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AMBASSADOR ELLSWORTH BUNKER'S "BACK CHANNEL" REPORT TO
THE WHITE HOUSE - REPORT NO 91 . DATE: Jan. 29, 1971

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3

Date:

can be expected to continue, abated in South Viet-Nam but with new challenges and uncertainties in Cambodia which bear on this country's future stability. The Presidential election in October will test the nation's political maturity and constitutional machinery. This political contest occurs at a time when the governmental system is less than four years old and the institutions, though growing in a healthy way, are still fragile. Differences within the body politic may cause partisan groups to take divergent positions on controversial issues. This may not only challenge the capacity of the South Vietnamese government to contain such difficulties, but it could confront us with a number of difficult decisions.

4. My confidence in the soundness of our general Viet-Nam strategy, the sensitivity of the current GVN leadership, and the durability of pacification gains leads me to believe that Viet-Nam will meet these upcoming tests. But I suspect they

may well turn out to be the most difficult of any faced since

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5

Date:

they are approaching the point where they can go it alone.

They recognize ARVN will still need training assistance, materiel, logistic and air support, just as the nation requires continued economic aid. But the soundness of our basic policy and the measure of support it has won at home has been reassuring to the Vietnamese. They enter 1971 with a kind of confidence that will stand them in good stead over the coming year.

8. Events in Cambodia dominated the strategic picture in Viet-Nam and Indochina during 1970. The fall of Sihanouk and the subsequent loss of the Cambodian supply system and border sanctuaries created formidable problems for the enemy, which he is now trying to overcome. He is now engaged in a massive effort to build a replacement supply system overland south from North Viet-Nam, evidence of his determination to hang on. His ability to wage war in South Viet-Nam, however,

has been severely impaired. The diversion of main force

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Date:

his efforts to build a new supply system and to establish rear bases from which he can wage the war in the South.

In Cambodia, he evidently intends to keep up military pressure on FANK and try to isolate Phnom Penh and other major population centers. It is important that maximum efforts should be directed against interdiction of his new supply network and destruction of his bases.

11. In Viet-Nam, the focus of enemy targeting shifted from military to pacification objectives, with Regional Forces, Popular Forces and other GVN paramilitary units taking an increasing proportion of total allied casualties. The territorial forces continue to grow in size and effectiveness. The enemy remained in a tactical posture generally in line with his announced plans for guerrilla warfare. He was marginally effective in exploiting the weakest areas of the pacification program. But his small and scattered gains were not sufficient to alter the overall trend toward the creation

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Date:

9 -

have lost confidence in the stability of a currency. I cannot point to an exact date when the situation changed for the better, but there was a definite shift, beginning in July-August, and by November -- after the new reforms -- the general atmosphere had altered fundamentally.

13. Of the events that brought this about, I would say first in order of timing was the success of the Cambodian operation. Belief that Vietnamization was working, and that ARVN could defend the country made a difference in the way people arranged their finances, encouraging them to look ahead. Thus the stage was set for badly needed economic reforms which were enacted between mid-September and the first week of October.

B. POLITICAL

14. On the domestic political front, another year of experience has given the institutions of government additional maturity and stability.

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Control:

11

Date:

17. Organized opposition groups, such as the students, disabled veterans, and militant Buddhists caused some disturbances, but were unable to find issues which rallied mass support. The GVN dealt with these groups reasonably and effectively. The Vietnamese press, despite occasional heavy-handed government censorship or punitive action under the Press Law, continued to criticize the government with relative freedom.

18. The 1970 Elections. Following the Senate elections in August, the October 1971 Presidential elections began to dominate the Vietnamese political scene. While no candidate has established a formal campaign organization and the law governing the elections has not even been passed, election talk already pervades political thinking throughout the country.

19. This clearly intends to run and has been preparing his campaign since the fall with active efforts to cultivate the government apparatus. He sees Province and District Chiefs

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Control:

13

Date:

Center at Vung Tau, whose influence with the large number of cadre of all kinds trained at the Center could prove an important factor.

