

## THE WHITE HOUSE

WASHINGTON

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Friday, July 12, 1968 - 3:30pm

Mr. President:

Herewith a capsule of Bunker's mid-year summary:

*Sample*A. General

- Trend toward stronger, more unified SVN indicated by response to Tet attacks, March 31 announcement, Paris talks and shelling of Saigon.
- Civilianization and legitimization of the government continues; Thieu opts for constitutional leadership; Huong widely respected.
- Overall trend unfavorable to enemy; Hanoi's hopes for GVN collapse or Paris breakthrough dimmed by SVN response to Tet and by American firmness.
- Thieu and Ky predict massive new enemy attacks; Bunker cites possibility of general scale-down and transformation to primarily political struggle.
- Major achievements include:
  - . Defeat of Tet attacks; enemy lost 52,000 KIA in February.
  - . Other major enemy offensives at Khe Sanh, Kontum area and Saigon defeated by Allies.
  - . RVNAF forces showed improved performance and increased to 765,000; estimate one million will be mobilized by January 1969.
  - . Tet pacification setback gradually being restored; attack on VC infrastructure stepped up.
  - . Tet evacuee resettlement continues steadily.
  - . Tet price rise now receding; business confidence low and economy sluggish but worst economic damage overcome.
  - . GVN reorganization gains momentum; more corrupt and incompetent officials being replaced; Huong Government performing well.
  - . National Assembly and Executive Branch learning to cooperate; Assembly bills include budget, mobilization and reconstruction.
- Remaining problems include:
  - . Enemy controls large areas and 3 million people, 17.6% of population.
  - . Enemy infiltration making up for enemy losses.
  - . Inefficiency and corruption still plague GVN.
  - . Hour late for creation of new coalition of nationalist forces (Lien Minh) formed to compete with communists.
  - . Rivalries among leadership group.
  - . A genuine but loyal and responsible opposition still lacking.

B. Political

- Tet offensive and Paris talks resulted in: closing of urban public ranks, lessening of coup possibilities, formation of Huong government and Thieu's assumption to fuller role as constitutional President.

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-- Thieu-Ky rivalry seems partially resolved; Thieu consolidated position, Ky lost supporters; efforts continue to bring Ky into decision-making process, including his involvement in the negotiations problem.

-- Huong has significantly broadened base of government; still faces difficult tasks of cleaning up government and making administration more efficient and equitable.

-- Thieu-sponsored "Lien Minh" (Alliance for Social Revolution) still lacks unified leadership and strong popular base but is the most hopeful nationalist political organization to appear so far; if properly nurtured it could become favorable base for nationalists to face communist political threat.

-- The communist's "Alliance of National Democratic and Peace Forces" has had scant non-communist support and relatively little impact; Hanoi seems to be holding it in reserve as device for possible use in political maneuvering related to a negotiated settlement.

-- Public attitudes reflect hardened anti-communism, apprehension over outcome at Paris, and healthy realization that people themselves must secure own future and repair political, administrative and social shortcomings.

#### C. Military

-- RVNAF performance, generally good during Tet attacks, shows continuing improvement. Looting has been a problem.

-- M-16's now in hands of all infantry, marine, airborne and ranger battalions.

-- Priority up-grading measures for RF/PF include improved equipment, logistic support and pay.

-- RVNAF strength increased by 120,000 to 765,000 total during last six months.

-- General Mobilization Law of June 19 subjects 18-39 year olds to immediate draft with others in reserve status. 18 year olds and some 17 year olds are now being drafted.

-- Major enemy threats included Tet attacks in February, Khe Sanh siege of February-March, Kontum threat of May-June, May offensive, and mid-June attacks on Saigon.

-- During last six months NVN infiltrated 98,000-113,000 troops and NVN proportion of total enemy strength rose from 62% to 72%. Total enemy recruitment in South Vietnam of 31,500 contrasted with estimated losses of 151,000.

#### D. Pacification and Urban Recovery

-- Favorable 1967 pacification trend interrupted by post-Tet withdrawal from countryside. Momentum resumed and further progress expected in last half 1968.

-- Pacification personnel increased by 85,000 to 500,000. RF/PF fleshed out to about 100% of authorized strength.

-- Leadership still a problem, but some corrupt and ineffective GVN officials replaced and more changes are in the offing.

- Neutralization of VC infrastructure cadre now up to 1200 per month. Thieu's recent decree on intelligence organization and responsibilities was further gain.
- Rural economy and transport still below pre-Tet levels. However, major LOC's are open and no significant shortages exist.
- Chieu Hoi rallying rate still well below 1967 but trend is up. NCO and higher level cadre defections up 250% over 1967.
- Self-defense organizations not yet contributing much to pacification, but interest is growing and program could be significant by end 1968.
- Urban recovery has been a success. 892,000 Tet evacuees cared for, all but 27,000 resettled. Only 44,000 not resettled of 179,000 evacuees from May attacks.
- Huge refugee/evacuee burden peaked in May at 1,650,000 but was down to 1.4 in July. One million may require care thru 1968.
- Outlook again reasonably favorable barring decline in morale or another Tet-sized attack. Pacification remains the most difficult chore and solid gains will be slow.

