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FOR THE PRESIDENT FROM BUNKER (Saigon 16225)

Herewith my thirty-fifth weekly message:

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I indicated in my last weekly message that I would be sending my assessment of problems and prospects for 1968 in my next message. I have now deferred this for a week in order to assure that a more careful and comprehensive analysis can be prepared. The following report, therefore, covers normal developments of the past ten days.

Vietnam is now entering its annual pre-Tet lull when most activities are either slowed or halted altogether in favor of preparations for the great annual Tet holiday, which is a celebration which resembles our Christmas, New Year's, and Thanksgiving all rolled into one.

Indeed, the approaching Tet season is the official explanation of the reason given for calling a halt to the conflict between the government and the labor union which arose because of the demands of the employees of the former French-owned power company for pay increases. The strike had already spread to other segments of the work force. Although there were other compelling reasons for calling a halt to the conflict between the government and the labor union, following a meeting of labor leaders and government officials which lasted until 3 in the morning, the labor union yesterday issued a communique stopping all strikes in the interest of not inconveniencing the people before the Tet holiday.

If the Tet spirit helped to smooth over the clash between the labor union and the government, it has not yet allayed the wide-spread concern about the possibility that the U. S. will make a deal with Hanoi or the National Liberation Front which will ultimately result in a Communist takeover of South Vietnam. The Trinh statement on negotiations set off a wave of speculation that continues to touch all facets of Vietnamese political life. The Senate discussed the question of the Vietnamese Government position with regard to the National Liberation Front on January 3, and most speakers stressed their belief that coalition government is a Communist tactic aimed at accomplishing by political means what they have failed to do by military action. The Chairman of the Senate as well as a number of other Senators and Lower House Deputies have expressed their deep concern to us privately. Some military leaders have gone so far as to talk privately of a coup if a coalition government seems imminent. Even militant Buddhist leaders and "struggle" elements have expressed such fears and counseled against any dealings with the National Liberation Front which will give the Front any status other than that of

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Hanoi's instrument. These fears have been echoed and agitated by the press. For six weeks, editorial comment has been dominated by such things as the possibility of U. S. recognition of the National Liberation Front and the bogey of coalition government.

President Thieu has responded to these anxieties by a series of statements designed to show that he is determined to oppose and prevent any policy moves from any quarter which will result in a Communist takeover here. On January 5, he told journalists that he will crush all peace moves which favor the formation of coalition government. He made several similar statements in the following days, and on January 15 made a major speech in which he set out the government position on the peace issue. He warned against a bombing pause without any reciprocal action by the Communists, and he said that the Communists are trying to get the allies to negotiate with the National Liberation Front in order to "obtain acceptance of a 'coalition government' in which the Communist elements, as Trojan horses, will gradually take over the whole of South Vietnam."

I think that Thieu's remarks reflect his own general thinking, though he is personally more flexible than the uncompromising tone of his speech might seem to indicate. For example, he repeated to me recently what he had said as long ago as last August that he could and was not unwilling to probe the National Liberation Front but that this must be done secretly and that he could do nothing unless and until public speculation and talk subsided. But whatever his personal view of these matters, the speech certainly reflects his reading of Vietnamese political realities. Thieu clearly does not think that he can take any other position publicly without risking loss of support from both military and civilian leaders.

I expect that the Secretary's very good statement of January 15 will help to reduce the fears that we are going to sell out South Vietnam, and in turn that should have such reactions as Thieu's January speech less necessary. In fact, Thieu yesterday told me that the agitation and the fears which had been sweeping the country were like a wave. The crest had been reached and it was now subsiding. The problem of handling Vietnamese opinion will continue to be with us, however, all the more so if Hanoi in fact proves to have any sincere intention of seeking an acceptable solution to this conflict.

