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February 23, 1966

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By isp, NARS, Date 2-25-80

Honolulu Meeting

Record of Conclusions
and Decisions
for Further Action 1

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1 As recorded in public communications, records of plenary and working group sessions and notes on restricted sessions.

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EXPLANATION

The Consensuses recorded in the following were jointly reached by the U. S. and Vietnamese. In some cases these represent a specific form, in others they are an effort to record the sense of general discussions.

The Further Actions noted are based on those which involved both Vietnamese and U. S. representatives. In parentheses following the action there is noted the party primarily responsible for follow-up on this matter. In many instances a responsibility is placed on the Saigon to keep the Vietnamese Government informed of action.

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= No reference to
✓ = Dept of State, usually from 2044

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NL = Not in file
SA = Substantive
P = Progress
PV = Possible

I. Diplomatic Track

= No Emb. comment
✓ = Emb. comment

Consensus: The United States Government and the Government of Viet-Nam will continue to press the quest for a peaceful settlement in every forum and explore every path to peace. They will stay in close touch to proceed internationally as closely together as possible.

Further Action

Secret
EP

1. US and GVN leaders agreed on full consultation on further action at Security Council. (Resp: State)

2. A

3. It was agreed everything possible will be done to prevent an independent VC role at any future negotiation. (No more precise decision taken.) (Resp: State)

4. All measures possible will be taken to increase pressure on Hanoi to bring them to the conference table or persuade them to stop aggression by their tacit acceptance of the fact they cannot win. (See II. Military Program) (Resp: DOD, State)

NL ✓

5. The President asked for the GVN's suggestions on further peace initiatives we might take. (Resp: GVN, Embassy)

6. Vice President Humphrey and Governor Harriman will visit Asian capitals to explain our position and describe the Honolulu meeting. (Action taken)

II. Military Program

Consensus: US and GVN leaders announced a policy of "growing military effectiveness and still closer cooperation." We will act with all possible regard for the rights of civilians and respect for the territorial integrity of peaceful neighboring countries, and will adhere to the Geneva Convention of 1949 on treatment of prisoners of war.

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Further Action

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1. Among the measures to be considered to induce Hanoi to move to the conference table will be [idea of feints by GVN sea forces against North Viet-Nam to preoccupy and pin down North Vietnamese armed forces and to create uncertainty there. (Resp: DOD, State)

2. The Secretary of State will take another look at various possible measures for bringing pressure on Hanoi which were mentioned, including bombing dikes or water gates in the pre-flood period. (Resp: DOD, State)

NL

3. The GVN was urged to carry out further internal reforms within the RVNAF. (Resp: GVN, Mission)

III. Free World Assistance

Consensus: The GVN, with strong U. S. support, will press for a maximum number of contributors and a maximum number of types of assistance.

Further Action

SA

1. Free World Assistance activities should be more closely coordinated. In addition to close coordination in Saigon, Washington is to be kept fully informed so that GVN Missions in Washington and New York can take initiatives with foreign representatives located there. (Resp: GVN, US Mission, all Washington agencies concerned with FWA)

P

2. Study will be given to increasing Free World assistance to the GVN agricultural cadre program. (Resp: GVN, US Mission, AID with Dept. of Agriculture and State)

SA

3. Study will also be given to increasing Free World assistance to the GVN's medical programs. (Resp: GVN, US Mission, AID and Dept. Health, Education and Welfare and State) (See also IV-F.)

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4. Top level U. S. representatives will be sent to Australia, Korea and New Zealand to thank them for their assistance and to the Philippines to press for further assistance in the form of an engineer battalion with an adequate security force. (Resp: White House, State)

5. Ways of gaining further Latin American assistance will be studied. (Resp: State)

IV. Internal Vietnamese Programs

IV-A. Rural Construction Program

Consensus: Building democracy in rural areas is as important as military battles - rural construction is the central instrument in bringing about the social revolution on which Viet-Nam is now embarked. For 1966, program should concentrate on four priority areas.

