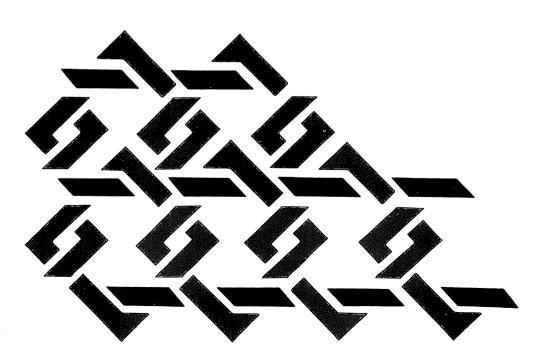


# The Bunker Papers Reports to the President from

Vietnam, 1967-1973

**EDITED BY** Douglas Pike

**VOLUME 3** 





# INSTITUTE OF EAST ASIAN STUDIES UNIVERSITY OF CALIFORNIA AT BERKELEY

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# The Bunker Papers



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Douglas Pike

**VOLUME 3** 

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Correspondence may be sent to:
Ms. Joanne Sandstrom, Managing Editor
Institute of East Asian Studies
University of California
Berkeley, California 94720

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#### LXXIV

### FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY SEVENTY-FOURTH WEEKLY TELEGRAM, DECEMBER 19, 1968 I reported in my last message on November 30th that, despite preoccupation with the problem of negotiations, the government and people of South Viet-Nam continue to make steady, indeed accelerating, progress in many ways. This has continued to be true.

The forming and dispatch of the delegation for Paris was a matter of great concern involving the necessity of obtaining Assembly approval and requiring a Supreme Court decision. Thieu handled the matter, I think, in an impressive fashion, displaying respect for the institutions set up by the Constitution, and at the same time seeing to it that they worked effectively. During this period, some impressive gains were scored in pacification while relentless military pressure was kept on the enemy. Both the gains and the pressures have continued.

Vietnamese leadership is, of course, well aware that success in the pacification and military sphere will have a direct effect on the negotiations. By extending territorial control and driving enemy forces across the border into Laos and Cambodia, the South Vietnamese greatly strengthen their position at Paris. This is obviously a strong incentive, and Thieu is pushing his people to get on with the war effort and pacification faster and with better effect than at any time since I arrived.

The current difficulties with Hanoi over procedural matters are part of the same problem we had to resolve when the GVN held back right after the bombing halt. It took several weeks of arduous and patient negotiations to persuade them to go, and in the course of those negotiations, the GVN made some points which in their view go to the very heart of the problem, especially that they must not be placed on the same footing as the National Liberation Front. We accepted these points, first in the statement of November 13 and later more formally in our statement of November 26. It was on this basis that the South Vietnamese delegation finally left here December 7.

The GVN regards these matters as of the utmost importance. They see the initial moves as critical, believing the enemy will conclude from them whether he can get us to make important concessions on matters of substance and whether he can divide the US and the GVN. As the North Viet-Nam analysts within the inter-agency planning group in Washington correctly observe (State 274223), "Hanoi will probably be rather sticky on procedural matters. To the North Vietnamese, as to the South Vietnamese, procedure is

substance, because procedure can determine substance." The South Vietnamese fear that we may be overeager to make concessions. The Clifford interview of December 15, in which the Secretary said that we need not work out common positions with our Vietnamese allies, that we could discuss military matters, including troop withdrawals, unilaterally with the North Vietnamese enemy, and hinted in fact that we had already done so, and deprecated the importance of the seating arrangement, has tended to confirm these suspicions in the minds of the Vietnamese.

I think we must face the fact that the [GVN] simply does not agree that the present situation requires us to act with undue haste. They consider that time is on our side, the war is going well (thanks to our help as well as to their increased efforts), they are getting stronger and the enemy is getting weaker. I think they are right in their assessment of the effect of premature concessions on the climate here in South Viet-Nam. If our side caves in during the first preliminary round, there could be a serious decline in morale here. People will judge the chances of freedom in South Viet-Nam, and the firmness of our commitment to that freedom, by how we handle ourselves—the US and the GVN together—during the opening phase of the talks.

The enemy said for years he would not negotiate while the bombing went on, then he did negotiate while the bombing went on. He said he had to meet in Phnom Penh or Warsaw, and then he agreed to meet in Paris. He said he would not accept conditions in return for the bombing halt; finally he did accept conditions. He insisted on a secret joint minute, and abandoned that in the face of our firm rejection. He now says that he will not sit down unless the "four-sided" character of the negotiations is recognized. Since we are not going to recognize that, he will settle for less. With the Communists (indeed, in my experience, this is not confined to the Communists), fruitful negotiations are rarely advanced by being accommodating, especially at the beginning. In fact, I believe that by showing ourselves too eager for early results, we may make the achievement of a viable solution to the conflicts more difficult and more time consuming in the end.