E. Economic

- Progress of 1967 radically changed by 1968 Tet attacks despite rise following Tet and May-June attacks; price index holds at 14.7% over December 1967.
- Contradictory trends in price rise despite monetary expansion due to populace shift from spending to hoarding.
- Recovery slow, imports lag, businessmen strive to reduce inventories rather than invest anew.
- Trade between Saigon and countryside rapidly restored; tax collections reach record single month high; import tax and 20% surcharge on domestic taxes imposed.
- May offensive and rocket attacks on Saigon were setback; damage moderate.
- Economy remains sluggish, business confidence reflects uncertainty, new investment very limited, some capital flight noted.
- GVN is countering threat of large monetary overhang with tax increases and improved enforcement.
- Lower House passage of war risk insurance bill, and reconstruction loan fund seen as aid to recovery; rice policy revision urgently needed.
- USAID support of GVN economy continues; relief and recovery efforts added new tasks.
- Regular programs on schedule: planting of improved rice, and sale of fertilizer goals exceeded; school construction continues despite attacks; medical training programs stepped up.

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Thursday, July 11, 1968

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As mentioned last week, I shall try in this message to indicate where we stand at mid-year; to summarize the events, achievements, and shortcomings of the first half of 1968. This first section is an overview, followed by more detailed accounts on political, military, economic, and pacification developments.

The past six months were crowded with important events. The two major developments were, of course, the Tet attacks and your successful efforts to open talks with Hanoi. These stimulated, or at least accelerated, other significant developments; the formation of the Huong government, general mobilization, the founding of the pro-government political organization known as the Lien Minh, and the May-June attacks on Saigon.

Looking beyond the bare events of the past six months, I think what is important is the clear trend toward a stronger, more self-confident, more unified Vietnamese people and government. In the first instance, the Vietnamese responded to the Tet attacks with a spirit of unity, determination, and a willingness to sacrifice which has not been seen before in the course of this long struggle. The people did not support the Tet invaders; on the contrary, they supported a sweeping mobilization. The new constitutional government, only a little over three months old, did not collapse. On the contrary, the democratic institutions proved both reasonably effective and a source of psychological strength in the emergency. The Republic of Vietnam Armed Forces did not falter and defect; on the contrary, the Vietnamese Forces generally fought well, drove the enemy out of the cities, swelled their ranks with new volunteers, and have since repeatedly shown increased combat effectiveness.

I think the new strength and self-confidence of the Vietnamese and their leaders was also reflected in the response to your March 31 speech and the subsequent opening of the Paris talks. Despite renewed enemy attacks on Saigon, including indiscriminate nightly shellings for weeks, and despite underlying apprehensions about American intentions, the people have remained calm and steady. Thieu, moving with increasing confidence and acting in accord with the constitution, invited the highly respected Tran Van Huong to form a new Cabinet. As a result, the Government of Vietnam probably has more popular support than at any time since "big" Minh took office in the wake of the revolution against Diem. Instead of street demonstrations, there were debates in the Assembly; and since Huong took office, debates in the uncensored press.

Also emerging clearly from the events of the past six months is the continuation of the process begun over two years ago when the military leadership announced that they would organize elections for a constitutional Assembly. Civilianization and the legitimization of the government began then, and it has continued. Thieu has clearly opted to play the role of constitutional President of all the people rather than the representative of the generals. For him, this has involved both a reaching out to form alliances with civilian leaders and some realignment of the military structure. For the generals, and for Ky in particular, it has meant the acceptance of reduced political power. These changes in the power structure were not made without hazard and cost, but they were made and the government is better, stronger, and more effective because of them.

As for the enemy, I think the Tet attacks and the decision to go to Paris both reflect a realization that the overall trend of events is unfavorable to the Communist effort to seize South Vietnam by force. Both the all-out Tet military effort and the agreement to open discussions with us represented major changes in their tactics. If Hanoi hoped for a breakthrough from either or both, they must by now be disillusioned. While most signs point to another major military effort on their part (both Thieu and Ky believe this is inevitable), I think there is some possibility that, in the face of American firmness, they may decide to reduce the level of violence and transform the struggle into a primarily political conflict.

Accomplishments of the past six months as well as some of the remaining problems will be covered in more detail in the following parts of this message. To note some of the major achievements:

1. The Tet attacks were met and defeated with extreme losses to the enemy. While suffering 1,300 Vietnamese military and 700 Americans killed in action, from January 30 to February 7, friendly forces killed almost 25,000 of the enemy and captured nearly 5,000. By March 2, the enemy had lost over 52,000 killed in action from the Tet attacks. We estimate that about half the enemy forces committed were killed or captured.

2. All other important enemy offensive actions in the past six months were decisively defeated. The enemy was unable to take Khe Sanh despite a prolonged effort. A major threat at Kontum was broken up by friendly action, particularly artillery and air strikes. The enemy was unable to maintain pressure on Saigon and suffered 8,786 killed in action during the May 5-11 attacks on the city.

