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AMBASSADOR ELLSWORTH BUNKER'S "BACK CHANNEL" REPORT TO
THE WHITE HOUSE - REPORT NO 89 . DATE: Oct. 3, 1970



Department of State

TELEGRAM

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FM AMEMBASSY SAIGON
TO RUEHC/SECSTATE WASHDC 6570
INFO RUEHCR/USDEL FRANCE 7701
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SECRET SECTION 1 OF 4 SAIGON

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FOR THE-PRESIDENT FROM BUNKER

USDEL FRANCE FOR AMBASSADOR BRUCE

HEREWITH MY EIGHTY-NINTH MESSAGE.

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Section 16936

1. GENERAL. IN RECENT MONTHS, I HAVE MENTIONED THE ACCUMULATING ECONOMIC DIFFICULTIES AS THE MOST PRESSING PROBLEM FACING THE VIETNAMESE GOVERNMENT. I AM, THEREFORE, RELIEVED TO REPORT THAT AFTER SEVERAL MONTHS OF DIFFICULT NEGOTIATIONS, AGREEMENT WAS REACHED ON A PROGRAM OF REFORMS AND THE GOVERNMENT HAS BEGUN ITS IMPLEMENTATION. A MAJOR UPWARD ADJUSTMENT HAS BEEN MADE IN INTEREST RATES AND NEW IMPORT PROCEDURES SHOULD BE INTRODUCED WITHIN A FEW DAYS. A PARALLEL MARKET WILL BE ESTABLISHED NEXT WEEK WHICH WILL RAISE THE FOREIGN EXCHANGE RATE ON PERSONAL PIASTER PURCHASES, CERTAIN EXPORTS, AND INVIBLES FROM 118 TO 275. THE PARTIAL DEVALUATION IS A MAJOR STEP OF GREAT IMPORTANCE. THESE MEASURES WILL BE FOLLOWED SHORTLY BY ESSENTIAL WAGE INCREASES FOR THE MILITARY AND CIVIL SERVANTS AND ADJUSTMENTS IN THE RICE PRICE TO ELIMINATE SUBSIDIES AND SPECULATION. COLLECTION OF TAXES IS BEING PRESSED WITH ENCOURAGING RESULTS AND THE GOVERNMENT IS PREPARING A TAX PACKAGE TO BE PRESENTED TO THE ASSEMBLY. THE DIFFICULTIES TO BE OVERCOME IN THIS WAR-WEAKENED ECONOMY REMAIN VERY GREAT, BUT AN ENCOURAGING START HAS NOW BEEN MADE ON A NUMBER OF KEY FRONTS.

2. ANOTHER MAJOR STEP IN STRENGTHENING CONSTITUTIONAL GOVERNMENT IN VIET-NAM WAS TAKEN BY THE ELECTION ON AUGUST 30 OF THREE SLATES OF TEN MEMBERS EACH TO FILL HALF THE SEATS IN THE SENATE. WINNER IN FIRST PLACE WAS THE OPPOSITION SLATE BACKED BY THE AN QUANG BUDDHIST FACTION. THIS MARKS THE RETURN TO THE CONSTITUTIONAL ARENA OF THE AN QUANG BUDDHISTS WHO BOYCOTTED THE ELECTIONS IN 1967. IT IS IMPORTANT, I BELIEVE, THAT THIS LARGE AND VITAL POLITICAL FORCE FIND ITS EXPRESSION WITHIN THE LEGAL SYSTEM AND THE ELECTION HAS PROVEN THAT THIS IS POSSIBLE.

3. MILITARY ACTIVITY REMAINED AT A LOW LEVEL. THE MAIN ENEMY THREAT CONTINUED TO BE IN NORTHERN MILITARY REGION 1 AND THE CENTRAL HIGHLANDS OF MILITARY REGION 2. TERRORISM CONTINUES AT ABOUT THE SAME HIGH LEVEL.