20. Thieu's only announced opponent is General Minh, although characteristically Minh has hedged his statements enough to provide a loophole should he decide to quit the race. He has done little so far in the way of campaign preparation. Minh could undoubtedly capitalize on war weariness and the peace issue, although he has given no indication that he would be any more receptive than Thieu to the communist demands for coalition. He could cut into some of Thieu's support since he would receive votes from the disgruntled among the government apparatus, particularly at lower levels. Southern Catholics might also consider a Minh presidency more appealing, but his largest bloc of votes will need to come from the An Quang Buddhists. Even if An Quang never officially

adopts a position supporting Minh, it will also not officially
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15

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process is likely to go sour. I think prospects are that the 1971 elections will be substantially free and fair. Both leading candidates know that their futures lie within the constitutional system.

23. Our basic interest is the election of a capable leader in an election honest enough to insure the support of the Vietnamese people. The man elected and the manner in which he is elected will be crucial in determining whether Viet-Nam can continue on the path to a viable democracy. On balance, I think it clear that the current incumbent is far more qualified to provide the leadership Viet-Nam needs than any other candidate on the scene.

24. I mentioned earlier that outbursts of domestic unrest such as occurred last summer could seriously hurt Thieu's chances. There are two groups that might provide either the base or the leadership for such outbursts. The first is An

Quang, the second the students.

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17

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carrot and stick formula. Harsh measures were followed with concessions designed to limit the issues attracting student support to the militants. Looking ahead, it appears likely that student protest activities will be confined to die-hard student militants. There are continuing issues, such as their hostility to the war and compulsory military training, which could serve as subjects for small-scale student demonstrations. If the level of public opposition does not increase, and we do not expect that it will, student opposition activities will be easily controllable. To date the number of militant students has been small and they have found it difficult to coalesce with other disaffected groups.

②. MILITARY

28. During 1970, the enemy continued to follow "economy of force" tactics hoping thereby to retain the capacity to continue the war indefinitely. His stress was on small unit, guerrilla

type warfare supplemented by sapper and terror attacks. The
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Control:

19..

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steadily as losses and diversion of forces to Cambodia have not been made up by infiltration and recruiting. He continues to have supply problems resulting from destruction of lines of communication, loss of numerous caches, and the increasingly effective pacification program.

30. RVNAF cross-border operations were stepped up during the past few months. Most recently two multi-battalion forces conducted a coordinated operation with FANK to open Highway 4. In December, major operations were initiated in the U Minh Forest and the Seven Mountains area of MR 4 aimed at eliminating these traditional VC strongholds.

31. Recent data of operational results for ARVN in terms of enemy eliminated and weapons captured are indications of its continued improvement. The VC/NVA to ARVN casualty ratio reached a new high of 9.6 to 1. This casualty ratio has shown a general upward trend since April. Although there was a decrease

in the number of weapons captured and lost, the ratio of weapons
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21. Control:

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infiltration into MRs 3 and 4 from Cambodia. In November, the last American-manned riverine unit was relieved by the Vietnamese Navy and on December 30 the VNN took possession of the last small coastal river combat craft from the U. S. Navy. This completed a 25-month program designed to withdraw Americans from coast and river combat operations. The Vietnamese Navy now conducts all Brown Water Navy operations in Viet-Nam.

34. The reduced level of enemy activity in Viet-Nam permitted concentration of U. S. air power in Laos. Currently approximately 60 percent of air strikes in Southeast Asia are dedicated to the interdiction effort in southern Laos. In 1970, 65 percent of all B-52 Arc Light sorties were flown against targets along the Ho Chi Minh Trail in Laos and in Cambodian staging areas. This compares with 28 percent of the total sorties for 1969 being flown outside of Viet-Nam.

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23-

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border operations. The resultant weakness of the enemy effort within Viet-Nam was accompanied by the increasing effectiveness of many of the territorial forces, PSDF and other local elements assembled and trained during 1969.

Some RVNAF initiatives were successfully undertaken within the country during the latter half of 1970 with the penetration of the few remaining VC base areas such as the U Minh Forest and portions of Kien Hoa, Quang Ngai and Quang Nam. There were exceptions to this progress, however, especially in MR 2 where the enemy was not knocked off balance.

