY FEWER REFUGEES (ABOUT HALF AS MANY AS 1966) AND GREATLY INCREASED CAPABILITIES TO CARE FOR THEM, REFUGEE HANDLING MARKEDLY IMPROVED.

E. AID PROGRAMS

30. THE EFFORTS OF THE GOVERNMENT OF VIET-NAM TO ACHIEVE ECONOMIC PROGRESS, TO PROVIDE PUBLIC SERVICE TO THE VIET-

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NAMESE PEOPLE, AND TO INVOLVE THE PEOPLE OF VIET-NAM IN THE POLITICS OF DEMOCRATIC NATIONHOOD WERE REWARDED WITH MEASURABLE SUCCESS IN 1967.

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31. THE SITUATION AT THE CLOSE OF 1967 CONTRASTS SHARPLY WITH THAT OF A YEAR AGO. PROSPECTS FOR SUCCESS OF THE LARGE-SCALE IMPORT PROGRAM DESIGNED TO COMBAT INFLATION WERE THREATENED BY CONGESTION IN THE PORT OF SAIGON. THE CAPACITIES OF CIVILIAN AGENCIES WERE SEVERELY STRAINED BY ATTEMPTS TO CARRY OUT TRADITIONAL TASKS AND, IN ADDITION TO THEM, MANY NEW PROGRAMS NECESSITATED BY THE WAR. THE RESTORATION OF LOCAL GOVERNMENT AND LOCAL GOVERNMENTAL INSTITUTIONS WAS ONLY A PLAN.

32. BY THE END OF 1967, THE PORT HAD BEEN CLEARED AND WAS FUNCTIONING SMOOTHLY. THE APPARATUS OF GOVERNMENT HAD BEGUN TO CARRY BETTER THE HEAVY WORKLOAD IMPOSED BY THE REQUIREMENTS OF WAR AND THE NEED FOR IMPROVED PUBLIC SERVICE. ELECTIONS HAD BEEN HELD IN OVER HALF OF THE VILLAGES, AND VILLAGE COUNCILS WERE FUNCTIONING.

33. THE ASSISTANCE PROVIDED BY AID HAS TAKEN THREE MAIN FORMS: (1) THE PROVISION OF RESOURCES ON A LARGE SCALE AND EMERGENCY BASIS TO KEEP THE ECONOMY STABLE AND TO AFFORD RELIEF FROM OTHER BURDENS OF THE WAR; (2) SUPPORT OF EFFORTS TO ACHIEVE ECONOMIC GROWTH AND TO EXPAND AND IMPROVE GOVERN-

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MENT ADMINISTRATION DESPITE THE WAR; AND (3) ADVISORY ASSISTANCE PLANNING FOR THE PEACE AHEAD. IN ALL OF THESE ACTIVITIES, THE ROLE OF USAID HAS BEEN ONE OF ASSISTING AND ENHANCING THE EFFORTS OF THE VIETNAMESE.

34. SUMMARIZED BELOW ARE SOME OF THE SPECIFIC ACHIEVEMENTS OF THE VIETNAMESE IN WHICH USAID HAS PROVIDED ASSISTANCE IN 1967. THEY INCLUDE:

35. INCREASED PRICES FOR AGRICULTURAL PRODUCTS, AIDING THE STIMULATION OF AGRICULTURAL INDUSTRY AND CREATING GREATER PROSPERITY IN RURAL AREAS.

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36. EXPANSION OF INDUSTRY, INCLUDING THOSE PRODUCING TEXTILES, ELECTRIC WIRE, ASBESTOS, CEMENT, CHEMICALS, PHARMACEUTICALS, PAPER, GLAYS, PLASTICS, AND ANIMAL FOOD PRODUCTS.

37. AN IMPROVED POWER SYSTEM FOR THE CITY OF SAIGON. THE ANNUAL SYSTEM PEAK OF 108,000 KW OCCURRED IN DECEMBER IN COMPARISON TO A 1966 PEAK DEMAND OF 94,000 KW.

38. INCREASED AGRICULTURAL PRODUCTION, THROUGH GREATER USE OF FERTILIZER, PESTICIDES, IRRIGATION FOR CROPS, VACCINES FOR

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LIVESTOCK, AND THE INTRODUCTION OF NEW RICE VARIETIES. ESTIMATES ARE THAT THESE EFFORTS WILL ALLOW VIET-NAM TO INCREASE RICE PRODUCTION BY 50 PERCENT IN THREE YEARS.