I accompanied Thieu and Huong to Ninh Thuan Province December 14 for another of his on-the-spot inspections of the accelerated pacification program. He has now visited all four Corps areas in an effort to improve the program and give it more impetus. While his main effort is on pacification, he looks into the total effort, urging more village and hamlet elections as security permits, improving and strengthening local administrations, and taking special note of the Chieu Hoi program. He also emphasizes the attack on the VC infrastructure (Phoenix) wherever he goes trying to make sure that local officials give it high priority. He especially made the point that Phoenix personnel must target the enemy's "liberation committees" and so disrupt enemy preparations for the contest.

The local authorities in Ninh Thuan told Thieu Saturday that between November 1 and December 1 the number of hamlets in which government committees stay around the clock has increased from 90 to 239 in that province, a

good indication of increasing security in the countryside. This is a trend taking place throughout the country. Thieu hammered away at the importance of extending territorial control, bringing the government to the hamlets instead of pulling people into the province or district towns. He was not satisfied with the Chieu Hoi rate, and told officials they were too slow in arming the local self-defense groups. Crowds turned out for him at many stops, and I thought he handled himself very well in moving among the people and talking with them. Judging by his performance Saturday, and on other occasions when I have observed him, I believe Thieu is in no danger of being insulated from the situation as Diem did.

Results to date of the accelerated pacification program appear even better than we had hoped when the effort was launched. Relatively secure population reached a new high of 73.3 percent at the end of November, while both contested and VC-controlled population dropped to new lows—13.3 percent and 13.4 percent respectively. Importantly, most of the improvement was among the rural population, with a net gain of 586,000 rural people in the relatively secure category. Overall, at the end of last month, there were 636,800 additional people living in areas considered to be under reasonably good GVN control.

These gains in territorial security and population control are due in part to the slackening of enemy opposition, but that slack is in turn due in considerable degree to the fact that we continue to push him relentlessly. While the enemy has recently expended a good deal of effort on propaganda and the organization of his liberation committees, this has had little impact. Should he be able to mount a new offensive—and I have considerable doubt that he will be able to get one off the ground—the rate at which recent gains have taken place could be slowed. Even during the August/September offensive, however, we continued to make gains.

It is now clear that our pacification goals, which were originally thought to be too ambitious, were quite realistic. They may in fact have been too low for some of them have already been exceeded. Thieu told me December 11 that as a result of the success we have had so far, he wants to launch another accelerated effort after Tet. He also hoped to speed up the planned increase of RF and PF, compressing the proposed 1969 recruitment into three to six months. (Thieu cast this objective in the context of the possible withdrawal of 50,000 to 100,000 American troops next year, and the need to extend territorial security.)

Chieu Hoi rates have been good and have been getting better. While the overall 1968 total will be considerable below that of 1967 (due to the setback following Tet), the monthly rate picked up this fall and has run well ahead of the corresponding figures ever since September. During last month, the rate was double that of November 1967.

A major element in the improved Chieu Hoi rate of the past several months is the "third party" awards system. Under this plan, cash awards are paid to any citizen who induces a VC to rally. This has been extremely effective in IV Corps and is now being introduced in the three other Corps areas. Another new tactic which promises further increases is the "turn around" system which involves training hoi chanh to induce other VC to rally.

During the period January 1 to the end of October, 11,066 identified members of the VC infrastructure were neutralized under the Phoenix program. On October 20 an accelerated Phoenix effort was kicked off and, in November, 2,338 VC infrastructure were killed, captured, or rallied. This is by far the highest monthly total yet achieved. The 1968 goal of 12,000 VC infrastructure has already been exceeded by more than a thousand.

These rather dramatic figures do not mean, however, that the VC infrastructure is about to disintegrate. We estimate current infrastructure strength at about 82,000. Of those we have neutralized, roughly 85 percent were at a low level in the VC organization and are relatively easy to replace. Nevertheless, the program, together with other elements of the offensive, is yielding dividends in many ways, for example by making it more difficult for the enemy to recruit, to collect taxes, and to gather intelligence. Enemy documents single out the program for intelligence and military action, which is a recognition that the Phoenix program, targeted on their cadres, is one of the most dangerous threats to their control.

I should also note that the civil defense effort is moving ahead with considerable momentum. As of mid-December some 930,000 persons were enrolled in the program. Of these, 431,000 had been trained and 74,500 armed. While the effectiveness of these groups probably varies greatly, the civilian population has at least been drawn into the war effort to a far greater degree than ever before. Thieu has personally given this program strong support. I have seen him upbraid local officials who were reluctant to get arms into the hands of the people. He told them he wants the self-defense forces armed, even if it entails some risk.

We are still keeping attention focussed on the refugee problem. The GVN is increasingly thinking in terms of resettlement of these people. In November alone, nearly 55,000 refugees were resettled, some into areas secured during the accelerated pacification campaign.