Further Action

ML ✓ 1. Assure that province chief actually retains operational control over necessary military forces to support program in his province. (Resp: US Mission Saigon, with reports to Washington if problems arise)

NL ✓ 2. Areas where program under way, and four priority areas in particular, should be placed under superior province chiefs who should not be removed while program being developed without serious cause. (Resp: GVN, US Mission)

PY ✓ 3. Move forward with elected village executive councils as rapidly as feasible. (Resp: GVN & US Mission)

P ✓ 4. Assure that all Ministries concerned with pacification work out effective coordination among themselves. (Resp: GVN, US Mission)

P ✓ 5. Adequate military priority should be given by ARVN commanders to priority rural construction areas. (Resp: GVN, MACV to follow up)

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- P ✓ 6. General Thang stated provinces should achieve 75 percent of their 1966 plans by the end of the year. This would involve the pacification of 963 new hamlets, consolidation of 1,083 existing hamlets, and the building of 2,251 classrooms, 913 kilometers of roads, 148 bridges, 57 dams and 119 kilometers of canals.
- P ✓ 7. Emphasis will be given to increasingly effective cadre training, with emphasis on political indoctrination and winning the people's sympathy. (Resp: GVN, US Mission)
- P ✓ 8. Greater emphasis is to be put on US and RVNAF troop indoctrination to assure better understanding of how to win over population, with US to study additional support requirements. (Resp: GVN Political Warfare Directorâte, DOD, JUSPAO)
- PY ✓ 9. Develop more agricultural cadre for greater emphasis on agricultural development, especially in priority areas; study increasing Free World assistance in this area. (Resp: GVN, US Mission, AID with Dept. of Agriculture and State). (See also III: Free World Assistance).
- ML ✓ 10. Expand the development of handicraft and light cottage industries, emphasizing priority areas. Handicraft industries should be encouraged to hire refugees, veterans and, in Minister Ton's words, "people whose lives are made possible by the presence of allied forces in Viet-Nam." (GVN, US Mission and AID) (See also IV.B. Refugees).
- PY ✓ 11. Study formation of a land reform organization in each priority area. (GVN and US Mission).
- P ✓ 12. Expand rural electrification program, adding at least 50 new stations if feasible during 1966. (GVN, US AID, Secy Freeman to investigate)
- P ✓ 13. Study improved credit facilities for farmers, and place emphasis on more efficient production. (Resp: GVN, USAID, Dept. of Agriculture).
- PY ✓ 14. Study possibilities of joint training program for village and hamlet chiefs, who would presumably be elected. (Resp: GVN, U.S. Mission).
- 15. An agreed name for the program should be selected as among pacification, rural construction and social construction (see Saigon Embtel. 2967, 2997 and 3063). Development

IV B. Refugees

Consensus:

The care of refugees is highly important as a means of including in the social revolution now going on in South Viet-Nam the large numbers of people who have courageously, of their own free will, left the Viet Cong. The refugees must be prepared to resume a useful role in society. US aid for refugees is an important demonstration of the humanitarian aspects of U.S. aid to Viet-Nam, and the U.S. will provide full support for GVN plans in this area.

Further Action:

1. Special effort will be made to provide schools for refugee children. (Resp: GVN, AID with HEW).
2. In addition to the school effort, the President urged special attention to other refugee projects such as vocational training, small loan programs and the like. (Resp: GVN, AID with HEW).
- ML ✓ 3. Refugees should be given employment in light industry and given training in handicrafts. (Resp: GVN, US Mission).

IV C. Political Development and Current Politics

Consensus: The GVN affirmed its intention to proceed with the building of democracy and encouraging a widened and more active popular participation in and contribution to this process. The U.S. affirmed its support for free elections.

Further Action:

- ? ✓ 1. The GVN will appoint an advisory council consisting of 80 members selected from a cross-section of society and all regions of the country. Appointment will be made by the end of February. (Resp: GVN, U.S. Embassy to monitor).
- ? ✓ 2. Advisory Council will draft a constitution, which will be taken to the people for discussion and modification and submitted to a referendum in late 1966. (Resp: GVN, U.S. Embassy).
- ? ✓ 3. The Council will also discuss electoral laws and political party formation. On the basis of elections, rooted in the constitution, the GVN will create an elected government. (Resp: GVN, U.S. Embassy).

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4. Ambassador Lodge will continue to carry on a dialogue with the GVN on this subject.

5. A Washington representative or group will go to Saigon at some point in the future to discuss political development with GVN leaders. (Resp: State).

6. The President made it clear we are not pushing the GVN to move more quickly than would be wise or to change its ideas on the subject. (Resp: U.S. Embassy).