3. Republic of Vietnam Armed Forces were expanded rapidly after Tet, partly as a result of a sharp increase in volunteers and partly as a result of the mobilization effort. Between January 1 and June 30, Republic of Vietnam Armed Forces strength increased by over 120,000 and now stands at approximately 765,000 men. This is 48,000 above the force structure program for end FY-68. It is anticipated that by the end of the calendar year, Republic of Vietnam Armed Forces strength will total 801,000; to this must be added approximately 220,000 in paramilitary organizations, for a total of over one million men under arms. The magnitude of

this achievement can perhaps be better understood when one realizes that the relatively secure population of 11 million under Government of Vietnam control is the manpower pool from which these men must be drawn. This is 1/18 of the population of the United States. Equipment has been upgraded, morale and performance improved.

4. The after effects of the Tet offensive interrupted and set back the momentum pacification had gained in 1967. Population under Government of Vietnam control dropped from 67 percent at the end of 1967 to just under 60 percent by the end of February. Nevertheless, despite the diversion of massive resources to security and recovery efforts, we have been gradually regaining control over the countryside. By the end of June, population under Government control had risen to 63.3 percent. Pacification assets have grown substantially. Collective personnel strength now numbers about 500,000. The number of Revolutionary Development and Montagnard cadre teams now stands at 777. Regional and Popular Forces, the essential element in sustained territorial security, is receiving better equipment and training, and now is close to 100 percent of its assigned strength. The attack on the Viet Cong infrastructure has been stepped up and this is now being neutralized at the rate of over 1,200 a month. Leadership is being improved at the province and district level with the removal of incompetent or corrupt officials. The outlook for pacification during the remainder of the year will depend on whether the country will be subjected to new disruptive and destructive attacks as at Tet.

5. Altogether, some 892,000 Tet refugees were cared for and of these, only 27,000 were in temporary shelters as of July 4. All Tet evacuees in Saigon have been resettled. Of the approximately 179,000 refugees created in Saigon/Gia Dinh by the May attacks, about 44,000 have been resettled.

6. Prices rose dramatically following the Tet attacks, but they also declined rapidly and now stand at 14.7 percent over the December 26 level. While business confidence is still low and the economy generally sluggish, the economic effects of the Tet and post-Tet attacks have been largely overcome.

7. The Government was reorganized and strengthened by the elimination of a number of corrupt officials (17 province and 26 district chiefs have been replaced for reasons of incompetence or corruption); by some changes in the administrative relations between the provinces and the central government; and by the formation of the Huong Cabinet. The Huong government settled in rapidly and is performing quite well, showing a greater willingness to assume responsibility and to take decisions than its predecessor.

8. The National Assembly and the Executive Branch are learning how to work together without sacrificing their mutual independence. The Assembly has proved a responsible and a reasonably effective body. It has passed several major pieces of legislation, including the national budget, the general mobilization law, and the war reconstruction surtax. Well along toward final passage are other important bills, including a political party law, a press law, war rise insurance, "state of war" legislation, and a law organizing the Supreme Court.

9. Several efforts had been made to merge nationalist political groups into one unified, pro-government organization, but without success. Thieu has now taken a personal interest in this effort and the Lien Minh (Alliance for Social Revolution) was officially launched July 4, with both Thieu and Ky in attendance.

The Vietnamese Government and its people still face many difficult, unresolved problems. The first of these is security. Despite the expansion of the Republic of Vietnam Armed Forces and its increased effectiveness, the enemy still retains the capacity to threaten the security of the cities and hamlets of the nation. Large areas remain under enemy control. As of May 31, he controlled 3 million people, or 17.6 percent of the population, while approximately 3 million more were in contested areas. While the enemy has suffered extreme losses, these have been largely made up by a record rate of infiltration, which still continues, and by forced recruiting.

The old problems of bureaucratic inefficiency and corruption still plague the Government, and the leadership must apply constant pressure to make progress in this area. General mobilization has not made it easy to increase governmental efficiency.

While a good start has been made in building a United Nationalist Coalition of Political Forces to compete with the Communists, it is only a start -- and the hour is late. The Nationalists have still to build real unity at the top and a strong infrastructure at the bottom of their Lien Minh. Thieu has moved the nation significantly closer to full constitutional democracy, but there remain many obstacles. His relationship with Ky is still not satisfactory, but it is tolerable. He does not fully control all of the generals. He must work harder at winning the cooperation of the Assembly. A genuine but loyal and responsible opposition is not yet on the horizon.

There are other weak areas. Civil Defense has lagged badly; Ky dropped it without making any real progress. Although some 175,000 people are organized in Civil Defense groups, it needs to be widely expanded, needs more weapons, and particularly some of the more highly motivated groups such as the Hoa Hao, the Catholics, and the Cao Dai can be more effectively utilized. The GVN also needs an effective information program here and abroad.