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4. THE RENEWED EMPHASIS ON PACIFICATION AND THE ACCELERATED PROGRAM LAUNCHED IN JUNE SHOWED VARIED RESULTS, BUT WITH AN OVERALL TREND TOWARD BETTER SECURITY, BETTER LOCAL GOVERNMENT, AND MORE LOCAL ECONOMIC DEVELOPMENT.

5. THE LAND-TO-THE-TILLER PROGRAM WAS FORMALLY LAUNCHED AT THE END OF AUGUST WHEN PRESIDENT THIEU DISTRIBUTED 643 TITLES IN BAC LIEU AND KIEN GIANG PROVINCES. COMPENSATION OF LANDLORDS WILL BEGIN SHORTLY. MORE THAN 3,000 LOCAL OFFICIALS HAVE BEEN SPECIALLY TRAINED TO CARRY OUT THE LAW AND THEY ARE NOW GOING TO WORK IN THE COUNTRYSIDE.

6. I THINK THAT THERE CAN BE DETECTED AMONG THOUGHTFUL AND POLITICALLY ACTIVE VIETNAMESE A SENSE OF RISING ANTICIPATION CONCERNING POSSIBLE DEVELOPMENTS ON THE NEGOTIATING FRONT. INTEREST IN THE PEACE ISSUE IS FINDING EXPRESSION IN A NUMBER OF DIFFERENT WAYS AND THERE IS RENEWED CONCERN HERE THAT WORLD OPINION SHOULD UNDERSTAND SOUTH VIET-NAM'S POSITION. PRESIDENT THIEU HAS FREQUENTLY REITERATED HIS POSITION ON THE SUBJECT, STRESSING HIS OPPOSITION TO COALITION WITH THE COMMUNISTS, AND A LARGE GROUP OF LEADERS OF MANY PERSUASIONS HAVE NOW PUBLICLY ENDORSED THIS STAND.

7. ECONOMIC REFORM: A BEGINNING. A REVISED VERSION OF THE GOVERNMENT'S PROGRAM LAW WAS APPROVED BY THE NATIONAL ASSEMBLY ON SEPTEMBER 29. AS AMENDED BY THE SENATE AND PASSED BY THE LOWER HOUSE, THE LAW GRANTS THE PRESIDENT LIMITED DECREE POWERS TO ESTABLISH A PARELLAL MARKET FOR EXPORTS, SOME IMPORTS, AND INVISIBLE TRANSACTIONS, INCLUDING PERSONAL PURCHASES BY AMERICANS AND OTHER FOREIGNERS HERE. IT IS EXPECTED THAT THE NEW RATE FOR THE PIASTER WILL BE ESTABLISHED AT 275 TO THE DOLLAR.

8. THE PREPARATORY MOVES, ESPECIALLY CONSIDERATION OF THE PROGRAM LAW IN THE LEGISLATURE, WERE A LONG AND PAINFUL PROCESS. THE DELAY REPRESENTED IN PART THE COST OF FOLLOWING THE COURSE OF REPRESENTATIVE GOVERNMENT, BUT IT HAD SOME IMMEDIATE, AS WELL AS LONG RANGE, COMPENSATIONS; IT DEMONSTRATED THE EXECUTIVE'S COMMITMENT TO THE CONSTITUTIONAL PROCESS AND THE DEBATE SERVED TO PREPARE PUBLIC OPINION FOR THE HARD DECISIONS AHEAD. ALTHOUGH ATTRACTING LITTLE PUBLIC NOTICE, A MAJOR UPWARD REVISION OF INTEREST RATES, PATTERNED ON THE SUCCESSFUL REFORMS IN KOREA AND TAIWAN, WAS UNDERTAKEN TWO WEEK EARLIER. ITS MAIN PURPOSE IS TO ATTRACT PRIVATE FUNDS INTO SAVINGS BY BRINGING INTEREST RATES MORE INTO LINE WITH THE REAL COSTS OF BORROWING IN AN INFLATIONARY ECONOMY. THE PREVIOUS, ARTIFICIALLY LOW RATES HAD ENCOURAGED SPECULATION, PARTICULARLY IN IMPORTS.

