

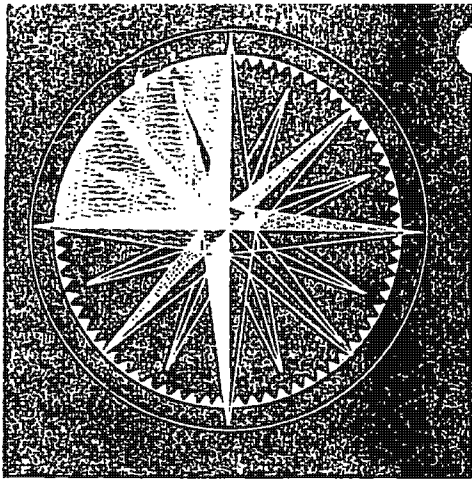
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CENTRAL INTELLIGENCE AGENCY

# Memorandum

THE CURRENT SITUATION IN SOUTH VIETNAM

30 October 1963

DIRECTORATE OF INTELLIGENCE

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SC No. 11704/63

30 October 1963

CENTRAL INTELLIGENCE AGENCY  
MEMORANDUM:

SUMMARY

There continues to be no indication that the Government of South Vietnam (GVN) is making any major moves to accommodate US views, although it has reopened the university at Hué, transferred additional military units to the delta, and consolidated certain strategic hamlets. Diem talked with Ambassador Lodge over the weekend at Dalat, their first contact in weeks, but showed no sign of yielding on any GVN positions. Diem and Nhu meanwhile continue to appear fully prepared to face prolonged and significant cutbacks in American aid.

The uncertainties created by the current impasse in US-GVN relations are beginning to have depressant effects on the South Vietnamese economy. Serious inflationary pressures are beginning to develop. For example, the piaster black-market rate, which until recent weeks had remained at about 80-100 to the dollar for several years, now is fluctuating between 130 and 180, an all-time high. The prices of perishable domestic foodstuffs are holding fairly steady, but there are marked rises in the price of nonperishable basic commodities (e. g., soap, charcoal, nuoc mam fish sauce) and in a wide variety of imports. Awkward problems, including possible shortfalls, are beginning to appear in the financing of the joint US-GVN counterinsurgency effort.

There has been no dramatic change in the basic military situation over the past few weeks. Certain statistical trends, however--weapons losses, Viet Cong activity, and GVN casualties, especially "missing in action"--are becoming disturbing, and various indicators suggest a lowering of morale in the Vietnamese armed forces.

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THE CURRENT SITUATION IN  
SOUTH VIETNAM

A. Political Developments

1. There continue to be no indications that the Diem government is making any major moves to accommodate US views, although it has reopened the university at Hué, transferred additional military units to the delta, and consolidated certain strategic hamlets. Diem has made an approach to Ambassador Lodge, under the guise of a social weekend in Dalat, but his position on issues raised so far is unyielding.

2. Diem and Nhu continue to appear fully prepared to face prolonged and significant cutbacks in American aid. Diem, in his 26 October National Day address, stressed the need for Vietnamese self-sufficiency and self-reliance. During the past weekend, he casually questioned Ambassador Lodge as to whether the US was going to suspend or stop commercial import payments, as if it were a matter of indifference, and made no response to Lodge's suggestions of what might be done by South Vietnam to make such aid acceptable to US public opinion.

3. Although there have continued to be some US contacts, largely formal, with Presidential Secretary Thuan, Acting Minister Cuu and some lower level officials, the invitation to Ambassador Lodge last weekend was the only direct communication with Diem in many weeks. Nhu remains entirely out of contact with US officials, and has shown no sign of initiating any overtures. Diem's conversations with Lodge during the weekend, including a remark that "we" must get on with the war effort, tend to support the view that he and Nhu feel confident that the US will ultimately be forced to cooperate with them on their terms. At the same time, however, Diem raised some charges of antiregime activity by various US officials. In short, both sides remain in a state of mutual uncertainty as to respective attitudes and intentions.