7. General Ky was urged to spend more time in the countryside in the role of a political leader. (Resp: U.S. Mission).

IV D. Montagnards.

Consensus: General Thang stated that in the new society the GVN was trying to build all groups, including Montagnards, would be treated equally.

IV. E. Chieu Hoi

Consensus: The GVN is making an appeal to the enemy to leave VC ranks and join with South Viet-Nam in the "national, revolutionary adventure" on which it is embarked. The US pledged its full support to the principle of open arms and amnesty for all who turn from terror toward peace and rural construction.

Further Action:

1. Generals Ky and Thieu agreed to place greater emphasis on the Chieu Hoi Program. (Resp: GVN, U.S. Mission, especially JUSPAO).

2. President Johnson urged a strong program directed at "very young" members of the VC. (GVN, U.S. Mission, especially JUSPAO).

IV. F. Economic and Social Programs.

1. Health

Consensus: The GVN will intensify efforts to meet at least its basic needs in context of mounting demands upon scarce resources. The U.S. hopes to expand its health program considerably to assist the GVN to meet these goals.

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Further Action: (For details, see Saigon's TOAID 4985).

a. A team of experts under Secretary Gardner will go to Saigon to clarify specific future goals and agree with GVN on action assignments. (Resp: HEW).

P ✓ b. Both governments agreed to make increased efforts to train health personnel. (GVN, US AID, HEW).

PY ✓ c. A more effective medical logistics system will be established. (GVN, US AID, HEW).

SA ✓ d. Increased medical manpower to be sought through the dispatch of US and Free World medical teams to the provinces. (GVN, US Mission, State).

NL ✓ e. Attempts will be made to stem drain of manpower through adjustment of wage levels, and to gain manpower through incentive systems, and possibly a release of health personnel with long service in the Armed Forces. (Resp: GVN, US Mission):

PY ✓ f. Improvement will be sought on epidemic reporting system; US (and hopefully Free World) will assist in providing modern immunizing equipment. (Resp: GVN, US Mission, State).

P ✓ g. Increase assistance to refugees, including surveillance, immunization, etc. (Resp: GVN, US Mission).

2. Education

Consensus: Strong emphasis should be put on vocational and technical education, and on assistance to refugees.

Further Action: (For details, see Saigon's TOAID 4985).

a. GVN will inform USG of appropriate time for visit of team headed by Secretary Gardner to go to Saigon. (Resp: GVN, HEW).

P ✓ b. Efforts will be made to increase vocational training for students finishing primary education. (Resp: GVN, US AID).

P ✓ c. Agreement to strengthen cooperation in building elementary schools as rapidly as possible, paying particular attention to priority areas and refugees, and in training teachers. (Resp: GVN, US Mission). (See also IV.B.)

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SA ✓ d. US will continue supply of textbooks to schools, with 7 million more scheduled for 1966. (Resp: US AID)

3. Agriculture

Consensus: Increasing food production is a fundamental part of the GVN's effort to create a better life for its people, and US assistance in this is a fundamental part of US efforts to help the Vietnamese people build while they fight. It is also part of the US pledge to attack hunger wherever it is found.

Further Action:

a. Secretary Freeman and team of experts to develop enlarged program of agricultural cooperation from visit to Saigon. (Resp: GVN, USDA).

SA ✓ b. It was agreed that a special effort will be made to move agricultural know-how--particularly new species of rice and corn and vegetable seeds -- from the experimental station to the farmer. (Resp: GVN, US AID)

AY ✓ c. Steps for more rapid land reform were reviewed and will receive further study. The US pledged its full support for land reform. (Resp: GVN, US Mission).

AY ✓ d. Production in the agricultural sector will be increased. Top priority will be given to expansion of agricultural industries such as processing of agricultural products and production of fertilizer and agricultural implements. (Resp: GVN, USAID).

4. General Economic

Further Action:

a. US agreed to increase its project assistance to the level of at least 150 million dollars. (Resp: US AID)

IV G. Financial Stabilization

Consensus: South Viet-Nam faces a serious problem of inflationary demand during the current year, but with appropriate stabilization measures the situation is manageable. The GVN will follow a policy of economic austerity.

Further Action: (see February 8 Minutes of Understanding, and report on February 7 meeting - Annex IV G - for details).