9. THE GOVERNMENT ALSO HAS BEGUN TO OPEN UP IMPORT LICENSING, COMMODITY BY COMMODITY, WHILE REQUIRING IMPORTERS TO MAKE HIGH ADVANCE DEPOSITS IN MOST CASES. EARLY RESULTS ARE PROMISING AND SHOULD HELP REDUCE SPECULATION.

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FOR THE PRESIDENT FROM BUNKER

USDEL FRANCE FOR AMBESSADOR BRUCE

10. MANY SERIOUS ECONOMIC HURDLES REMAIN TO BE CLEARED, BUT PRESIDENT THIEU IS NOW CLEARLY EMBARKED ON A MAJOR DRIVE TO STEM INFLATION, SPECULATION AND HOARDING, AS WELL AS TO CORRECT SOME OF THE MORE GLARING INEQUITIES IN THE ECONOMY. I EXPECT HIM TO PROCEED PROMPTLY WITH THE REMAINDER OF HIS ECONOMIC PROGRAM. THIS WILL INCLUDE A LONG OVERDUE PAY INCREASE FOR SERVICEMAN AND CIVIL SERVANTS AND REORGANIZATION OF THE RICE TRADE. THE PAY INCREASE FOR GOVERNMENT EMPLOYEES, IN ADDITION TO ITS SOCIAL EFFECTS, SHOULD HAVE FAVORABLE REPERCUSSIONS ON MORALE IN THE MILITARY AND CIVIL SERVICE.

11. LOW OFFICIAL RICE PRICES AND CONTROLS ON DISTRIBUTION HAVE INVITED CORRUPTION AND HAVE TENDED TO EXAGGERATE THE DEMAND FOR IMPORTED RICE. WE USED THE OCCASION OF A NEW PL-480 AGREEMENT TO PRESS FOR REFORMS AND AFTER LONG NEGOTIATIONS REACHED AGREEMENT IN LATE AUGUST ON SATISFACTORY TERMS. WE BELIEVE THAT THE LIBERALIZATION OF THE TRADE TO WHICH THE GOVERNMENT IS NOW COMMITTED WILL BRING LONG TERM BENEFITS. ONE ENCOURAGING SIGN IS A DECLINE IN THE PRICE OF RICE AFTER HITTING A PEAK IN LATE AUGUST.

12. THE PERIOD IN WHICH REFORMS BEGIN TO TAKE EFFECT, ESPECIALLY WHEN THE GOVERNMENT AND MILITARY PAY RAISE IS ANNOUNCED, OFFERS ANOTHER OPPORTUNITY TO MOVE AGAINST CORRUPTION. I PROPOSE TO DISCUSS THIS PROBLEM WITH PRESIDENT THIEU AGAIN AND I WILL URGE HIM TO INVIGORATE AND GIVE EFFECTIVE SUPPORT TO THIS ESSENTIAL EFFORT.

13. SENATE ELECTIONS MARK POLITICAL DEVELOPMENT. THE AUGUST 30 ELECTION FOR HALF OF THE 60 UPPER HOUSE SEATS WAS CONTESTED BY 16 SLATES OF 10 CANDIDATES EACH. WINNERS WERE THE OPPOSITION SLATE OF VU VAN MAU, WHO RAN WITH AN QUANG BUDDHIST SUPPORT; THE PRO-GOVERNMENT SLATE OF HUYNH VAN CAO; AND THE INDEPENDENT SLATE OF NGUYEN VAN HUYEN. TURN-OUT WAS 65.7 PERCENT OF THE REGISTERED VOTERS, A RESPECTABLE MAJORITY, ESPECIALLY CONSIDERING THE FACT THAT SENATORS ARE ELECTED AT LARGE AND CANNOT APPEAL TO DEFINED LOCAL CONSTITUENCIES. DESPITE WORD PASSED

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TO THE MILITARY AND CIVIL ADMINISTRATION THAT PRESIDENT THIEU FAVORED THREE SPECIFIED LISTS, ONLY ONE OF THESE WON. THE ELECTION WAS, BY COMMON CONSENT, FAIRLY CONDUCTED.