[four words excised] that the enemy is trying to respond to our recent gains by planning a new general offensive, the establishment of "liberation committees," and terror. General Abrams tells me that there was massive evidence of enemy plans for a general attack on the night of December 12–13. That the attacks did not materialize is very probably due to our spoiling actions. However, the enemy continues to move at least three divisions and possibly as many as five into positions from which they could try to make a thrust at Saigon. Elements of the First Air Cavalry Division are being repositioned to add to the already powerful forces we have deployed to block a possible enemy advance, and I believe there is little chance that any large numbers could reach the Saigon area.

More troublesome, perhaps, is the enemy plan for internal disorders in Saigon. Some reports speak of a plan to infiltrate 1,000 trained sappers and armed propagandists into the city. A December 12 rallier [six words excised] revealed that the enemy plans called for 600 "special action" troops to penetrate Saigon, of which 400 are supposed to be in the city already. While any activities by these groups would be of little military importance, one can imagine what the world press would make of them. It is the propaganda effect which is undoubtedly the enemy's objective with the view to strengthening his position in Paris.

The GVN has reacted to the infiltration threat with increased police activity and a standing police alert, and captured agents and defectors have supplied names and arms cache locations. On the periphery of the city, ward and subward chiefs are being replaced by military officers. These men have platoons under their command in the more insecure areas. The purpose is to step up action against the VC infrastructure and maintain better control over the population in the more sensitive areas.

Our counteractions include massive B-52 strikes against staging areas. According to some late intelligence, the enemy attack may not be triggered until the 20th or even the 23rd and possibly may be postponed until sometime in January. If an attack should come around the 23rd of this month, I think we may have to re-examine the question of the Christmas truce.

While the enemy has been preparing for this expected attack, our forces have kept the pressure on him. We have been pushing into his long untouched base areas and destroying his support facilities. Although our casualties have been down sharply, enemy losses were still over 2,000 per week for the last two weeks and as of December 14, the total for the year was 186,000 enemy casualties. If he attempts another offensive, his casualties will go even higher. If other normal losses, including non-combat losses, are taken into account, it is clear that these will run well over 200,000 for the year, and I believe this has been a major factor in his willingness to go to Paris.

On the political side, probably the most interesting development is the continued pressure for Cabinet changes. I noted in my last report the resignation of Information Minister Thien (which has not yet been accepted) and the Senate vote of "dissatisfaction" in the performance of the Ministers of Foreign Affairs and Education.

During the December 7 closed Assembly session some legislators wanted a government reorganization as the price of Assembly approval for the dispatch of the GVN delegation to Paris. Cooler heads prevailed but the Chairman of the Senate did send a letter to Thieu with the "suggestion" that the Cabinet be strengthened.

The lower house has also asked the Prime Minister and three members of his Cabinet to appear before it about the recent GVN decision to end the rice subsidy. That decision resulted in an increase in the price of rice to the consumer, a fact not without some political significance: Thieu said to me that it had caused a "typhoon" at the Assembly. The sound economic reasons

behind the move were not properly explained, and some political leaders are trying to exploit the issue. Unless the Prime Minister moves beforehand to forestall some of his critics, his interpellation on this issue may go considerably less smoothly than his appearance before the Senate, which I reported in my last message. Thieu told me, however, the GVN intends to stick to its guns on the rice decision and indeed to introduce other measures to raise revenue.

These developments, plus considerable press speculation, have created the rather general expectation that, at the least, several ministers will be replaced. Some press stories have gone much further, prediction the formation of Super Ministries and the establishment of a government of National Union. However, Huong as well as the President do not like to act under pressure, and I therefore doubt a major Cabinet reshuffle in the immediate future. I am not sure, however, that Thieu and Huong find the pressure for Cabinet changes altogether unwelcome. Thieu has been less than pleased with Information Minister Thien for some time. Thien's heavy-handed treatment of the press has made no friends for the government either here or abroad. His resignation is thus likely to be accepted, and I have strongly hinted to Thieu that he needs an effective information effort not only in Paris but also here, which is hardly possible with a lame duck Minister of Information whose authority has been badly eroded.

Progress toward establishing a national political organization continues slow. I talked at length with President Thieu about the Lien Minh on December 11. I said that while we saw both strengths and weaknesses in the organization we felt that the basic concept was sound, that the Lien Minh can command people's attention and can do things with the participation of the people. I added, however, that I did not think the project would gather momentum unless there is a greater expression of presidential interest. I recognized that this must be done quietly and subtly in order to avoid excessive identification of the Lien Minh with the present government.