37. This internal security struggle will continue in 1971 not only in MR 2 but wherever the enemy can take advantage of GVN failure or complacency. The GVN is aware of these problems and its carefully structured 1971 "Community Defense and Local Development Plan" contemplates a continued drive to improve territorial security, a major effort in internal

security through a strengthened National Police and more

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25 Date:

from January 1970's 599 V hamlets and 384,900 V population (5.1 percent), showing the decline of VC/NVA power. The PAAS public opinion measurements also showed a substantial increase in positive opinions toward the GVN.

39. The territorial forces by the end of November 1970 increased to a total of 281,394 RF and 249,431 PF, with 417,310 armed PSDF to supplement them in 10,416 special teams (KITs) equivalent to local platoons. While country-wide these forces can be said to have made a substantial contribution to the security of the rural areas, their very success has also led on occasion to complacency and a lack of attention which enabled the VC to overrun some of them. Some 67 government outposts were overrun in the Delta in 1970. In most cases it was a matter of the defenders being asleep, but in at least 15 instances the outpost fell as a result of enemy proselyting activities or subversion.

40. Terrorism during 1970 started low, surged in March and
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27.

Date:

42. Twice during the year the GVN proved it can organize and carry out effective relief efforts. 200,000 Vietnamese refugees from Cambodia were expeditiously received, processed and resettled or absorbed into society. The October/November floods in Central Viet-Nam were met by a generally prompt and effective reaction, with Vietnamese officials leading and Americans supporting in the background. These were on top of the regular refugee program, which saw 388,003 paid return-to-village benefits and 139,709 resettlement-in-place benefits.

43. Looking ahead, pacification faces certain problems:

a. The VC/NVA emphasis on small unit guerrilla actions, terrorism and political penetrations continues to present a threat that must be met. The estimated VC recruitment rate within Viet-Nam at the beginning of 1969 was 7,000 per month. At the beginning of 1970 it was 3,100. By October it had dropped to 2,400. Despite this drop in recruitment, the VC are still

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29.

Date:

E. ECONOMIC

44. The economic reform package, adopted in mid-September and early October, was associated with a commitment on our part to provide up to \$750 million in all forms of import financing for U. S. FY 1971, most of it affecting imports arriving in CY 1971. Because total import financing in 1969 had been on the order of \$675 million, this represented a fairly substantial increase in our underwriting of the economic situation. It was justified not so much as a quid pro quo for the GVN reform effort, but as a compensation for the increased military effort the GVN is making. The GVN military budget has been steadily rising with their force level. The increase in aid also represents a degree of insurance that our withdrawal and GVN takeover of responsibility can be accomplished in conditions of economic and political stability.

45. By the end of 1970, we had a number of positive indications

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31

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avoided. Budget expenditures are going to be approximately 60 billion piasters higher in 1971 than in 1970 before allowing for another wage increase. We believe that this increase is imperative for soldiers and civil servants who wound up in 1970 worse off despite the wage increase in October. I recounted the policy recommendations his economic team and ours have agreed upon. These included:

- a. The sale of substantial amounts of treasury bills in place of government borrowing from the National Bank;
- b. Elimination of low interest loans from the National Bank to public corporations and other similar hidden subsidies;
- c. Permission to the Commercial Banks to offer anonymous certificates of deposit;
- d. Transfer to the new parallel market of most freight and insurance charges;
- e. Higher perequation charges on some im, orts -- particularly sugar; and

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33

Date:

revenue (10 percent in real terms) and an important contribution to economic stabilization. A large backlog of unprocessed returns was reduced 60 percent; the additional tax assessed as a result of audits was VN\$1.8 billion, a 187 percent increase over audit results for 1969.

48. Customs collections rose in 1970 to more than VN\$55 billion, an increase of VN\$23 billion over 1969. Part of this increase is attributable to increases in austerity tax rates; improved appraisement and classification capabilities have also contributed to the increase.