I think the above summarizes the principal difficulties that still lie ahead of us. But the Vietnamese people and their leaders bring much strength and determination to their task. If we are equal to the challenges we face, I believe they are also.

#### B. Political

Political developments in the past half year were in every case conditioned and in many instances determined by the Tet attacks and the opening of the Paris Talks. It was these two events more than anything else which made the formation of the Huong Government both necessary and possible. The Tet attacks caused a growing lack of confidence in the Loc Government, to the point where both the Assembly and the military in effect had begun to demand a change; the opening of the Paris Talks convinced most if not all political leaders that a government with a broader popular base was essential in order to give the GVN a strong negotiating position. And it was these two events also which persuaded Huong that the national situation demanded he abandon his retirement, and, as he put it, help "paddle, bail, row, and steer" the SAMPAN of State.

While Tet and the Paris Talks were profoundly unsettling in many ways, it must be said that they also tended to increase political stability and move the nation more rapidly toward full constitutional government. This was because after Tet there was a general recognition of the need for national unity and greater sacrifice. The urban population was aware of their own vulnerability for the first time, and they tended to close ranks politically. Tet and the Paris Talks also ruled out any power plays by the Generals. There were, perhaps, a few who did not see the overriding demand for stability, and the impossibility of a coup, but Vice President Ky was not among them. The need to present a strong and united image both at home and abroad--particularly in Washington and Paris--was compelling even from the point of view of dissatisfied military elements. This in turn made it possible for Thieu to assume more fully the constitutional role of President rather than Representative of a ruling military clique.



The Thieu - Ky Relationship The rivalry between Thieu and Ky was not dissipated in the first half of 1968, but it seems to have been partially resolved by Thieu's growing ascendancy in the government and the steady erosion of Ky's political power.

Perhaps the lowest point in the Thieu - Ky relationship was reached in early March. At that time Thieu evidently believed that General Loan was instrumental in causing the Assembly to refuse his request for decree powers in the economic and financial field. At least some of Ky's supporters were talking about a coup or the amendment of the Constitution to permit Ky to act as Prime Minister; to his credit he gave them no encouragement.

I talked very plainly with both Thieu and Ky at that time. They both realized that the logic of the situation absolutely required that they avoid a destructive internal conflict. While neither was particularly gracious or skillful, they managed to move away from the precipice.

Believing that the solution to the problem was to engage Ky in responsible government work, we were instrumental in causing Thieu to give Ky, first, the Chairmanship of the Central Recovery Committee, and later, the responsibility for running the Civil Defense Program. Whether because Thieu did not delegate Ky enough real authority or because Ky simply cannot play second fiddle, Ky resigned from both positions after only a short period of time.

Despite these failures to employ Ky's considerable talents and drive in constructive work, we are continuing to try to bring him into the decision making process. One device to this end is the regular monthly meetings which we have recently initiated between Thieu, Ky, Huong, several Ministers, and ourselves. This seems to be working reasonably well. Another is the proposal for a small War Cabinet on the GVN side which I have been urging to Thieu.

Ky's political power has declined steadily since the election campaign of last year. The position of Vice President does not offer any significant political leverage, and Thieu has gradually consolidated his position as President, a position which of course carries great power under the Constitution. The most dramatic evidence of Ky's declining fortunes was the recent removal--partly deliberate, partly accidental--of a large number of his supporters from the Government. These included not only a number of Cabinet Officers, but the powerful and often troublesome Director General of Police, General Loan. This diminishing of Ky's power has not ended the problem of the Thieu - Ky rivalry, but it does not make it less critical. Ky and some of his more able

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supporters are not being used, and that is a loss to the nation. Their capacity for destructive power plays is significantly reduced, however, and to that extent the Thieu - Ky problem is alleviated.

I will of course continue to watch this problem very closely in the coming months, and I will continue to try to ameliorate if not solve it. I think the best way to prevent Ky from becoming the focal point of dissident nationalist elements (for example, extreme anti-communist Catholic groups, the Dai Viets, Northern Refugee Groups, and dissatisfied military officers) is to involve him fully in the negotiations problem. This is not without some risks, but it has been working well in our joint consultations on the Paris Talks and I believe it can be done with profit for all concerned.

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The Huong Government. As noted above, the formation of the Huong Government was a long step toward civilianization of the Government, and it both reflected and furthered the decline in Ky's political power. It also significantly broadened the popular base of the GVN. Huong is himself one of the most respected of SVN leaders, and he has in his Cabinet several men who command political support from quarters where the GVN previously had only opposition. Among these are Labor leader Dam Sy Hien and Buddhist lay leader Mai Tho Truyen. Also notable in this category are Au Ngoc Ho and Ton That Thien, both of whom have connections and influence in the more radical anti-military and previously anti-GVN camps.

Huong in office has taken hold of the job quite well, as have most of his Ministers. There is no question but what this Government not only commands more support but also is more able than its predecessor. Some had feared that Huong would prove too inflexible for the political maneuvering that is likely to be demanded of this Government. This fear seems unjustified, as Thieu himself commented to me recently. While as tough as ever, Huong appears to be a good deal smoother in his political moves than he was in 1965.