Concentrating as they are on the possibilities of negotiations with Hanoi and the National Liberation Front, most Vietnamese leaders have had little to say about the Bowles mission to Cambodia and the resulting communique. Comment has been mildly favorable for the most part, though I think no one really expects much in the way of concrete results. In his January 15 speech, Thieu restated the government's position on the Cambodian border question in rather harsh terms. The tone of his remarks unfortunately reflects the continuing antipathy which most Vietnamese leaders feel for Sihanouk personally as well as Thieu's understandable anger over the great assistance which Cambodian policies have given to the enemies of a free South Vietnam. I tried to get Thieu to eliminate one paragraph referring to Sihanouk personally but he reacted rather strongly and said that while obviously Sihanouk did not have to talk with the Vietnamese, the least he could do was to be correct. Thieu and Ky, however, in private conversations with Phil Habib and me, have agreed that the Bowles mission was a useful exercise and that Sihanouk's SLB LIBRAR

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intentions should now be tested more concretely.

Priority Programs

1. Military Assistance Command in Vietnam has reported to me that the Joint General Staff has published implementation instructions for the reorganization of the Republic of Vietnam Armed Forces, effective as of January 1, 1968. The instructions encompass those reorganization measures developed jointly by the Military Assistance Command in Vietnam and the Joint General Staff. Efforts are also going forward to reorganize and improve Republic of Vietnam Armed Forces logistics. During the past week a meeting was held between interested U. S. and Republic of Vietnam Armed Forces staff and command agencies on a port of Saigon general cargo agreement. The first meeting of the joint Republic of Vietnam Armed Forces/Military Assistance Command in Vietnam study group on the reorganization of the Army of the Republic of Vietnam Division direct support system was held on January 10, 1968.

As regards efforts to improve morale, a new food allowance rate for Regular and Regional Forces enlisted personnel is now in effect. This increase includes a standard daily food allowance which varies from 36.50-43.00 Vietnamese dollars. This represents a substantial increase over the old food allowance which was 26.50-33.00 Vietnamese dollars, depending on location.

2. President Thieu told me January 11 that the new training program for Province Chiefs and District Chiefs will be opened on February 2. Some 150 individuals have been selected to attend the course, which is to be held in Saigon rather than Vung Tau. He plans to install the new Province and District Chiefs on March 1. Those present Province and District Chiefs who are to be retained in their offices will be put through the same course after the first group completes its training. In this connection, it is of some interest that the Commander of the Third Corps, General Khang, told an Embassy officer recently that he expects up to half of the Province Chiefs in his corps will be replaced when the first batch of trainees are ready for assignment.

Other reports on efforts to improve the civil administration include the following:

In the process of restoring village autonomy and the development of local government, training courses were established last year for village administrative committees, hamlet management boards, and the elected village councilmen. By August, all but three provinces had courses underway; by October, all but one (Pleiku). The number of individuals trained by December 31 was 15,500. While this was only two-thirds of an overambitious target figure, it seems to me a highly creditable performance, especially in view of the fact that election administration in September and October interferred with the training. While there remains room for improvement in materials and methods of instruction, the impact of the training on local administration is already evident. One of the favorable aspects is a general willingness by Vietnamese to evaluate their own programs and strive

for improvement. Village and hamlet officials' training is expected to increase in 1968 and to continue indefinitely. This program will be more productive once the training of district and province officials is given comparable attention.

A three-day executive development seminar for selected higher level officials of the Government of Vietnam starts on January 17. This will be inaugurated by the Prime Minister, who also plans to participate in the ensuing proceedings.

Attention to administrative training for local government improvement continues with two-day seminars in two of the regions: In the Second Corps, the members are mainly Government of Vietnam officials including Province Chiefs and in Region IV, American advisory personnel concerned with local government problems.

Dr. Bong, Chairman of the Prime Minister's Committee on Administrative Improvement and Director of the National Institute of Administration, agreed to assume leadership of management surveys of provincial operations. In making a pilot study of a selected province, Dr. Bong will ask each of the Ministries of Interior, Education, Public Works, Agriculture, and Labor to provide a representative for a review team which would also include advisors from U. S. AID and Civil Operations for Revolutionary Development.

In the city of Can Tho, planning efforts are moving ahead. A special committee has developed a suggested 5-year plan program for the city development. Our regional staff is participating in trying to develop the implementation of some of these plans, and an urban planning specialist recently has been assigned to work with local officials in moving ahead with "impact" actions. If good results are obtained, this effort may well prove to be a useful pilot project for other Vietnamese cities outside Saigon.