Thieu agreed but stressed that it will require a little time for the organization to grow naturally. If it is pressed too rapidly people will regard it as an artificial creation of the government. He said that people must see it as something that is important for their own future and for the future of their country and that is earning their confidence and support. I also emphasized the importance of getting some private financial support for such an organization. Thieu said this was another reason for letting the organization grow naturally. If people saw that it was something solid, they would gladly contribute money to it. He agreed to look into this question of private financing.

The economic situation in the month of November was quite satisfactory. The general price level remained about that of late July, and only in early December was there a slight upward trend; this latter, caused both by weather conditions and by the increase in the price of rice was reversed in the past week. During the past 5 months, i.e., since the end of July, there has been really no significant movement in prices.

The reasons for this stability are not at all clear. It does seem evident that the supply situation has improved rather considerably as concerns vegetables and sea foods. It is also possible that transportation costs have moved downward from the strong upward trend that resulted from the Tet offensive.

After much urging from our side and many promises from their side, the GVN increased the price of imported rice on November 26. The wholesale price of U.S. medium grain rice was raised, in Saigon, from 20 to 25 piasters per kilo, and in Central Vietnam from 17 to 21. The retail price of U.S. rice in Saigon is now 13 percent higher than it was a month ago. In other words, because the wholesale price rose by 25 percent, about half of the increase has been absorbed in retail margins. Retail prices of domestic rice are only six to nine percent higher than they were a month ago. Rice retail prices in Saigon are now 16 to 20 percent higher than on January 1, 1968, whereas the index as a whole is up 28 percent for the same period.

In addition to its restraining effect on inflationary pressures, a second purpose of the elimination of the subsidy was to increase paddy prices to farmers. By December 1, there had been a significant increase in paddy prices in the Delta over those of July 1, ranging from about 50 percent in An Giang and Ba Xuyen to 10 percent in Chau Doc. Prices range from 15 piasters per kilo down to 10.5 piasters. The increase appears to be the consequences of the combination of the government purchase scheme and the increase in the price of imported rice.

I do not discount the substantial problems remaining to be dealt with: development of increasingly effective government, particularly in the rural areas; expanding security; political organization; continued improvement of the armed forces, especially the territorial forces; meeting the aspirations of the people for social justice, elimination of corruption, peace, and for economic and social development and improvement of their standard of living. Yet I think it is undeniable that progress has been and is being made in all of these areas. What is especially encouraging is the fact that the rate of progress has accelerated in recent months. I am convinced that the tide is running more strongly with us now than at any time in the past. I believe that 1968 will go into history as the year in which the strength and love of freedom of the South Vietnamese people was most severely tested and not found wanting. For all of us, it has been a long year of great sacrifice. I am convinced that if we continue patient and confident in our own strength, we will get next year the kind of peace we have sought through so many grim trials.

I intend to sum up the major trends and developments of this eventful year in my next message.

#### FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY SEVENTY-FIFTH WEEKLY TELEGRAM, JANUARY 16, 1969 In this, my last message to you as President, I shall try to sum up the progress and the shortcomings of the past year in our effort to move forward toward the achievement of our objectives in Viet-Nam. These I take it to be: (A) a just, durable, and honorable peace through negotiations; (B) a chance for the Vietnamese people to choose freely the form of government under which they wish to live; (C) to help them develop their own stable political institutions and a viable economy; (D) to make credible our obligations under the charter of the U.N. and SEATO to resist aggression; and (E) eventually to develop regional organizations through which the Southeast Asian countries can carry on joint undertakings in economic development and mutual cooperation. I shall try to give an overview in the first section, followed by more detailed accounts of political developments, communist trends, military and pacification activities and the economic situation.

The year 1968 was in many ways a momentous year. Two events which proved to be major watersheds from which much else flowed were the Tet offensive and your speech of March 31. In retrospect, they were the source of many constructive developments; and although some immediate problems, material and psychological, followed in their wake, I think they can be judged as major factors in stimulating the very substantial progress that took place in 1968.

Ironically, from a political point of view, the Tet attacks were a failure within Viet-Nam, and a brilliant success in America. It is true that very heavy material damage was inflicted by the enemy during the Tet and May/June attacks; 150,000 homes were destroyed or damaged, a million temporary evacuees created, substantial damage was done to the industrial plants, the economy set back and business confidence impaired. Yet there was no panic here. The people rallied, not to the communists but to the government. There were no uprisings, no defections in the armed forces, the Vietnamese military units fought well, the government did not fall apart; on the contrary, it reacted with great determination and vigor. Operation Recovery was carried out with great energy and skill. By September, the million evacuees had been resettled, homes rebuilt and new housing provided. The establishment of a reconstruction fund and war risk insurance made possible the reconstruction of industry, business confidence returned, and in the last quarter of the year, commercial import licensing was running at a record rate. The decline

in the relatively secure population, which had dropped from 67.2 percent in January to 59.8 percent as a result of the Tet attacks was not only made up but at the year end the figure reached a record high of 76.3 percent. The population under VC control dropped from 16.4 percent in January to 12.3 percent at the year end. Even if one discounts these figures, the trend is clearly up and the situation substantially better than a year ago.