This is not to suggest that there are no problems. Huong was obliged to drop Phan Quang Dan from his Cabinet because of Dan's ill-timed comments about contacts with the NLF. Foreign Minister Thanh has also been under fire in the Assembly and the press, though this seems to have died down. The appointment of Saigon Mayor Nhieu provoked a controversy over his alleged corrupt activities in the past. (Both Thieu and Huong seem to be persuaded that Nhieu is clean enough, if not perfect; the uproar was provoked mainly by Defense Minister Vy's objections to Nhieu, and Vy now seems content to stay on in the Cabinet and drop the matter.)

It remains to be seen whether the Huong Government can make good on its promises of cleaning up the Government and making the Administration more efficient and more equitable. A good start has been made to clean up the Government at national and local levels, but as the process continues, Huong will not find it easy to get at the powerful vested interests in and out of the military. The lifting of censorship and the release of a large number of persons under illegal detention won applause from many quarters. (Extreme anti-Communist northern Catholic factions are restive, however; Tri Quang's release did not please them. Though it was generally regarded as a democratic move.)

Political organizations. Following Tet, the general feeling of the need for more national unity found expression in two new political organizations, the National Salvation Front and the Free Democratic Force. The Front was launched by Tran Van Don February 18, and the first meeting brought together most of the

principal political leaders of the nation. Unfortunately the Front was soon faced with a rival organization, the Free Democratic Force, which was known to have been inspired by President Thieu. Most Vietnamese concluded that the Front was Ky's vehicle and the Force, Thieu's. Both organizations were hurt by being caught up in the Thieu-Ky rivalry.

Realizing the need for a strong nationalist political organization to back the Government now and face the Communists in the future political struggle, President Thieu decided that he would have to take a more active and more public role in fostering political party development. He stated the need frankly and pledged his support to both a pro-Government party and a loyal opposition in public speeches last month.

The Lien Minh is too new to judge its potential with any certainty. It does not now have a unified leadership or a strong base in the people. Nevertheless, it is by all odds the most hopeful nationalist political organization to appear so far. With continued assistance and leadership from Thieu, continued acquiescence by Ky and Huong if not outright support, and enough time for careful rice roots organization, the Lien Minh should give the nationalist elements a base from which to face the Communist political threat on relatively favorable terms. The outcome of any future political conflict will of course depend very heavily on the terms of the peace agreement. The Lien Minh will probably not fare at all if it is deprived of support from the present legal framework, ie, the Constitutional Government under Thieu.

Public attitudes. As noted above, public opinion in Vietnam was greatly influenced in the past half year by Tet and the opening of the Paris talks. Both events tended to harden opinion against the Communists. They also tended to focus public opinion more than ever on the basic questions of peace and war.

Profoundly weary of war, nationalist Vietnamese of most political persuasions are also profoundly fearful of the consequences of a peace settlement over which they suspect they may have too little influence. While considerably reassured by our firm posture and our public statements, most Vietnamese still view the Paris talks with more fear and resentment than hope. They fear that the American commitment to the Government and people of South Vietnam will weaken under the pressure of domestic public opinion in a presidential election year. Vietnamese also resent the fact that the Hanoi regime -- in this war -- enjoys the prestige of sitting as an equal at the Conference Table with the United States, while the representatives of the people of South Vietnam -- who are the victims of aggression -- are relegated to what they consider the ignominious role of observer. Their full participation in substantive negotiations remains a cardinal element in the GVN's position and, indeed survival.

Coupled with this widespread fear and resentment, however, is a growing (and more healthy) realization that it is for the Vietnamese people themselves to secure their own future. Especially since Tet, people have begun to understand that they must in sheer self-interest begin to repair the shortcomings in political organization, in administration, and in social discipline so evident in Vietnamese society.

There is far greater agreement among nationalist Vietnamese of varying political inclinations about what would not be acceptable in a possible peace settlement than about what form such a settlement might take. Among the negatives: There can be no coalition government with Communists, no ceding of territory, and no dealing with the NLF as a political entity. Individual members of the NLF can be reintegrated into Vietnamese society, enjoying all the constitutional rights of Vietnamese citizens, but only after they have laid down their arms and agreed to accept the constitution -- which explicitly prohibits any form of Communist activity.

The Alliance. I noted my basic estimate of the enemy's political intentions in the General Section. I think a half year summary must also include mention of the Alliance, a political phantom with which the NLF now shares the enemy's propaganda spotlight.

The Alliance, or rather the Saigon and Hue Committees of it, was first announced by Liberation Radio during the Tet Offensive. It fell from sight shortly thereafter, only to re-emerge with considerable fanfare in mid-April with formation of a National Alliance. Hanoi's purpose in creating the Alliance seems to have been to create a new "non-Communist" group which might attract more support than the NLF and which could be used as a non-Communist "representative of the Vietnamese people." The Alliance has not been able to attract significant non-Communist political support and has indeed had relatively little impact. The Communists may have great plans for it and they probably do, but at present it appears more as a shell, a device being held in reserve by the Communists for possible use in the political maneuvering attendant upon moving towards a negotiated settlement in South Vietnam.