B. Political

The new budget will be presented to the legislature by President Thieu before Tet, and that will be the first major business to be undertaken by the new Vietnamese Assembly. However, the Lower House has already debated the mobilization decree and adopted a resolution on it. The resolution affirms the need for mobilization but asserts the intention of the Lower House to draft its own mobilization law on an urgent basis. The legislature also continues to organize itself, with election of officers in the Lower House taking place today. I have just learned that the Lower House has elected Nguyen Ba Luong as Chairman. Luong is a member of the pro-government democratic bloc, and can be regarded as a government supporter. He was a member of the constituent assembly, where he was the dean, and had previously served as Chairman of the Phuoc Long Provincial Council. We do not expect him to be a particularly strong leader. Luong got 69 votes today, his nearest rival 41. The Senate announced its committee memberships January 2 and the Lower House has now completed its rules.

Senator Nguyen Van Ngai, Chairman of the Economic Committee, has also taken an interest in investigating the "corruption surrounding the purchase of Thai rice". Ngai is looking into the excessive freight charges on which we are asking a refund from the Government of Vietnam, and I anticipate that this matter could be used as raw material for speeches either against the government or possibly against some aspects of the American AID effort.

On January 6, the daily "Song" was closed for 30 days because it "indirectly espoused the idea of a coalition government", and because it published "ideas completely compatible with the propaganda line of the North Vietnam Communists and the National Liberation Front". "Song" tended to be very irresponsible indeed in its editorial comment, and the press generally shed few tears over its punishment. However, the closure was followed by a January 8 announcement that warnings will henceforth be issued to newspapers which print false news. After three such warnings, the offending papers will be closed. This seems to confirm some [redacted] reports that Thieu wants to tighten the reins on the press. AS

As I noted above, the labor union strike has at least been temporarily halted as the result of an agreement between the Ministry of Labor and the labor union leaders. This is a fortunate development, as the strike was spreading, the government had arrested six strike leaders while they were in the Ministry of Labor to negotiate, and it appeared that a very difficult confrontation between the government and organized labor was in the offing. Both sides have now made concessions, and although the arrested labor leaders are still being held, I understand that most of them will be released. We may be hearing more of this general problem after Tet, however. I do not think the government distinguished itself in its first major test of handling labor relations.

Although political activity is muted now as we approach Tet, various political groups continue to maneuver in an effort to set up blocs in the legislature and move towards the formation of new political parties outside the assembly. Of some interest in this connection are recent efforts by Senator Tran Van Don and his colleagues to win the backing of both the An Quang militant Buddhists and the Tam Chau moderates. Don has tried to convey the impression that he has successfully brought the Buddhist militants and moderates back together; Thich Tam Giac, a moderate leader, and Thich Thien Minh, a former struggle leader, appeared publicly with Don when he made the claim at a large reception in his home. In fact, however, Don and his Senate colleagues, Dang Van Sung and Ton That Dinh, do not seem at this time to have had any real success either in uniting the Buddhists or in bringing Buddhist organizations into their front.

C. Pacification

An unfortunate development has been the decision of General Thang to step down from the key job of managing the Regional and Popular Forces and Revolutionary Development teams. He insisted that for his new role to be successful, Thieu must

remove the poorest corps commanders and back the new Republic of Vietnam Armed Forces reorganization. Thang has felt frustrated and submitted his resignation. General Westmoreland has suggested to Thieu that he appoint Thang Fourth Corps Commander, and I believe Thieu is inclined to do this. He would do a fine job and in a highly important area where approximately 40 percent of the people live and which is its economic backbone. I am sorry that Thang has taken this step. He has resigned or threatened to resign several times before. He is dynamic and wants to push ahead, which we do also, and gets impatient when orders are not willing to move at his pace or fall in with his plans. In my opinion, he would have been well advised to have exercised more patience and to have stayed on his former position. He let it be known quite clearly that he wanted no intercession on our part in his behalf. His rumored replacement, [redacted] is not of Thang's caliber, but General Westmoreland believes that he will be amenable to our guidance. A

On the other hand, substantial increases in the assets devoted to pacification provide a stronger base from which to launch the 1968 program. For example, we are counting on an increase of about 48,000 Region and Popular Forces effective during 1968. Police strength grew from 61,000 to 73,000 during 1967. The number of Revolutionary Development teams of all types grew from 445 to 693, an increase of over 50 percent. Also, the Government of Vietnam has allocated substantially greater piaster funds to pacification type programs for 1968. All this reinforces the trend toward greater Government of Vietnam attention to pacification. What is lacking at this point on the Government of Vietnam side is less resources than leadership.