14. SOME INDICATIONS OF POLITICAL TRENDS WERE EVIDENT. THE VARIOUS PRO-GOVERNMENT SLATES RECEIVED ABOUT HALF THE TOTAL VOTE; THE OPPOSITION AND THE INDEPENDENTS POLLED ABOUT ONE-FOURTH EACH. RELIGION SEEMS TO HAVE WEIGHED HEAVILY WITH THE VOTERS, WITH ETHNIC TIES AND PERSONALITIES ALSO IMPORTANT. NO SLATES CONNECTED TO POLITICAL PARTIES WERE AMONG THE WINNERS, BUT SEVERAL MADE SUFFICIENTLY GOOD SHOWINGS TO SUSTAIN INTEREST IN POLITICAL ORGANIZATION. THE ELECTION SERVED TO ENLARGE THE LOOSELY DEFINED INDEPENDENT GROUP IN THE SENATE AND LEFT THE OPPOSITION AND PRO-GOVERNMENT GROUPS ABOUT IN BALANCE AS BEFORE. MANY INDEPENDENTS GENERALLY SUPPORT THE GOVERNMENT ON SIGNIFICANT ISSUES.

15. SHORTLY AFTER THE ELECTIONS, THIEU TOOK A STEP OF CONSIDERABLE POLITICAL SIGNIFICANCE. ON SEPTEMBER 9, HE WAS HOST AT INDEPENDENCE PALACE TO AN ALL DAY MEETING OF THE RECENTLY ELECTED PROVINCIAL COUNCILMEN - FIVE-HUNDRED FORTY LOCAL DIGNITARIES AND POLITICIANS WHO ARE IN CLOSE TOUCH WITH THE VOTING PUBLIC. THIEU AND A SELECTION OF SENIOR OFFICIALS USED THE OCCASION FOR AN EXPOSITION OF MAJOR GOVERNMENT PROGRAMS AND TO EXPLAIN SOME OF THIEU'S BASIC PHILOSOPHY AND HOPES FOR THE FUTURE. HE EMPHASIZED ESPECIALLY THE NEED FOR CLOSE COOPERATION BETWEEN THE PROVINCIAL COUNCILS AND VILLAGE GOVERNMENT. THIEU PROPOSES TO INVITE PROVINCE CHIEFS AND COUNCIL CHAIRMEN TO RETURN IN ANOTHER MONTH OR TWO FOR A MORE EXTENSIVE AND INFORMAL SEMINAR. THE POLITICAL VALUE OF THIS PROCESS IS OBVIOUS AND IT PROBABLY REFLECTS THIEU'S INTENTIONS TO RELY ON THE PROVINCIAL AND VILLAGE ADMINISTRATIVE STRUCTURE FOR ELECTION SUPPORT NEXT YEAR.

16. MILITARY ACTIVITY AT A LOW LEVEL. A SLIGHT UPSURGE IN ATTACKS BY FIRE IN LATE AUGUST AND EARLY SEPTEMBER REFLECTED AN ATTEMPT TO DISRUPT THE SENATE ELECTIONS AND TO MARK COMMUNIST ANNIVERSARIES. OTHERWISE, MILITARY ACTIVITY WAS NOTABLY LIGHT, ESPECIALLY IN MILITARY REGIONS 3 AND 4. THE MAIN ENEMY THREAT CONTINUED TO BE IN NORTHERN MILITARY REGION II AND THE CENTRAL HIGHLANDS OF MILITARY REGION 2.