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4. During the past several weeks, strident attacks have continued in the Times of Vietnam, and to some extent in the vernacular press as well, charging the involvement of US newsmen and officials in subversive activity. Nhu publicly reiterated these themes in his 17 October press conference, and the fact that they have been raised both by Acting Foreign Minister Cuu and Diem may foreshadow moves to expel some US personnel. One of the newsmen--David Halberstam of the New York Times--has just had his visa renewed for a month (until 16 November) instead of the usual three- to six-month period. In addition, renewed harassment has been reported against some Vietnamese employees of US agencies, and some US officials are under surveillance. There continue to be rumors, possibly indicative of a "war of nerves" campaign against the US, that anti-American demonstrations will be staged in front of the US Embassy or the USIS headquarters. A reliable Vietnamese Air Force source reports that the Special Forces are recruiting illiterate peasants at unusually high pay, and he speculates they are to be used for GVN "dirty work."

5. At the same time, a number of reports assert that anti-American sentiment is increasing in non-Communist opposition circles, which view official US statements as evidence of capitulation to Diem and Nhu. Some sources have even claimed that various opposition groups are considering the use of terrorism against Americans to convince the US that the situation is grave.

6. Although the government has announced the re-opening of all schools in Hué, including the university, and claims that only 152 prisoners remain in custody, it has made almost no effort to regain support of key urban elements. There has been, in fact, substantial evidence in recent weeks that searches and arrests have continued among students and other potentially disaffected elements, and that tighter controls are being exerted on the military, civil service, and organized labor. The regime's obvious attempts to stage-manage the visit of the UN observer group have caused the UN representatives to abandon their government-arranged schedule, but clandestine sources report their contacts are still being controlled.

7. Although Diem continues to declare the Buddhist issue resolved, an official of the new National Assembly has stated that the Assembly probably will not resume discussions on amending Decree 10--the statute which discriminates against Buddhist organizations and which was one of the five specific Buddhist grievances. Diem, when pressed on the matter by Ambassador Lodge, merely stated that the decree issue was "complicated" and outside his authority.

8. Despite persistent rumors that some "reforms" might be announced in connection with National Day last week, this has not happened and there continues to be no sign that the government intends any liberalizing measures. Reports that changes in the military command, and perhaps the cabinet, are imminent seem more likely to be designed to neutralize disaffected elements.

9. The effect of Madame Nhu's visit on US-GVN relations and on US leverage and maneuverability in Saigon is difficult to assess. If the regime concludes that it has more popular US support than it realized, and if Madame Nhu returns to Saigon deeply embittered by the lack of any official US attention, it is likely that Diem and Nhu will become even more intransigent in the face of US demands.

#### B. Economic Developments

10. The uncertainties created by the current impasse in US/GVN relations are beginning to have depressant effects on the South Vietnamese economy. The economic situation is becoming unstable and there are signs that serious inflationary pressures are beginning to develop.

11. In response to US suspension of the Commercial Import Program (CIP), the GVN appears to be tightening its belt in anticipation of an appreciable reduction and/or prolonged suspension of US economic aid. The GVN has begun to earmark some of its own foreign exchange for the import of commodities previously financed under the CIP (e.g., wood pulp, tin plate, chemicals, coke, and perhaps sweetened condensed milk). GVN civil servants have reportedly been alerted to accept a "voluntary" cut in salary, and there are indications that, in at least some ministries, this cut has already come into effect. Diem has publicly hinted

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that a "time of austerity" lies ahead. Saigon press reports, citing "usually well-informed sources," assert that the GVN plans to counter US aid suspensions by causing "controlled inflation," and agent sources have reported that the GVN has printed a large number of piasters (more than equal to the number presently in circulation) for issuance as circumstances dictate. It is hard to tell, however, how much of this represents GVN bluff and how much represents serious GVN planning to go it alone. One report to the ambassador (from Thuan) suggests that the GVN has made a serious canvass of its independent economic capabilities but reluctantly decided that, after all, it cannot continue without US aid.