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1. U.S. will increase commodity import and PL 480 Title I assistance to at least \$400 million in CY 1966, subject to market demand and port capacity. (Resp: AID).
2. Subject to market demand and port capacity the Government of the Republic of Viet-Nam agreed to increase imports to a level compatible with a policy of using its foreign exchange earnings in 1966 to help combat inflation. (Resp: GVN, USAID, Embassy to monitor).
3. Advance deposits by importers will be required. (Resp: GVN, USAID and Embassy to monitor).
4. The 90-day grace period on payment of duties will be eliminated. (GVN, AID and Embassy to monitor).
5. The customs force will be enlarged, with U.S. technical assistance. (GVN, AID, Treasury).
6. Overall import procedures are to be simplified. Study to be made of the entire system of import procedures, to begin in the next few weeks. (Resp: GVN, AID).
7. U.S. will eliminate present barter requirements with respect to procurement from less developed countries of commodities other than petroleum products. (Resp: AID).
8. AID will reduce the time required to produce bulk items. (Resp: AID).
9. The GVN will appoint a master port director, responsible directly to the office of the Prime Minister, and give adequate authority to a single Saigon port director. (Resp: GVN, USAID to monitor).
10. The U.S. will supply technical assistance in port management. (Resp: AID).
11. Security stockpiles will be established as quickly as port facilities allow. Plans will be drawn up at once for warehousing and management of stockpiles. (Resp: GVN, AID).
12. The U.S. will remove PX supplies from port area warehouses as expeditiously as possible. (Resp: MACV).
13. The GVN will increase revenues, both from increased taxes and better tax collection, as well as from other sources. The target for increased tax receipts in 1966 is approximately 4 billion piasters. (Resp: GVN; USAID to monitor).

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14. Non-tax receipts should be increased by greater promotion and sales of GVN lottery tickets, including sales to U.S. forces, and by flotation of piaster bond issues of approximately 2 billion piasters in 1966. (Resp: GVN, MACV; USAID and Embassy to monitor).

15. Foreign exchange earnings accruing in 1966 to the Republic of Viet-Nam, will be used promptly to help combat inflationary pressures, by financing imports or by other appropriate means. (Resp: GVN, USAID to monitor).

16. The U.S. will support the Vietnamese request to the IMF for technical assistance in the financial area. Mr. Bell will talk to Mr. Schweitzer of the IMF to press for an IMF group's visit to Saigon by the end of February. (Resp: AID).

17. High level political consideration of raising the exchange rate for import duties from 35.1 to 60.1 will be initiated promptly, with a view to activating this measure at the beginning of the second quarter of 1966. It was agreed that this would be the most appropriate and equitable additional measure to reduce liquidity, expand GVN revenues and reduce excessive wartime profits. (Resp: GVN, US Mission, AID, State).

18. Discussion will be held and recommendations made before the end of February on modifying the Special Currency Fund rate of 118 piasters per dollar and on the GVN's possibly increasing and using the gold component of its international reserves. (Resp: GVN, AID).

19. The U.S. will provide technical assistance where appropriate in support of GVN anti-inflationary measures, and will moderate the demands of U.S. expenditures in the Vietnamese economy. (Resp: All agencies).

20. Prime Minister Ky will announce some of the economic stabilization measures to be taken by no later than mid-February. (Resp: GVN; US Mission to monitor).

21. The GVN agreed to carry out promptly the measures to which it had agreed with Mr. Bell in early January. (Resp: GVN; USAID and Embassy to monitor).

V. Public Affairs

Consensus: The U.S. and the GVN will both lay stress on their joint efforts to carry out a social revolution and build a new society in South Viet-Nam.

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1. The U.S. and GVN will both publicize the Honolulu meeting.
(Resp: GVN, all U.S. agencies).

2. The President urged GVN officials and Secretary Gardner to stress at every possible opportunity work being done in increasing school enrollments, building schools and increasing the number of health teams. (Resp: GVN, HEW).

py ✓ 3. Generals Ky and Thieu should be encouraged to make more American TV appearances. (Resp: JUSPAO).

VI. General and Miscellaneous

Further Action:

1. It was agreed that GVN and USG leaders will have similar meetings in the future "for the continued execution of the policies and purposes of the Declaration of Honolulu." The first such meeting will take place about June, for the purpose of assessing progress on agreements reached at the Feb. meeting. (Resp: GVN, all U.S. agencies concerned).