17. A FURTHER TRANSFER OF COMBAT AND COMBAT SUPPORT CAPABILITIES HAS ENABLED RVNAF TO FURTHER INCREASE ITS SHARE OF THE WAR EFFORT. REPRESENTATIVE OF THIS ADVANCE WAS AN ORDNANCE DIRECT SUPPORT COMPANY AND A MARINE BATTALION WHICH BECAME OPERATIONAL DURING THE PERIOD. AN ENGINEER CONSTRUCTION BATTALION, SIXTEEN 105 MM HOWITZER PLATOONS AND TWO HELICOPTER SQUADRONS BEGAN TRAINING; THIRTY-SEVEN ADDITIONAL NAVAL CRAFT WERE TURNED OVER, AND THE VIETNAMESE NAVY ASSUMED OPERATIONAL COMMAND OF THE ENTIRE MARKET TIE (PATROLS AGAINST SEABORNE INFILTRATIONS) INNER BARRIER.

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FOR THE PRESIDENT FROM BUNKER

USDEL FRANCE FOR AMBASSADOR BRUCE

18. EXPANSION IS STILL ACCOMPANIED BY GROWTH PAINS, REFLECTED IN THE SHORTAGE OF COMPETENT LEADERS AND SKILLED TECHNICAL PERSONNEL. THE PROBLEM IS ACUTE IN VIETNAMESE INFANTRY UNITS AND IN THE AIR FORCE WITH ITS RAPIDLY INCREASING HELICOPTER ASSETS. MACV IS WORKING WITH THE VIETNAMESE TO RESOLVE THESE PROBLEMS.

19. PACIFICATION. PACIFICATION CONTINUES TO MAKE STEADY THOUGH MODEST PROGRESS, AS AN INDICATION OF THE TREND TO BETTER SECURITY, OPINION POLLS SHOW THAT IN MANY AREAS THE PROBLEM OF SECURITY HAS RECEDED IN IMPORTANCE FOR THE ORDINARY CITIZEN AND HAS BEEN REPLACED BY CONCERN AS TO THE EFFECTS OF INFLATION, AND BY INTEREST IN VARIOUS PROGRAMS OF LOCAL BETTERMENT.

20. PACIFICATION REMAINS THE MAJOR TARGET OF THE ENEMY, AND HIS GUERRILLA, TERRORIST, AND POLITICAL ACTIONS ARE DESIGNED TO EXERT PRESSURE ON THE PACIFICATION PROGRAM. AFTER DROPPING FROM THE SURGE IN APRIL AND MAY ALMOST TO THE LEVELS OF LAST YEAR, TERRORISM THROUGHOUT THE COUNTRY ONCE AGAIN ROSE AT THE END OF AUGUST.

21. THE LOW LEVEL OF ENEMY ACTIVITY IN MILITARY REGIONS 3 AND 4 AFFORDS A SIGNIFICANT OPPORTUNITY TO EXPAND AND STRENGTHEN PACIFICATION IN THESE AREAS. THE APPOINTMENT OF GENERAL DZU AS COMMANDER IN MILITARY REGION 2 SHOULD BRING MUCH NEEDED STRENGTH TO THE PACIFICATION PROGRAM IN WHAT HAS BEEN THE WEAKEST OF THE FOUR MILITARY REGIONS. GENERAL TRUNG IS ALREADY IMPRESSING EVERYONE IN MR 4 WITH HIS ENERGY, IMAGINATION AND PROFESSIONALISM.

22. THE ENEMY. THE IMMEDIATE BENEFITS TO VIET-NAM OF THE CAMBODIAN OPERATIONS CONTINUE TO BE EVIDENT. FOR THE TIME BEING THE ENEMY HAS NO CAPABILITY OF THREATENING MILITARY REGIONS 3 AND 4. AT THE SAME TIME HE HAS BEEN DETERR'D FROM EXERTING FURTHER PRESSURE IN THE NORTHERN MILITARY REGIONS BY CONFLICTING DEMANDS IN SOUTHERN LAOS AND NORTHEASTERN CAMBODIA.