Your speech of March 31 and the partial bombing halt brought the Vietnamese government and people face to face with the fact that we would not be here indefinitely and that one day they would be on their own. The realization of this fact and the confidence created by the successful reaction to the Tet attacks tended to inspire the Vietnamese with greater determination, a greater willingness to sacrifice, a new confidence in their own government and armed forces. From this fact flowed other constructive developments. It resulted in general mobilization and an ambitious self-defense program. Military and paramilitary forces now number well over a million men. Of the increase of 220,000 in the forces this year, 160,000 have been volunteers. (A force of comparable size in the United States, based on our population, would require 18 million men under arms.) In addition, more than one million men and women have been organized in civilian defense groups, more than half of these trained, and 100,000 armed.

Given the small population base of South Viet-Nam, these figures represent a prodigious effort to mobilize the entire population for the war effort. Coupled with a substantial improvement in RVNAF weaponry and greatly improved performance—General Abrams has said, "They are paying the price, and exacting the toll"—means that the GVN faces Hanoi today with a military machine greatly superior to the one it had at the beginning of 1968.

A further development flowing from the two watersheds I have mentioned was the continued strengthening of constitutional government, the formation of a more popular and more effective cabinet under Tran Van Huong, and Thieu's consolidation of his constitutional powers as president. The Assembly proved itself by and large a responsible body meeting its constitutional responsibilities while working quite effectively with the executive to meet the demands of recurring crises. The Thieu/Ky rivalry, while not entirely resolved, declined greatly in importance as Ky's power was reduced and Thieu's increased. Their relationship today is probably better than at any time since the inauguration of the present government.

The large increase in money supply brought about by the impact of general mobilization contributed to inflationary pressures. In spite of an increase of nearly 60 percent in money supply, price increases were held to about 30 percent for the year, a tolerable increase if not a comfortable one. In a year that saw the heaviest fighting of the war, the steady decline in the rice deliveries from the Delta, which had continued since 1963, was finally reversed. The IR-8 rice program was initiated, proving more popular even than had been anticipated, resulting in plans for an accelerated program in 1969. Progress was

also made in poultry and other protein production. Recovery from the setback of Tet has been achieved and the economy has resumed its forward movement.

Besides these very substantial achievements of 1968, I must set forth some important shortfalls, weaknesses, and hazards. Thanks to his safe havens and external support, the enemy probably still retains the capability to prepare and mount further attacks. Pacification gains would be inevitably set back if the enemy proved able to mount another even partially successful offensive. Such an offensive would also have adverse effects on American opinion, probably its main purpose, since the enemy must be aware of the fact that any real military success is no longer possible.

On the political side, very little progress has been made toward the development of a strong and united nationalist political organization. While the Thieu/Huong alliance has resulted in the best and most effective Vietnamese government in many years, the GVN is still plagued by inefficiency and corruption. While popular support for the government has improved, it is still not strong enough.

Probably as important as the major accomplishments and shortcomings of 1968 are the chief political trends of that eventful year. While all of those trends may not continue into 1969, I believe it is reasonable to expect that most will. I think we can identify at least four:

- (A) Increasing Vietnamese recognition that the American commitment is not open-ended. This in turn has led to a growing Vietnamese willingness to accept a political settlement, and also a realization that it will be necessary to deal with the NLF in some way. At the beginning of the year, most nationalist leaders still felt it was impossible even to talk about negotiations in public. Now they are not only openly willing to negotiate with Hanoi, but they are thinking—often out loud—about how to talk with the NLF. I think Thieu must be given much credit for bringing people gradually to the awareness that the contest will change some day from a predominantly military one to a predominantly political one.
- (B) Decline in confidence in the strength of the U.S. commitment. While most responsible leaders do not believe the U.S. will deliberately turn its back on Viet-Nam, many have grown doubtful of our determination to stay the course long enough to achieve an honorable peace. This, of course, is a critical factor which could affect everything else.
- (C) Increasing Vietnamese willingness to make sacrifices and carry a heavier war burden. The Tet attacks, general mobilization, the threat of American withdrawal, and growing confidence in their own capabilities led to a significant increase of involvement of the entire population, urban and rural, in the war effort.
- (D) Increased SVN military and political strength. With the development of democratic institutions and the consolidation of Thieu's power, the political stability of South Viet-Nam has increased markedly. The growing strength and improved performance of RVNAF complemented and increased SVN po-

litical strength. Improved political stability was also coupled with a marked decline in the influence of the military in the making of policy and the administration of the government.