2. The U.S. will try to formulate a way to better our organization in support of the Vietnamese effort.

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(A)

MINUTES OF UNDERSTANDING

February 8, 1966

Minister of National Economy Ton, Governor of the National Bank of Vietnam Hanh and AID Administrator Bell and other U.S. officials met to discuss the problem of inflation in the Republic of Vietnam. They agreed that South Vietnam faces a serious problem of inflationary demand during the current year, but that with appropriate stabilization measures the situation is manageable.

To contribute toward bringing the inflationary pressures under control, it was agreed that the United States subject to market demand and port capacity would increase its commodity import and P. L. 480 Title I assistance to at least \$400 million in CY 1966. The United States also agreed to eliminate present barter requirements with respect to procurement from less developed countries of commodities other than petroleum products. AID also will reduce the time required to produce bulk items. In general both governments agree to simplify overall import procedures so as to speed the flow of imports into Vietnam. The United States also agreed to increase its project assistance to a level of at least \$150 million.

Subject to market demand and port capacity the Government of the Republic of Vietnam agreed to increase imports to a level compatible with a policy of using its foreign exchange earnings in 1966 to help combat inflation. The amount of imports licensed for 1966 is estimated at \$200 million, or \$50 million each quarter. The import level will be designed to utilize fully the present capacity of the ocean ports. The Government of the Republic of Vietnam also has decided to appoint a master port director for all Vietnamese ports, responsible directly to the office of the Prime Minister and give adequate authority to a single Saigon port director. The United States will supply technical assistance in port management.

To increase the effectiveness of imports as weapons against inflation, it was agreed that an import license deposit system should be instituted at once, requiring deposit on the c.i.f. value of imports at the time of application for imports, (or, possibly, at the time of licensing if necessary) varying up to 100 percent, depending on the essentiality of the imported product.

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To prevent shortages of key items, it was agreed to establish security stockpiles as quickly as port facilities allow, and to plan at once for warehousing and management of such stockpiles.

The two governments agreed to a joint study of the entire system of import procedures, to be begun in the next few weeks. The United States agreed to remove PX goods from port area warehouses as expeditiously as practicable.

It was agreed that enlarged and improved import programs will not restrain price increases within acceptable limits. Other measures will be needed. The United States agreed to provide technical assistance where appropriate, and to moderate the demands of U.S. expenditures in the Vietnamese economy.

The Government of the Republic of Vietnam agreed on the necessity to increase government receipts, both from taxes and from other sources. Taxes should be increased or collection improved on petroleum products, rents, bars and restaurants, on vehicles, on beer and soft drinks, incomes, import business licenses and stamps, with a view to increasing revenues by approximately 4 billion piasters in 1966.

It was agreed that customs effectiveness should be increased immediately by:

1) elimination of the 90-day grace period on payment of duties;
and,

2) improvement in customs collections by enlargement of the customs force, with technical assistance from the United States.

It was also agreed that non-tax receipts should be increased by greater promotion and sales of government lottery tickets, including sales to American forces, and by flotation of piaster bond issues of approximately 2 billion piasters in 1966.

It was agreed that foreign exchange earnings accruing in 1966 to the Republic of Vietnam, will be used promptly to help combat inflationary pressures, by financing imports or by other appropriate means.

The question of the Special Currency Fund exchange rate of 118 piasters per dollar was discussed and it was indicated that the United States stands ready to discuss proposals for modifying rate adjustments. It was agreed, however, that it would be unacceptable to adopt exchange measures which would result in large scale black market currency transactions by American forces. The United States agreed to support the Vietnamese request to the IMF for technical assistance in the financial area.

It was further agreed that the most appropriate and equitable additional measure to reduce liquidity, expand revenues of the Government of the Republic of Vietnam and reduce excessive wartime profits would be the application of customs duties on the basis of the actual 60:1 exchange cost base, rather than 35:1. In order to avoid harmful price increases in basic necessities, such a measure should be accompanied by reduction of duties on certain essential items. It was recognized that high level political consideration of this measure should be initiated promptly, looking toward its activation at the beginning of the second quarter of 1966.

The Government of the Republic of Vietnam suggested for psychological reasons the possibility of increasing and using the gold component of its international reserves. The United States expressed serious reservations about this suggestion, but agreed to explore it further.