### C. Military

Performance of RVNAF during the Tet attacks was generally good, in some cases superior. While performance was sometimes marred by looting, the RVNAF generally improved its image in the eyes of the people in this critical period.

Since Tet the RVNAF has continued to improve its fighting capability. Vietnamese units have frequently shown a new confidence and a new aggressiveness. In part, this is due to the better weapons we have provided. All infantry, marine, airborne, and ranger battalions now have the M-16. The next priority is the Regional Force/Popular Force; by the end of July all RF/PF, Pru and advisory units in Gia Dinh province around Saigon, some 27,000, will be equipped with the M-16. A MACV study on the effect of equipping RVNAF units with the M-16 shows not only a significant increase in firepower and general capability but also an impressive rise in confidence, morale and esprit.

Because of their crucial role in territorial security, another important priority is the upgrading of the Regional and Popular Forces. Measures underway not only include increased force strength and improvement in equipment, but also the operation of some 354 Mobile Advisory Teams, Advisory Logistical Teams, increase in pay for the Popular Forces, the establishment of 177 Group Headquarters, and awards and decorations programs.

Probably even more important than the new weapons in improving RVNAF performance was the experience of meeting the best the enemy could muster and defeating it soundly. While in the U.S. there was a profound psychological shock as a result of Tet, the Vietnamese, including the Armed Forces, emerged with a strong and effective boost in morale.

After Tet, the RVNAF was expanded rapidly, both by draft calls and by increased voluntary enlistments; for example, during February the RVNAF received 10,084 volunteers, as compared with 3,924 in February of 1967. As of January 1, RVNAF strength was 643,116. By mid-June this figure had climbed to 757,141. Final statistics are not yet in, but we believe that by June 30, the RVNAF had 765,000 men under arms, an increase of well over 120,000 men in six months.

Under the General Mobilization Law signed into law on June 19, all men aged 16 to 50 are to be mobilized. Those from 18-38 are eligible for immediate draft calls; those age 17 and 39-50 can be called later if RVNAF manpower needs should require them. Drafting of 18 year olds was well underway by the end of June. In some cases, men aged 17 and a half are being called up.

Major enemy offensive actions during the past months were the Tet attacks, the attempt to take Khe Sanh, the May attacks on Saigon and the threat in the Kontum area. The most ambitious effort was the Tet Offensive at the end of January emphasizing widespread coordinated attacks on many important cities and towns of the Republic. The enemy intention was to seize control of population centers, generate revolt and defections among the populace and in the RVNAF, undermine the people's morale and weaken, if possible destroy, the Government. It must be said that he gained a very considerable psychological impact abroad, particularly in the U.S. but here, despite heavy material damage and a set-back to security and hence to pacification in the countryside, no significant enemy objectives, military or political were achieved; and his losses in personnel were extremely heavy.

The Khe Sanh Combat Base was also a Tet objective. During February and March, the NVA 304th and 325C divisions and supporting units tried repeatedly to mount attacks on Khe Sanh but were forestalled by massed air artillery fire. By late March, these forces had abandoned their offensive posture.

Midway in the period the pattern of enemy activity was altered. To avoid the heavy cost of the Tet period, sharp attacks were launched at a succession of points to give an impression of momentum. Increased infiltration facilitated these and other operations.

On May 5 the general offensive was renewed with attacks on Saigon and some 190 other actions, primarily attacks by fire. Enemy casualties again were heavy. In May and June an attempt by the NVA 1st and 325C divisions, the latter recently deployed from Khe Sanh, to mount an offensive in the Kontum area was abandoned in the face of massed air artillery fire. In mid-June preparations for new assaults on Saigon became apparent although execution seems to have been delayed by vigorous friendly ground sweeps and ARC LIGHT strikes.

Perhaps the most noteworthy trend of the period affecting the enemy was the increased NVA troop domination of the war. An estimated 98,000 - 113,000 arrived in RVN. This included the 304th and 320th Divisions into the First Corps in January and elements of the 308th Division into the same zone between March and May. Total enemy recruitment in RVN was 31,500 as against estimated losses of 151,900. Enemy strength on January 1 was estimated at 225,000-250,000 and on June 1 at 190,000-228,000. The estimated NVA proportion rose from 62 percent on January 1 to 72 percent on June 1.

#### D. Pacification and Urban Recovery

After the buildup of pacification momentum and resources in 1967. We confidently expected further gradual acceleration in 1968. But the after effects of the enemy Tet offensive seriously interrupted this favorable trend. Population in ABC Hamlets (plus towns) dropped from 67 percent at end-1967 to just under 60 percent by the end of February. It is important to remember that the Tet offensive did not specifically target on the hamlets. On the contrary, our losses occurred primarily because GVN forces were pulled in to defend the towns.