Adding up the pluses and minuses, I think we can say objectively that 1968 has been a year of very substantial progress. We have seen the development of a government that is more stable and effective than any since the early days of the Diem regime. The military situation has greatly improved, the RVNAF has made significant progress in leadership, morale, and performance. At the same time, there are growing evidences of the decline in enemy morale and leadership. Security has improved and pacification accelerated; so has the Chieu Hoi program and the attack on the VC infrastructure. In almost all areas, the government is moving with determination and vigor. In the last half of the year, progress has accelerated in almost all areas. It is my view that if, as a result of the present negotiations, a true, verifiable, and properly supervised mutual withdrawal of North Vietnamese and Allied forces can be worked out, the Vietnamese government and people will be capable of handling their internal domestic problems with the Viet Cong on their own. A true withdrawal obviously will be a difficult undertaking involving as it will not only verification and supervision, but among other things identification of North Vietnamese in Viet Cong units, and prohibition against the use of the Cambodian and Laotian sanctuaries. It is nevertheless a hopeful situation.

Elements of political strength: as in other countries, political strength and stability depend on a number of factors, the most important being popular leadership, established and effective government institutions, political organizations, the military establishment, and a healthy economy. Perhaps the intangible element of spirit and morale is even more important when a political system is threatened by communist aggression and subversion. Looking back over the events of 1968, I think it can be said that despite the trauma of the Tet attacks—indeed in part because of it—South Vietnam has laid the beginning of the necessary foundations for political strength. The foundations are not yet solid and could be destroyed in the coming political contest, but they are certainly real, and they represent marked progress over the past. The Huong government, with all its faults, is the most popular and most effective of the GVN governments since the early days of Diem. While Thieu is not yet a truly popular leader, there is no question that he has gained stature and support as well as consolidated his power in the course of 1968. The new constitutional institutions are working and for the most part working quite well. The military establishment in 1968 accepted growing civilian control of the government without loss of its own organizational discipline and coherence; in fact, the GVN military machine is undoubtedly in far better shape and more effective than ever before. Nationalist morale, perhaps the most important element in the coming political contest, is good.

The significance of Tet: as I have mentioned, the Tet offensive was one of the two important watersheds of the last year. At the outset at least, it was

viewed as an unmitigated disaster by most Western observers. The Vietnamese, on the other hand, with much justice, felt they had sustained the worst the enemy had to offer; they were elated because they had not only survived the onslaught, but had hurt the enemy badly in the process. For the most part, they were only vaguely aware of the devastating effect of the Tet attacks on American opinion. Even today, they find that effect hard to comprehend.

The enemy onslaught found a new constitutional government barely three months in office and still in the process of shaking down and completing the formation of its basic institutions. The Loc cabinet was an unhappy compromise between Thieu and Ky with little to recommend it beyond its acceptability to both. The tension between the military and civilian political elements, exacerbated during the presidential elections, was still high. The new legislature had done little but argue its internal rules. It is not surprising that the enemy hoped for political impotence if not outright political collapse when he launched his attacks at the cities of SVN.

In fact, the political strength, vitality, and determination of the South Vietnamese nationalists was never more clearly demonstrated than in the days and weeks that followed the Tet attacks. The enemy anticipated mass support from the urban proletariat and mass defections from the ARVN. Nothing of the sort happened. The army fought well and rapidly expelled the enemy from the nation's cities. The people demanded arms, a sweeping civil defense program, and drastic general mobilization.

The fledgling Assembly did not dissolve or stand impotent. Although its members were scattered throughout the country for the holiday, it immediately convened and took up its full constitutional responsibilities in the midst of the crisis. As an elected and functioning constitutional body, the legislature proved invaluable in creating an atmosphere of confidence and stability. It vindicated our earlier judgment that a constitutional government, even if more complicated to operate than a dictatorship, would be better able to harness the vital forces of the nation.

Political organizations, old and new, took their stand against the communists and sought to assist the government in the recovery efforts. Two new political groups devoted to national unity—the National Salvation Front and the Free Democratic Force—emerged as a direct response to the communist assault.

The Huong government: the installation of the Huong government in May was an event of considerable political significance. It was the first change of government under the new constitution, a change accomplished without a coup and in direct response to legitimate political pressures for more effective and more popular leaders. While this kind of change is customary in democratic countries, it was a dramatic departure in Vietnamese political experience.

The establishment of the Huong government also reflected Thieu's growing power and his increasing independence of the military establishment. By his

alliance with Huong and the civilian elements behind Huong, Thieu was able to move a long step toward the exercise of full presidential powers under the constitution. He has continued to consolidate this constitutional power and at the end of 1968 it was probably accurate to say that no general or combination of generals is in a position to challenge his authority. While the military retain an important voice in the formation of GVN policies, they are no longer dominant. Not only has a working civilian/military partnership been formed, but in many areas the military are now junior partners.