(Signed) [Signature]
For the Government of Vietnam

(Signed) [Signature]
For the United States

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DEPARTMENT OF STATE

Memorandum of conversation

February 7, 1966
Honolulu, Hawaii

Subject: Vietnam Economic Stabilization

Participants: Vietnam

Mr. Truong Thai Ton, Minister of Economy and Finance
Gov. Nguyen Huu Hanh, Governor of the National Bank
of Vietnam

United States

David E. Bell, Administrator, AID
Rutherford Poats, AA/FE (beginning of session)
Charles Mann, Director, USOM/Saigon
Richard N. Cooper, Deputy Assistant Secretary of State
Edward Hamilton, White House
Robert Nathan, Robert R. Nathan Associates, Inc.

Copies To:

- Mr. Bell - AID
- Mr. Poats - AA/FE (3)
- Mr. Trued - Treasury (2)
- Mr. Ralph Young - Federal Reserve Board
- Mr. Charles Mann - USOM/Saigon (6)
- Mr. Unger - FE
- Mr. Bundy - White House
- Mr. McNaughton - DOD
- Mr. James Clark - BOB
- E/IMA (3)

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Mr. Bell opened the meeting by expressing serious U.S. concern about actual and prospective inflation in Vietnam. He suggested that we go over in detail the possible measures that might be taken to keep price inflation within acceptable limits.

Both Bell and Ton agreed that GVN expenditures for 1966 could not be squeezed further and indeed that the cash outlay was likely to be in the range of 58 to 60 billion piasters rather than the 55 billion piasters budgeted.

Mr. Poats recalled the GVN commitment of early January to license \$50 million in imports during the first quarter and asked why the rate in January had been only \$7 million. Ton explained that the slowdown

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was deliberate, in anticipation of the institution of import deposit fees which is now set for the end of the current week. Ton explained that the GVN has reconsidered its original plan to impose 100% import deposit fees at the time of application. He recalled that many importers had been asked to constitute security stocks of certain essential commodities in their own inventories and a high deposit fee would penalize them. He now proposes an import deposit fee scheme which will classify all commodities into four categories calling respectively for no deposit, 25%, 50% and 100%. The GVN has not yet classified the import goods of these four categories.

In response to a question about piaster bonds, Ton explained that he met with the Chinese in late January and they accepted the principle of "forced loans" but they would much prefer dollar-denominated bonds to piaster bonds. Dollar bonds would give Ton great difficulty at the present time. He believes that some Chinese would buy piaster bonds provided that they were bearer bonds at attractive interest rates, but he has lowered his estimated receipts from 2.5 billion to 1.5 billion piasters. Further bond sales--perhaps 0.5 billion piasters--could be made if a lottery feature were added to the bonds to be sold to the general public. The Chinese are ready to buy the bonds at any time but Ton wants to hold back issuing them until he has put together an overall economic program.

Ton explained that the Government is prepared to go forward with new taxes on building, on restaurants and bars, on petroleum, and on vehicles, yielding a total estimated revenue of 2.5 billion piasters (somewhat less if kerosene is exempt). In addition, he would like to institute a withholding tax on income on a current basis.

The GVN lottery has already increased its sales and issued new tickets worth 30 piasters. In addition, Ton plans to issue special 100 piaster tickets once each quarter. He expects these measures to yield one million piasters, net.

In response to questions about changing the exchange rate basis for duty calculation from 35 to 60 piasters per dollar, Governor Manh said that he was thinking in terms of waiting three to four months after the tax and other measures had been instituted and gradually accepted by the market. Bell acknowledged the political difficulties with this measure, but urged that the change be made as soon as possible.

Ton reported that Prime Minister Ky had already given his approval to the entire range of proposed economic measures, including the change

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in customs duty base, but that action had been delayed by Ky, presumably because of objections from other members of the military directorate. Bell asked what action the President might take to facilitate the adoption of an anti-inflationary program. Ton replied that an expression of general Presidential concern would be helpful but that it was not desirable to go into specific details of the program. Ton said that Prime Minister Ky is very much worried about commodity speculation and its effects on prices. He is therefore desirous that security stocks should be established before the adoption of tax and duty increases. Mann pointed out that speculation can be avoided if a large increase in import licensing is put into effect at the same time that tax increases are announced. Bell agreed with this and argued that publicity to the program should emphasize the general exemption of essential commodities, both from the tax increases and from the duty increases implicit in a change in the exchange rate base. He said that he would ask the President to urge Ky to take stabilization measures quickly, preferably within the next week.