39. INCREASE IN THE CREDIT EXTENDED TO FARMERS AND AGRICULTURAL BUSINESSMEN. IN 1967 THE AGRICULTURAL DEVELOPMENT BANK LENT 1.5 BILLION PIASTERS TO MORE THAN 100,000 FARMERS WHICH WAS OVER THREE TIMES THE NUMBER OF LOANS MADE BY THE COMPARABLE ORGANIZATION IN 1966 AND OVER FOUR TIMES THE AMOUNT LOANED.

40. EXPANSION OF EDUCATIONAL FACILITIES AND TEACHER TRAINING TO THE POINT WHERE ALMOST 75 PERCENT OF ALL PRIMARY SCHOOL AGE CHILDREN AND 15 PERCENT OF ALL SECONDARY SCHOOL AGE CHILDREN NOW ATTEND SCHOOL.

41. HOLDING OF ELECTIONS IN OVER 1,300 VILLAGES AND ABOUT 5,000 HAMLETS AND THE SUBSEQUENT TRAINING OF OVER 3,000 OF THE MORE THAN 15,000 ELECTED VILLAGE AND HAMLET OFFICIALS IN LOCAL GOVERNMENTAL ADMINISTRATION.

42. IMPROVEMENT OF FISCAL ADMINISTRATION OF THE GOVERNMENT OF VIET-NAM, INCLUDING MORE EFFECTIVE PROCEDURES FOR TAX ADMINISTRATION AND CUSTOMS COLLECTION.

43. ESTABLISHMENT IN THE OFFICE OF THE PRIME MINISTER OF A DEBECORATE GENERAL OF CIVIL SERVICE, AND THE DRAFTING OF A NEW CIVIL SERVICE REFORM ACT.

44. IMPROVEMENT AND EXPANSION OF WATER, POWER, TELEPHONE, HIGHWAY, RAILROAD, CANAL, PORT, AND AIRPORT SYSTEMS THROUGHOUT SOUTH VIET-NAM.

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7. ECONOMIC SITUATION

45. 1967 HAS BEEN A YEAR OF PROGRESS IN OUR EFFORTS TO MODERATE THE VIETNAMESE INFLATION AND TO BEGUN BRINGING INCREASES PROSPERITY TO THE COUNTRY SIDE. THE STABILIZATION PICTURE WAS STRIKENLY DIFFERENT IN 1967 FROM THAT OF THE PREVIOUS TWO YEARS. OVERALL PRICES INCREASED 34 PERCENT IN 1967. BY CONTRAST, CONSUMER PRICES ROSE 63 PERCENT IN 1966 AND 47 PERCENT IN 1965.

46. 1967 PRICE INCREASES WERE ALSO HIGHLY SELECTIVE. THROUGH NOV NON-FOOD PRICES HAD RISEN BY ONLY 13 PERCENT AND THE INCREASE IN FOOD PRICES WAS HEAVILY CONCENTRATED IN PROTEIN FOODS (MAINLY PORK AND FISH) AND RICE. RICE PRICES HAD RISEN BY 48 PERCENT BY NOV, LARGELY BECAUSE OF SPECIAL FACTORS, I.E. A POOR CROP YEAR IN 1966, AND, SUBSEQUENTLY, A SHARP INCREASE IN THE PRICE AT WHICH THE GOVERNMENT SELLS

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 IMPORTED RICE AS PART OF A DELIBERATE POLICY OF MAINTAINING HIGHER DOMESTIC RICE PRICES IN ORDER TO INCREASE THE RETURN TO THE FARMER. PROTEIN FOOD (MAINLY PORK AND FISH) PRICES HAD RISEN BY 45 PERCENT BY NOV MAINLY DUE TO A RISING DEMAND AND CONTINUED SUPPLY BOTTLENECKS. OTHER FOOD PRICES AND CONSUMER DURABLE PRICES REMAINED RELATIVELY STABLE.

47. THE REDUCTION IN GENERAL INFLATIONARY PRESSURE BETWEEN 1966 AND 67 WAS NOT DUE TO ANY EFFECTIVE GVN EFFORTS TO REDUCE THE DEFICIT IN GOVERNMENT SPENDING. ON THE CONTRARY, BOTH US AND GVN PIASTER SPENDING CONTINUED TO RISE SHARPLY (BY APPROXIMATELY 66 AND 40 PERCENT RESPECTIVELY), GVN REVENUES ROSE AT A LESSER RATE (BY APPROXIMATELY 30 PERCENT) AND US SPENDING PLUS THE GVN DEFICIT WELL TOTAL

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