Since end-February we have been gradually regaining control over the countryside, despite the diversion of massive resources to security and recovery in the towns. By mid-year, population in ABC hamlets--our best available pacification measurement--had risen to 63.3 percent. Now that the momentum of pacification has been resumed and more assets are available, we expect to be able to make progress again the second half of 1968.

One main reason is the further growth in pacification assets. Their collective strength--RF/PF, police, RD Teams, APTS, census grievance cadre, etc.--has grown by 85,000 from 426,000 at the end-1967 to about 500,000 by mid-1968. RD and Montagnard cadre teams now number 777. Assigned strength of RF/PF is close to 100 percent. Funds are adequate. Our pacification organizations is intact. Of course it bears constant repetition that these pacification forces are entirely Vietnamese--and the lowest grade GVN resources at that. They are dispersed across the entire region of SVN, in many cases improperly, and their leadership still leaves much to be desired. Thus, pacification will continue to move at a Vietnamese rather than American pace.

Nonetheless, there are encouraging developments. Since sustained local security is the essential first step of pacification, we have finally gotten the GVN moving on upgrading the vital RF/PF. They have grown to 1,053 RF Companies and 4,561 PF Platoons. The number of automatic M-2 carbines and Browning automatic rifles has nearly doubled in RF/PF units. Serious deficiencies still exist--slow or undependable resupply, insufficient training, shortage of operational radios, and thin unit leadership. In sum, the RF/PF forces are still relatively low quality but getting stronger and slowly better.

An even brighter spot is the stepped-up attack on the VC infrastructure, which Komer has personally pressed continuously. In the last six months, we have neutralized about 6,000 identifiable infrastructure cadre--and are now running at a rate over 1,200 a month. The GVN is beginning to move ahead the program--41 provinces have functioning committees and [REDACTED] have been set up. Moreover, Thieu has pushed the effort nationally by signing on July 1 a strong decree setting forth organization and responsibilities. A

By dint of much pushing and prodding, we are also getting the GVN to put in stronger leadership at the key district and province level. Because pacification is 99 percent GVN business, Vietnamese leadership determines



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its course. By working directly with Thieu and providing him with frank appraisals, we have been quite successful in getting poor officials replaced. With removal of the pitiful Chau Doc Province Chief this week, the score since September 1967 stands 17 Province and 26 District Chiefs. Their replacements have been much better. In addition, we have influenced removal of the corrupt Mayor of Vung Tau, five Police Chiefs, 13 Chieu Hoi Chiefs, 7 Refugee Chiefs and numerous lesser officials. While leadership at district level is still poor, Thieu is finally acting on our private list of the 50 worst.

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While rural economic revival, so important to gaining the farmers' support of the Government of Vietnam, has not yet reached pre-Tet levels, we are working hard on it. Rice is not yet flowing normally to Saigon from the delta, the paddy price to farmers is depressed, and roads and waterways -- while physically open -- are not as heavily traveled because the psychological effects of Tet linger on and they are still subject to harassment. The enemy is clearly seeking to strangle the rural economy and isolate the cities, but the Government, with massive U. S. help, is keeping major lines of communication open. Bridges are repaired more rapidly than ever. Upgrading key route 4 has been almost completed as far as Can Tho. No significant shortages exist.

Chieu Hoi ralliers are still disappointingly low, with the 1968 rate running only one-third that of the first half 1967 surge. However, the monthly average is now running over 1,000 returnees, and the percentage of NCO and higher level Hoi Chanh is about 250 percent larger than last year. The current trend is upward, whereas in the last half of 1967 it was dropping.

Next, self-defense is beginning to catch on. The Tet offensive led increasing numbers of civilians and civic organizations to appeal to the Government for arms to defend themselves. After several false starts, the Government is finally moving to organize the effort sensibly. Few arms have been distributed and self-defense does not yet contribute much to pacification. But within six months it could.

Many pacification resources and much of our energy had to be diverted to urban recovery following Tet. Bob Komer and his people did a remarkable job of energizing the Government of Vietnam. First priority had to be given to caring for 892,000 Tet evacuees, to helping rebuild more than 120,000 homes destroyed and 31,000 others damaged, and to restoring shaken public confidence. Project recovery has been a success story, although marked by many frustrations. Cash relief and resettlement allowances have been distributed to about 100,000 families; 62 percent of cement needed and 76 percent of roofing requirements have been distributed. Six thousand family apartment units are being or soon to be constructed in Saigon/Gia Dinh. An Army of the Republic of Vietnam/U. S. engineer task force is at work clearing rubble, laying out housing sites, and assisting erection of pre-fab housing in heavily damaged areas.

Another 179,000 evacuees were created by the May-June attacks against Saigon/Gia Dinh. Government of Vietnam performance in caring for these people has been remarkable. Victims of May-June attacks are already being resettled. The all-time high of 1,650,000 refugees/evacuees being cared for in May had diminished to about 1,400,000 at end-June. Growing U. S./Government of Vietnam concentration on this huge refugee burden is bearing fruit, though the burden still takes our best efforts. We expect a further decline, but over a million refugees will probably require care during the rest of 1968.