Ton and Mann reported that the arrangement to place five to seven U.S. Customs Advisers in the port of Saigon was all set; the agreement is to be signed in a week or two.

Ton complained that PX goods (e.g., whiskey, cotton products) are tying up port warehouses by being left there too long. MACV agreed to speed up the removal of PX goods and Mann will follow this up.

Hanh reported that the National Bank liberalized further the transfer of financial remittances--travel, remittances of rents, savings of foreign workers, etc.--within the past ten days. He believes that this liberalization will involve at most \$15 million increased outflow a year.

Ton brought up the question of the special currency rate of 118 piasters per dollar and argued that it was giving the Government considerable trouble and that it was a major source of inflationary demand. He asked if the U.S. could consider lowering the rate, for example to 100 piasters per dollar. Cooper pointed out that lowering the rate by itself would not much reduce inflationary pressures except insofar as it induced American Forces to purchase their piasters in the black market. Lowering the rate to 100 is not likely to have much effect on total troop spending in piasters; to the extent GI's are not attracted to the black market, it will merely add to the growth of Vietnamese foreign exchange reserves. The critical question is how these reserves can be used to combat inflation. Imports are already projected at a level which will utilize fully available port capacity, and the Vietnamese Government has not yet agreed on financial measures other than enlarged

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imports to siphon off piaster holdings. Governor Hanh agreed fully with this general analysis. If American troops were induced to buy their piasters in the black market this would reduce additions to the money supply arising from the Special Currency Fund, but both Bell and Ton agreed that it would not be politically desirable to drive American troops to the black market.

Ton did, however, conjecture that a reduction in the 118 rate would have a favorable psychological effect on prices. Hanh also urged a reduction in the rate and argued that this would make him more favorable toward licensing the import of luxury goods with high duties and low bulk. He conceded that the connection between these two actions was not a logical one.

Bell suggested that the IMF should look at the whole question of the Vietnamese exchange rate on a broad basis with a view to the possibility of consolidating the rate structure. He promised to call the IMF Managing Director to urge sending a good IMF team to Vietnam by the end of the month. He said that the United States is willing to reexamine the 118 rate in the context of broader exchange reform but he warned that changing the 118 rate poses serious institutional problems for the United States. Bell added that the other measures should not be held up by the question of exchange rate consolidation. U.S. and Vietnamese officials should scrutinize carefully the whole financial situation every six weeks or so.

Governor Hanh raised the question of further monetary measures. He reported that he had no proposed solution but that he believes much more needs to be done. Bell agreed. Bell said the U.S. had great trouble with the suggestion of open market operations in gold, but he did not rule it out since we have not yet found a mutually satisfactory alternative. Bell mentioned the possibility of issuing a U.S. Treasury bond in Vietnam, denominated in dollars but purchasable in piasters. This is to be distinguished from a dollar bond floated by the GVN. Cooper pointed out that such a bond could be floated in either of two ways: (1) it could be auctioned for piasters, so that the interest rate and the exchange rate would be bound up together in the auction price; or (2) it could be sold for piasters at a fixed rate, e.g. 118 piasters per dollar, at a specified rate of interest. The former technique would probably be more efficient as an anti-inflationary device. Hanh asked how the piaster proceeds would be used. Bell suggested that they might be applied against the GVN budget but that this would require an additional appropriation from Congress. Cooper mentioned that they might be used for U.S. official expenditures, thereby reducing the official U.S. demand for new piasters and incidentally yielding the U.S. some of its required piasters at a more favorable exchange rate.

Governor Hanh

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Governor Hanh urged serious U.S. consideration of two proposals concerning gold: (1) GVN open market operations in gold to reduce liquidity and stabilize the gold price, a matter already discussed at some length between officials of the two Governments; and (2) National Bank purchases of gold, to be held in vaults of the Federal Reserve Bank, with the objective of strengthening confidence in the piaster. He attached great importance to the psychological impact of higher gold reserves in the hands of the National Bank. Bell agreed that the United States would look at both of these questions.

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#39b report

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