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IN THESE LATTER AREAS, HE IS MAKING A MAJOR EFFORT TO RECONSTRUCT A NEW LOGISTIC SYSTEM TO COMPENSATE FOR THE LOSS OF THE BORDER SANCTUARY AREAS AND KOMPONG SOM (SIHANOUKVILLE) PORT. THE SEIZURE OF LARGE AREAS OF CAMBODIA REQUIRES HIM TO DIVERT PERSONNEL AND RESOURCES FROM VIET-NAM TO ORGANIZE ADMINISTRATIVE SYSTEMS AND RAISE GUERRILLA UNITS. MILITARY OPERATIONS IN THREE COUNTRIES HAVE ADDED TO HIS PROBLEMS OF COMMAND AND CONTROL. IT IS CLEAR HE IS PREPARING FOR THE DRY SEASON CAMPAIGN -- NOVEMBER TO JUNE -- AND WE EXPECT HE WILL MAKE HIS MAIN MILITARY EFFORT IN CAMBODIA AND LAOS.

23. IN SOUTH VIET-NAM, THE COMMUNISTS ARE PURSUING THEIR TACTICS OF PROTRACTED WARFARE EMPLOYING SMALL UNIT ATTACKS AND TERRORISM WHILE TRYING TO REBUILD POLITICAL STRENGTH. THEIR IMMEDIATE TARGET REMAINS THE GOVERNMENT PACIFICATION EFFORT, BUT EXCEPT FOR TWO OR THREE PROVINCES THE ENEMY HAS NOT BEEN ABLE TO SET BACK THE PROGRAM.

24. HE ALSO IS REDOUBLING HIS EFFORTS TO PENETRATE URBAN PROTEST GROUPS SUCH AS WAR VETERANS, STUDENTS, AND MILITANT BUDDHISTS. HE MAY BE ACHIEVING SOME MEASURE OF SUCCESS, ESPECIALLY AMONG STUDENTS. THERE ARE INDICATIONS OF COMMUNIST INFLUENCE AMONG THE MILITANT SAIGON STUDENT LEADERS.

25. WAR AND PEACE ISSUES. PREOCCUPATION WITH THE PROSPECT OF A PEACE SETTLEMENT, AND SPECIFICALLY WITH THE TERMS OF SUCH A SETTLEMENT, HAS NOTICEABLY INCREASED IN VIETNAMESE POLITICAL CIRCLES DURING THE PAST SEVERAL WEEKS. CONTRIBUTING TO THIS HEIGHTENED INTEREST WERE SUCH DISPARATE DEVELOPMENTS AS THE DECLINE IN MILITARY ACTIVITY FOLLOWING THE SUCCESSES IN CAMBODIA; THE EMERGENCE INTO SHARPER PUBLIC FOCUS OF THE PARIS TALKS WITH THE RETURN OF XUAN THUY, MADAME BINH'S PROPOSALS, AND NEW CALLS FOR A CEASE-FIRE.

26. MANIFESTATIONS OF THE PREOCCUPATION INCLUDED A WELL-PREPARED OPEN LETTER TO THE AMERICAN PEOPLE PREPARED BY A NUMBER OF DISTINGUISHED LEADERS IN AND OUT OF GOVERNMENT CALLING FOR PERSEVERANCE IN RESISTANCE TO COMMUNIST AGGRESSION AND OPPOSITION TO A COALITION. THIS IS BEING CIRCULATED PUBLICLY FOR SIGNATURES AND HAS ATTRACTED WIDESPREAD SUPPORT. ON THE OTHER SIDE OF THE SPECTRUM, A SMALL GROUP OF YOUNG OPPOSITION DEPUTIES LED BY NGO CONG DUC HAS BROUGHT FORTH A PEACE PLAN CALLING FOR A "PROVISIONAL GOVERNMENT" TO HOLD ELECTIONS. THIS MOVE HAS EVOKED SHARP ADVERSE REACTION FOR BEING SO CLOSE TO THE COALITION FORMULATION OF THE COMMUNISTS. PRESIDENT THIEU CONTINUES TO SPEAK OUT AGAINST COALITION AND WARNS AGAINST ALL-CONCEIVED PEACE PLANS.