49. Some public services are becoming self-sustaining, relieving pressures on the GVN budget. The merger of two government-operated power companies early in 1970 has set the stage for an economically independent electric power company for Viet-Nam. The Saigon Metropolitan Water office has become self-supporting, and is repaying a USAID loan

ahead of schedule. Increased earnings by Posts and Tele-

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 35 _____
 Date: _____

for 250,000 acres and approximately 40,000 titles issued
 for over 100,000 acres. If work continues at the present
rate, the government should be able to reach the goal of
1,500,000 acres distributed by the end of 1971.

52. Two laws introduced in 1970 will have a major impact
 on Viet-Nam's industry. These are investment incentive
 legislation, which will place Viet-Nam in a more competitive
 position to attract foreign capital, and a bill covering ex-
 ploration and exploitation of petroleum in Viet-Nam. Both
 laws are defective in certain regards and will need amendment
 if they are to achieve their purpose. The GVN plans to request
 bids from major oil drillers early in 1971, and indications are
 that at least a dozen foreign interests are seriously consider-
 ing making concession offers for offshore drilling.

53. The first significant multilateral assistance loan to Viet-
 Nam will be made by the Asian Development Bank, which

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37-

Charge:

Control:

Date:

should again become a primary source of foreign exchange earnings for the GVN.

F. PSYCHOLOGICAL

56. Public opinion polling in South Viet-Nam during 1970 shows increased concern with personal economic matters, though the war continued to dominate national concern.

There is high level confidence in ARVN. Most Vietnamese did not feel that the war would end with a GVN military victory in the near future, but will end with a negotiated peace. The withdrawal of U. S. troops is increasingly seen as beneficial to Viet-Nam, but there remains a very large group who have yet to make up their minds on this subject. The polls showed a recovery in public feeling that the U. S. is a dependable ally, particularly after the Cambodian operation.

57. While decreased American presence appeals to the national pride of the GVN and the public, the reduction of

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Classification

Control:

39

Date:

60. The other side's assessment of the present situation must reflect his relatively worsened prospects compared to a year ago. His strategic outlook in 1971 is bleak and his options are limited. But Hanoi seems determined to continue fighting. The North Vietnamese have sent more than 700,000 men south in the past six years and only a little more than 100,000 of them have survived. The enemy has little to show for this enormous sacrifice. Communist political influence and control in the South is far weaker now than it was six years ago, while their military strength -- necessary to sustain political control -- is continuously declining in relation to ARVN strength. Although it is too early to reach a firm judgment about the 1971 level of infiltration, the rate observed thus far seems to fall short of the number needed to meet requirements for the enlarged Indochina war and at the same time to replace losses inside Viet-Nam if they continue to be sustained at even the low rate of late 1970.

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Classification

Control:

41

Date:

consciously reconciled to a plan of action that would lead to a decline in force levels and in fighting later in 1970. The evidence for this cannot be documented, however, and the size of the disparity alone would suggest that the enemy at least in part simply underestimated what his losses would be.

63. While undoubtedly discomfited by the nearly universal approbation which greeted your October 7 speech, the other side has yet to be disabused of the notion that allied impatience will somehow yield the victory denied him on the battlefield. Unfortunately, the new controversy which seems to be building up at home over our support operations in Cambodia may strengthen this illusion and thereby Hanoi's resolve to hold on no matter how heavy the cost. The enemy also continues to be comforted in what he labels "contradictions" in Vietnamese society. These are largely the inevitable

stresses and strains found in a nation at war: urban overcrowding

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Charge:

Control:

43

Date:

activity.

- Economic reforms instituted last fall give promise of bringing inflation under control.

- The revolutionary Land-to-the-Tiller program will wipe out farm tenancy and bring a measure of social justice to the rural population.

- There has been a strengthening of the constitutional process and of effective government.

- The success of the Cambodian operations has had a collateral effect on the development of RVNAF and pacification and economic growth.

- There has been a deterioration in the enemy's position and prospects.

65. In almost all of these areas, problems remain. In RVNAF, desertions are too high and leadership problems, especially at lower levels, exist. While security has markedly

improved, 40 percent of those polled say the VC can enter

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45

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Date:

the stresses and strains to which it will be simultaneously
subjected by the war and the political contest. There are
clearly pluses and minuses. But I think there are more
pluses than minuses and if we hold steady i am confident
that the Vietnamese with our support will meet the test.

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13

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