12. There are signs that the GVN is casting about for non-US sources of foreign assistance. A \$10-million commercial aid agreement with the French was signed by the GVN on 9 October. The GVN has also just made its first expenditure under a \$14-million French industrial loan, extended in 1959. Perhaps of even more significance was the reported recent precipitate departure for Paris of Huynh van Diem, GVN Director General of Plan. The GVN has been making overtures to Australia regarding wheat flour imports (normally financed under PL-480), and to West Germany regarding the German aid program.

13. The slowdown of CIP and PL-480 licensing is already beginning to pose problems for financing the war effort. A US/GVN project agreement signed on 5 September for the calendar 1963 GVN military budget included more than 7.5 billion piasters for joint support, to be financed by CIP-generated counterpart plus local currency derived from PL-480 sales. However, after discussion with the GVN, the USOM has determined that only 7 billion piasters will be available, leaving a projected shortfall of more than 500 million piasters (roughly, US \$8 million). Similarly, MAAG has advised that less than 2 billion piasters cash are available for release in the Fourth Quarter 1963 against a requested project agreement balance of more than 2.5 billion. Since the necessary counterpart piasters obviously cannot be generated without CIP and PL-480 licensed imports, funding of the joint US/GVN counterinsurgency effort may soon present some awkward problems.



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14. The effects of US suspension of CIP licensing are just beginning to make themselves felt. During the week of 13-19 October, key import prices began to rise (e.g., sweetened condensed milk up 10 per cent, wheat flour 33 per cent, cement 30 per cent) with more modest rises reflected in chemical products, some scarce iron and steel products, and miscellaneous manufactured imports. This trend continued during the week of 20-26 October; condensed milk went up by as much as 5 per cent, wheat flour up an additional 2 per cent, iron and steel products up 10 to 15 per cent, chemicals up 5 per cent, sugar up 6 per cent. Fertilizers, cement, cotton and rayon yarn were unchanged.

15. Prices of domestic items have also been rising. Although the price of perishable food items has remained fairly steady or has shown only a modest decline, the prices of several basic nonperishable consumer items, such as soap, charcoal, and nuoc mam, the fish sauce which is an essential part of the ordinary Vietnamese diet, were up by an average 20 per cent since the end of September.

16. There has been no appreciable capital flight from Vietnam, but there has been marked internal activity which strongly suggests a flight from the piaster. The black-market rate, which until recent weeks had remained at about 80 to 100 piasters to the dollar for several years, now is fluctuating between 130 and 180, an all-time high. There is also evidence of considerable speculative activity in gold. As of mid-October, gold was reported no longer available, following a rise in the black-market price from 5,400 piasters per ounce in June to 6,800 piasters in early October. A 26 October Embassy report states that the price for gold and gold jewelry has risen an additional 30 per cent, and gold is now hard to find, even for dentists. Rumors of devaluation abound and there are signs of hoarding and artificial shortages (particularly in the case of wheat flour and condensed milk). Over-all bank liquidity has been maintained because of the increases in traders' accounts; but banks report some withdrawals from small accounts and there are reports of runs on banks in Cholon, where the influential Chinese business community is concentrated.

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C. Military Developments

17. There has been no dramatic change in the military situation over the past few weeks, although significant actions continue to occur, most recently the 29 October firefight in An Xuyen Province, in which three Americans were reported captured by the Viet Cong. The US army, navy, and air attachés have all reported this past week, however, that there are tentative signs of lowering morale among Vietnamese army, navy, and air units in the Saigon area. Moreover, the leveling out and in some respects reversal of favorable statistical trends that obtained in the counterinsurgency effort six months ago is continuing.

18. Although these statistics are not completely reliable or satisfactory as criteria for measuring the course of the counterinsurgency effort, they do reflect general orders of magnitude of various pertinent factors.