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"7. NO DOUBT WE SHALL SEE MORE OF THIS SORT OF THING AS VIETNAMIZATION PROGRESSES AND MORE PEOPLE BEGIN TO SEE PROSPECTS FOR PEACE. PLOYS BY THE OTHER SIDE, SUCH AS MADAME BINH'S "ELABORATIONS" OF SEPTEMBER 17, STIMULATE LOCAL REACTIONS: THEY ARE DESIGNED IN PART FOR THIS VERY PURPOSE AS SHOWN BY REPORTS OF ELABORATE ADVANCE DIRECTIVES TO LOCAL COMMUNIST CADRE ORDERING THEM TO SUPPORT AND DISSEMINATE THE BINH STATEMENT. CONVERSELY, THE GROWING SENSE OF SECURITY IN SOUTH VIET-NAM EMBOLDENS THE NAIVE AND THE OPPORTUNIST TO ESCPUSE VAGUE SCHEMES FOR INSTANT PEACE THAT APPEAL TO WAR WEARINESS AND COULD SERVE ALSO TO ADVANCE THE POLITICAL AMBITIONS OF THE PROPOSER.

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FOR THE PRESIDENT FROM BUNKER

USDEL FRANCE FOR AMBASSADOR BRUCE

28. ANOTHER PERCEPTIBLE STRAIN IS CONCERN OVER THE STATE OF PUBLIC UNDERSTANDING AND SUPPORT FOR SOUTH VIET-NAM'S CAUSE. AS THE POSSIBILITY OF A CEASE-FIRE COMES MORE AND MORE UNDER DISCUSSION THOUGHTFUL VIETNAMESE ARE LOOKING AHEAD TO THE PROSPECT OF A POLITICAL SHOWDOWN. THEY FEAR BEING DRAWN INTO DANGEROUS POLITICAL CONCESSIONS AS THE PRICE OF A CEASE-FIRE. AS THEY OBSERVE THE WARM RECEPTION GIVEN MADAME BINH IN INDIA AND AT LUSAKA, THE UNRELENTING PROPAGANDA EMANATING FROM THE COMMUNIST SIDE AT PARIS AND THE SEEMINGLY UNFAIR CRITICISM OF THE GVN IN AMERICA, THEY FEAR THEIR OWN VOICE IS NOT BEING SUFFICIENTLY HEARD. NO DOUBT FOREIGN MINISTER LAM WAS IMPELLED BY THIS CONCERN AS HE MADE HIS ROUNDS AT THE UNITED NATIONS. MOREOVER, I SUSPECT THAT MUCH OF THE SYMPATHY EXPRESSED HERE FOR VICE PRESIDENT KY'S UNFORTUNATE AND ILL-CONCEIVED PLANS TO ADDRESS THE MCINTYRE RALLY REFLECTED THE HEIGHTENED CONCERN THAT SOUTH VIET-NAM IS LOSING GROUND IN THE PROPAGANDA BATTLE.

29. CONCLUSION. SOME EVIDENCE OF THE STEADY PROGRESS IN PACIFICATION AND THE GOVERNMENT'S EFFORTS TO CONSOLIDATE THE GAINS IS DEMONSTRATED BY THE FACT THAT FOR MORE AND MORE ORDINARY CITIZENS THE PROBLEM OF FGNU

NTY HAS RECEDED AND HAS BEEN REPLACED BY CONCERN FOR THE EFFECTS OF INFLATION AND ECONOMIC PROBLEMS. MOVES WHICH THE GOVERNMENT HAS TAKEN AND WILL PUT INTO EFFECT IN THE IMMEDIATE FUTURE WILL GO A LONG WAY TO CORRECT SOME FUNDAMENTAL WEAKNESSES OF THE ECONOMY AND ECONOMIC INSTITUTIONS. THE VIETNAMESE GOVERNMENT ITSELF, HOWEVER, DOES NOT HAVE THE MEANS OR THE RESOURCES TO DEAL WITH INCREASED COSTS TO IT OF VIETNAMIZATION WITHOUT INCREASED ASSISTANCE FROM US. WE SHALL NEED TO BEAR IN MIND THAT AS OUR REDEPLOYMENT PROCEEDS AND OUR INCREMENTAL COSTS DECREASE, COSTS TO THE VIETNAMESE ECONOMY ARE RISING. WHILE THE INCREASE IS ONLY A FRACTION OF THE SAVINGS TO US, ADDITIONAL ASSISTANCE TO ENABLE THE GVN TO SUPPORT THE ADDED LOAD IS ESSENTIAL IF VIETNAMIZATION IS TO SUCCEED.