Working closely with Thieu, Huong was able to make significant progress in at least four important areas: he strengthened popular support for the GVN; he gave new impetus to Thieu's efforts to reduce corruption; he carried out successfully the sweeping general mobilization and self-defense programs; and, again working closely with Thieu, he did much to prepare the Vietnamese people for a negotiated settlement and the coming political struggle with the communists.

While Huong has not been without his critics, he nevertheless retains the respect and trust of a wide segment of SVN opinion. It is generally recognized that his government is more effective and more honest than those which preceded it.

In the attack on corruption, hundreds of police, civil servants, and military officers were removed from office, disciplined or tried in the courts for corruption during 1968. A new independent inspectorate was created and is now beginning to function. Various administrative devices were established to make corruption more difficult. Most important, with the often free-swinging assistance of the Assembly and the press, Thieu and Huong created an atmosphere in which corruption is no longer passively accepted. This is the necessary first step toward a permanent reduction of corruption. For without social norms and pressures, one cannot effectively police a democratic society.

In the sweeping general mobilization, the induction of tens of thousands of men into the armed forces and organizing over a million people in self-defense groups was only one side of the coin. The other was the need to maintain and improve government services despite the loss of thousands of civil servants to the military. On both counts, the government registered remarkable success. Although primarily guided by Thieu himself, it was also in large part the Huong government which carried out the highly successful accelerated pacification program in the last months of 1968.

Finally, as a result of the many speeches and statements around the country made by both Thieu and Huong, public opinion has moved toward acceptance of the idea that there will be a political settlement which will entail some kind of political contest with the communists.

Dependence on American political strength: in the course of the year it became increasingly apparent to Vietnamese leaders that the American commitment is not open-ended, that we are not prepared to stay in Viet-Nam

indefinitely in pursuit of a military solution, but rather are determined to negotiate a satisfactory settlement of the conflict.

For the most part, the results of this understanding were salutary. The Vietnamese have proved willing to carry more and more of the burden of the war. They accepted the idea of a political solution rather than a military victory which had been pictured to them for many years as the only possible ending to the conflict.

This was a painful shift for many. Underlying apprehensions about the reliability of the American commitment rose to the surface and found expression in editorial comment and in speeches in the Assembly. By the end of the year, however, the realization that American support is not endless seemed to bolster rather than undermine nationalist determination. Enemy defeats, the improved performance of the RVNAF, and the demonstrated determination of the Huong government encouraged nationalists to believe that they were ready to reduce their dependence on America. To their credit, most of them found the idea profoundly welcome.

While the nationalists moved forward to the day when they are no longer dependent on the U.S., a great majority are also painfully aware that they cannot stand alone against an enemy who has the assistance of Russia and Communist China and the enormous advantage of privileged sanctuaries from which to launch his attacks. Thus, anxiety about a too rapid American withdrawal or a peace without adequate safeguards is always high. It can be destructive if it becomes too acute. This came close to occurring in November when our two governments were publicly at odds over how to deal with the NLF at Paris.

While Thieu's independent stance on November 2 won him wide support, this emotional reaction quickly passed, to be replaced by forebodings which were only partly removed by our statements of November 27. The nationalists are still uncertain about the attitude of the new administration. If they are reassured by statements and actions of the strength of our commitment and our determination to reach an honorable settlement, the trend toward greater political confidence and strength will continue. If faith in the U.S. commitment is undermined, that favorable trend could be reversed by an abrupt decline in nationalist morale.

There were weaknesses in the political performance of South Viet-Nam in 1968. A major one is the continuing failure to organize effective broad-based national political parties.

Earlier in the year, efforts at political unity were marked by the emergence of the National Salvation Front and Free Democratic Force. As a result of Thieu's urging and support, these were subsequently merged. Together with the CVT Labor Union, they formed the Lien Minh, an umbrella political grouping, designed to unite nationalists and prepare them for the coming political struggle.

Unfortunately, the Lien Minh has been plagued by divisions in its top leadership and lack of a clear mandate from Thieu. Although it has organized

a number of provincial chapters and its social action program has had some moderately successful programs in Saigon, it is still far from creating the degree of nationalist unity and organization required for the coming political contest with the communists.

Both in the lower house and the Senate, efforts have gone forward to organize vehicles for political unity which may ultimately prove more effective than the Lien Minh. The lower house Democratic Progressive bloc has emerged as the major grouping in that body, large enough to carry the day on most issues if its members act as a body. In the Senate, Senator Sung's long-planned bloc seems to have emerged. He expects to make this eventually a majority bloc in the Senate, ally it with the majority bloc in the lower house, and then form alliances with various political groupings outside the Assembly.

While none of these efforts is near success at the moment, it is clear that virtually all responsible leaders are aware of the need for political organization and want to do something about it. I hope that 1969 will see them overcome the troublesome Vietnamese penchant for extreme individualism and factionalism and that they will be able to form the needed organizations for nationalist political competition with the enemy. I have urged Thieu to move more forcefully in this area, and I will continue to do so in the coming months.