In sum, the outlook for pacification is again reasonably favorable, barring a sharp decline in Vietnamese morale or another Tet-size attack. Regional and Popular Force expansion and improvement will continue to pay off. The attack on the Viet

Cong infrastructure should accelerate. Our refugee and recovery burden should decline. The Chieu Hoi rate should pick up. Solid gains will be slow at best, however, as pacification is the most difficult chore we confront in Vietnam. Continuing weaknesses are the slowness of local administration to improve, the defensive-mindedness of pacification forces, the Government's complex and slow working pacification organization, and the need to spread our assets between cities and rural areas. We are working hard on these problem areas and many others.

#### E. Economic

The economic picture in Vietnam changed radically in the last six months. 1967 had been a year of progress toward economic stability, of spreading economic prosperity into the countryside, and of moderate economic growth. Prior to the Tet offensive it looked as if 1968 would see a continuation of all of these trends, with the main problem -- but a manageable one -- being the containment of inflationary pressures which were beginning to build up from the monetary side during the last two months of 1967 and in January, 1968.

The Tet offensive came at a time when markets were closed for several days and households were stocked for the festivities, and the shock of the fighting on the consumer was consequently cushioned. However, when housewives began to venture forth and found markets still closed and all items scarce, prices soared. On February 12, a first comprehensive U.S. AID check showed the retail price index 58 percent above January 27. This peak was followed, however, by an almost uninterrupted decline over the next seven weeks as supply conditions in Saigon were gradually restored. By March 18, the index approximated the January 27 level.

The price declines took place against the background of rapid monetary expansion. By the end of March the money supply had risen VN9.6 billion above the January level. This rapid increase of the money supply was mainly due to a drastic drop in imports (down 15 percent during the first quarter of 1968 from the 1967 quarterly average) and an even greater drop in Government revenue collections (down 23 percent below the 1967 quarterly average). Government expenditures, on the other hand, remained roughly at the previously expected level.

The contradiction in the development of prices and the money supply is explained mainly by a marked shift in consumer preferences from all types of spending to hoarding, and hoarding in the most liquid form available to the average citizen, i. e., in piasters. There was little evidence of capital flight and the black market dollar and gold rates remained remarkably stable.

The recovery of the economy from the shock, disruption and destruction of the Tet offensive was slow, particularly in the business sector. Imports continued to lag and businessmen were more interested in reducing inventories than making new investments.

However, trade between the countryside and Saigon recovered relatively rapidly. By April, many parts of the economy had made a substantial recovery from Tet, though activity in the business section remained sluggish. Tax collections were at a historic record for any single month. In order to combat the growing monetary overhand and finance the increased costs of general mobilization, the Government imposed increased rates for austerity taxes on imports and submitted a proposal for a 20 percent surcharge on domestic taxes to the Assembly. The movement of foodstuffs from the countryside into Saigon (with the exception of rice) was practically back to normal.

The May offensive and the subsequent rocketing of Saigon was of course a setback to the gradually recovering economy. However, the actual damage done by the offensive was moderate compared to Tet. The effect on prices also was much less severe. From April 29 to May 6, the U. S. AID index rose by 21 percent, but fell again by 9 percent during the following two weeks. The main economic effect of the offensive and of the shelling of Saigon may turn out to be a further setback to the recovery of business confidence.

At mid-year, the Vietnamese economy is still sluggish. Business confidence reflects uncertainty, new investment activity is very limited, and dis-investments and some capital flight have probably taken place. During June both the free market dollar and gold rates increased significantly (by 4.7 and 7.7 percent respectively between May 27 and June 24). But given the disruptions of war and the harassments of the transportation system, prices have remained remarkably stable (the U. S. AID index stood only 14.7 percent over December 26 on July 1).

A large monetary overhang is being created, and it may cause serious problems at some future date. The government is countering this to some extent by tax increases. The 20 percent surcharge on domestic taxes has been passed by the National Assembly. The government has also increased import duties, installed the Brussels code, will probably consider increases in petroleum products taxes by decree and is considering further increases in customs duties. Otherwise it is concentrating for the time being on better enforcement.

For the moment, the main problem is to help the private sector to recover and keep going despite the risks and uncertainties of war. This, of course, depends mainly on the security situation, but economic policy can also play its part. The passage by the Lower House of the war risk insurance bill and the passage and beginning implementation of the reconstruction loan fund should help. A revised rice policy is urgently needed and the Government is now concentrating on this problem.

During the past half year, U. S. AID has continued its efforts to build a stronger economy while assisting in the relief and recovery effort. U. S. AID provided money, cement, roofing, and other commodities for the recovery effort. At the same time, regular programs went forward on schedule; for example, the goal for planting of improved rice was exceeded, and the sale of fertilizer more than doubled over the same period for last year. School construction went forward despite the enemy attacks and medical training programs were stepped up.