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-2- SAIGON 16036, 030900Z OCT, (SECTION " OF. ") (NODIS)

30. AGRICULTURAL PRODUCTION AND INDUSTRIAL ACTIVITY IS ON THE UPSWING. PLANTINGS OF NEW VARIETIES OF RICE WILL PROBABLY EXCEED GOALS AND SELF-SUFFICIENCY SHOULD BE ACHIEVED IN 1971. PRODUCTION OF PROTEIN, ESPECIALLY PORK, POULTRY, AND FISH, IS STEADILY INCREASING. THE INDUSTRIAL SECTOR IS SLOWLY, BUT STEADILY EXPANDING.

31. IT IS CLEAR, I THINK, THAT THE NATURE OF THE MILITARY SITUATION HAS CHANGED AND WILL REQUIRE A NEW APPROACH BY OUR SIDE. THE SITUATION IN LAOS AND CAMBODIA HAS GIVEN NEW DIMENSIONS TO THE ENEMY'S THREAT AND CREATED NEW PROBLEMS, BUT IT ALSO LIMITS HIS CAPABILITIES AND OPTIONS WITH RESPECT TO SOUTH VIET-NAM. WITHIN SOUTH VIET-NAM, THE ENEMY HAS CLEARLY TURNED TO A POLICY OF PROTRACTED WAR EMPLOYING SMALL UNIT OPERATIONS, TERRORISM, SAPPER ACTIVITY, AND EFFORTS AT POLITICAL PENETRATION. A SUBSTANTIAL PART OF HIS RESOURCES IS NOW TIED DOWN IN LAOS AND CAMBODIA AND MUCH OF HIS EFFORT HAS BEEN DIVERTED TO THE DEVELOPMENT OF A NEW LOGISTICAL SYSTEM. IT SEEMS PROBABLE THAT IN THE COMING DRY SEASON HE WILL DEVOTE A MAJOR PART OF HIS EFFORT TO CAMBODIA WHILE HE ATTEMPTS TO INCREASE PRESSURE ON LAOS. DEVELOPMENTS IN THESE TWO COUNTRIES, ESPECIALLY IN CAMBODIA, WILL, THEREFORE, HAVE A CRITICAL BEARING ON THE SITUATION IN SOUTH VIET-NAM.

32. THE STEADY IMPROVEMENT IN THE EQUIPMENT, TRAINING, AND PERFORMANCE OF THE SOUTH VIETNAMESE MILITARY FORCES IS CAUSE
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FOR ENCOURAGEMENT. THE PROGRESS WE EXPECT ON THE ECONOMIC FRONT WILL STRENGTHEN THE TREND TOWARD MORE EFFECTIVE GOVERNMENT IN THIS FIELD AS WELL; THERE STILL REMAIN THE PROBLEMS OF CORRUPTION, THE SPECIAL PRIVILEGES OF THE FEW, AND INEQUALITIES IN THE DISTRIBUTION OF SACRIFICES AND BENEFITS WITH WHICH THE GOVERNMENT MUST GRAPPLE. EFFORTS MUST BE MADE TO CREATE A SITUATION IN WHICH REASONABLE SOCIAL JUSTICE PREVAILS. I BELIEVE THIS MAY WELL BE THE VITAL FACTOR IN DETERMINING THE OUTCOME OF THE STRUGGLE WITH THE COMMUNISTS.

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I feel confident, however, that if we do all we can to deter Hanoi from again seeking a military solution while at the same time encouraging the GVN to negotiate with the other side in a spirit of compromise and reconciliation, peace will finally come to Viet-Nam.

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