19. While the statistics generally reflected steady decline in Viet Cong activity from mid-1962 to early 1963, they show a gradual increase in the number of incidents since this spring. Moreover, this activity has assumed a more aggressive character, with the proportion of armed attacks increasing somewhat and emphasis in the category of "terrorist" acts shifting from "kidnapings" to "harassing fires." Most of this armed activity, as well as the bulk of propaganda incidents, now appears to be directed at the strategic hamlet program.

20. Despite this increased activity, Viet Cong casualties since July have been somewhat below the levels of the comparable period last year. There is no ready explanation for this phenomenon, unless it reflects greater circumspection by the Viet Cong in engaging government regular forces, and improvements in Communist combat techniques.

21. Government casualties, on the other hand, are running substantially higher than last year. Accordingly, the ratio between Viet Cong and government casualties has dropped from two to one last year to about seven to six over the past three months. The higher government losses can be attributed in part to an increased level of offensive activity by government forces. It may also reflect, however, more effective Viet Cong operations.

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22. The trend in weapons losses, which had turned in the government's favor in the latter part of 1962, now is again running in favor of the Viet Cong. Government weapons losses have risen sharply since June, and have exceeded Viet Cong losses by two to one since July. The net gain of weapons which may have accrued to the Viet Cong from July through September would be enough to arm perhaps as many as five new main force battalions, or 60 new local guerrilla platoons.

23. Viet Cong military defections had risen steadily in the first half of 1963 to a total of 426 in June. Since then, however, they have dropped off steadily to 114 in September. This shift may reflect some improvement in Communist morale. Conversely, the number of government troops "missing in action" or "captured" by the Viet Cong has quadrupled from an average of less than 100 a month in 1962 and early 1963 to an average of more than 400 a month since July.

24. Two conclusions may be drawn from these statistical trends. First, the Viet Cong appear to have recovered from the initial uncertainty of their reaction to the stepped-up counterinsurgency effort in 1962, and to have embarked on a new phase of their "protracted struggle." This new phase appears to be characterized by intensified, small-scale activity aimed primarily at disrupting and defeating the strategic hamlet program. By modifying their combat techniques, striking at "softer targets," and improving their defensive capabilities, they have been able to regain momentum while reducing their combat losses, with a resultant gain in morale.

25. Secondly, the government's stepped-up counterinsurgency effort has thus far failed to produce decisive results. This, coupled with the government's faltering political posture, has resulted in lowered government morale as reflected in the higher weapons losses and the increase in the number of "missing" personnel.

STATISTICS ON THE WAR IN VIETNAM

Month	VIET CONG					GOVERNMENT		
	Total Incidents	Armed Attacks	Total Casualties	Defectors	Weapons Lost	Total Casualties	Missing & Captured	Weapons Lost
<u>1962</u>								
May	1768	503	2623	120*	412	993	83	518
Jun	1489	407	2520	120*	382	1017	88	402
Jul	1595	448	2510	120*	353	1282	212	440*
Aug	1642	378	3297	120*	378	1068	63	440*
Sep	1375	391	3029	120*	462	1124	59	440*
Oct	1357	419	2626	99	446	1048	64	440*
Nov	1311	421	2911	158	414	1336	92	359
Dec	1346	384	2755	225	484	990	78	450*
<u>1963</u>								
Jan	927	252	2451	168	683	1463	102	457
Feb	788	195	1677	245	399	1117	82	253
Mar	1282	344	2034	394	367	1327	66	467
Apr	1331	383	2304	371	468	1480	96	797
May	1208	357	2885	414	564	1418	94	463
Jun	1311	410	2609	426	394	1251	90	580
Jul	1368	407	2677	308	374	2310	457	934
Aug	1349	362	2404	204	428	1567	358	627
Sep	1763	503	2563	114	539	2401	574	878

\* Indicates average; actual figures not available for each month.