D. Economic

The Saigon Retail Price Index now stands at 308, which is down slightly from the 310 level reported last month. Both the price of gold and the Import Price Index registered small declines last week, with gold falling from 218 to 214 and the Import Index moving down from 233 to 224. As Tet approaches, we normally expect inflationary pressures to increase, so the steadiness of prices at this time is particularly encouraging.

For the first time in at least a decade, the Government of Vietnam assumed over one-half of its total annual import financing. Fifty-five percent of the total import licensing in CY 1967 was Government of Vietnam-financed, while the remaining forty-five percent was financed under the Commodity Import Program and Food for Freedom Title I Program. This is made possible, however, by greatly increased Government of Vietnam foreign exchange revenues as a result of free world forces expenditures in Vietnam, rather than revenue from Government of Vietnam exports.

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Since its inception in May of 1966, the plant and seed multiplication branch of the Office of Agriculture has imported and distributed more than 150 different varieties and strains of crop plants in Vietnam. Most of these were completely new to Vietnam or were judged to be an improvement upon Vietnamese types. Some of the more important imports were grain sorghums, sweet and field corn, velvet and mung beans, muskmelons and watermelons. Most of the seeds went to three general experiment stations where they are undergoing adaptability tests. Grain sorghums seem particularly promising at this time, as they can be an extremely productive source of animal feeds, badly needed in Vietnam.

Here is a story about a tractor which illustrates a number of points and which I think you will find interesting:

On December 19, a Fiat 612 Model tractor (a medium size, heavy-duty farm tractor) was observed on Nguyen Thuc Thong Street. The tractor was in the possession of two farmers from the village of My Phuoc in An Giang Province. They planned to drive the tractor to their village, about 170 kilometers from Saigon. The two men further stated that they were part of a family group which purchased the tractor to do custom plowing for hire. The group expected to be able to use the tractor to plow at least 300 hectares every season. They stated that this would be the third large Fiat tractor in An Giang and they ordered it after seeing the others. The tractor was ordered from the Randon Company on Ham Nghai Street. The delivery time was three months and the entire purchase price of 550,000 VN \$ had to be paid before they could take delivery.

These farmers were not sophisticated individuals, but there was no doubt in their minds as to the profitability of the tractor. The entrepreneurial spirit is not lacking -- the farmers saw a chance to profit by the application of new (to them) technology and seized it, and a 550,000 piaster capital investment was not an insurmountable obstacle to them.

This is by no means an isolated incident. Tractor sales have been increasing steadily since 1965 in the approximate progression of 500, 800, and an expected 1,300 in 1967-68.

Small Japanese hand cultivators (two-wheeled tractors) also have been coming into Vietnam in increasing numbers since the liberalization of import regulations late in 1966. Several months ago we heard that 700 Kubota cultivators were expected and that 300 of them had arrived. All these signs tend to confirm that there is an active, growing market for agricultural machinery in Vietnam, and to demonstrate the continuing impact and importance of import liberalization to agricultural development here.

E: Chieu Hoi

During the period ending January 7, there were 466 Chieu Hoi returnees. This compares with 437 for the same period last year. The total for this period includes

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131 armed Cambodian dissidents; however, on January 8, the Viet Cong overran a Chieu Hoi center in Hau Nghis Province and killed three returnees.

F. Vietnamese Killed

In the week ending January 13, the Viet Cong killed 171 Vietnamese civilians, wounded 402, and kidnapped 125. During the same period, the enemy killed 263 Vietnamese military personnel.

Since the beginning of this year through this reporting period, the enemy has killed 223 civilians, wounded 644, and kidnapped 227.

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