While the Thieu-Huong government is certainly more popular than its predecessors, it still could not be described as a government which enjoys pronounced support from the masses. Despite attacks on corruption and administrative inefficiency, these still present major political problems. GVN propaganda is probably still less effective than that of the enemy.

I think it is essential, however, to cast the shortcomings as well as the successes of 1968 in a Vietnamese frame. In the first instance this means remembering that Viet-Nam is an underdeveloped, badly battered small country which has undergone many years of war and is still subject to determined aggression in all forms by forces which are supported by Communist China and Soviet Russia. It is pointless to expect the Vietnamese to measure up to standards of perfection which many developed, peaceful, Western countries cannot meet, and it puts the picture in better perspective when we remember that the communists too have many weaknesses and shortcomings.

It may be significant that we are now hearing of enemy problems with corruption, both in North Viet-Nam and in the South. There is little question that enemy morale is declining and there has been a significant lowering in the quality of their leadership. While they have an impressive roster of "liberation committees," most of them are on paper. The communists almost certainly enjoy far less positive mass support than does the GVN. And I believe that the nationalists can win the coming political contest—provided that we do not withdraw too rapidly and with too few safeguards, that the present constitutional institutions are not dismantled, and that the enemy is denied the use of widespread terror and coercion.

The idea of sitting down [in Paris] with the NLF in international negotiations has all along been very troublesome to Thieu and his colleagues. To

their mind it gives a degree of recognition and respectability to a tool of Hanoi, and raises the specter of its inclusion in a future government.

These feelings were evident in their initial reluctance to accept the "our side-your side" formula, with its implication that Hanoi could associate the NLF with it during negotiations if it wished. After our consultations with them during the summer, however, I believe Thieu, Ky, and Thanh were convinced that this arrangement was acceptable in order to get Hanoi's agreement to negotiations with GVN participation.

I would judge that Thieu's recoil from this formula at the moment of truth in October sprang from these basic factors: his inability adequately to prepare public opinion; his normal reluctance to bite the bullet; and his hope that with a new U.S. administration coming in he could postpone or perhaps evade entirely the bombing halt and the confrontation with the NLF it implied.

But the most important factor in Thieu's about-face was, in retrospect, a genuine public relations problem. The bombing halt and negotiations that included the NLF, while acceptable and even popular with political and public opinion in the U.S., could not be expected to be popular in Viet-Nam. Thieu had to preserve utmost security at our behest during the delicate US-DRV talks in Paris and had thus kept knowledge of the impending decision to a very small circle (in mid-October, at our request, to himself alone). Had he sprung the decision on his people, his position as national leader would have been threatened. Thus he felt he needed time to line up support and to bring his people along with him. In retrospect, therefore, the time lost between October 31 and November 27, when the GVN took the decision to go to Paris, could only have been avoided by loosening up on security; and since that might have jeopardized the chances to come to an agreement with the North Vietnamese, I conclude that the delay was inevitable.

The same cannot be said about the subsequent delays over procedural matters. Thieu's style of operating and his need to preserve support of the right wing is one factor in that delay, but another may well have been the lingering belief that he would be safer in Paris with a Republican administration than the present Democratic one. Only when it was made absolutely clear to him that he will find no more comfort in your successor's position on these procedural matters than he had in yours, did he finally budge.

At the root of our problems with them over issues in negotiations is the basic matter of mutual trust and mutual objectives. Whatever the reason, the events of late October and November left many Vietnamese leaders, Thieu included, with doubts as to our ultimate intentions. It is not so much the shape of the table that is troubling the Vietnamese—though they do see substance in that issue. Rather it is the question of where we are trying to lead them. Given these fears, they are hesitant to make concessions which would not trouble them if they were really confident that our ultimate objective remains an independent, non-Communist South Viet-Nam free to work out its own destiny without outside interference.

If this analysis is valid and the major problem is restoring mutual confidence, the initial problems of the new administration may be largely psychological. The way in which we do and say things will be as important as what we do and say. The Vietnamese basically like and trust Americans and believe that we share mutual objectives and interests. I am therefore confident that with the right approach it will be possible for us to bring them along with us in the necessary atmosphere of mutual trust. I do not think building a better working atmosphere here will require that we agree to all of their preferences or that we must in any way ignore our own best interests.

The Tet and mini-Tet offensives caused changes on the Communist as well as on our side. Probably the most important was the increasing North Vietnamization of the war. At the beginning of 1968, enemy main force units were for the most part still Viet Cong, recruited in the south and oriented to guerrilla warfare. Tet and mini-Tet losses affected the Viet Cong far more than the NVA, however, and the fresh manpower required to keep up unit strength could in most cases not be recruited in the south. The result was that main force strength of VC units in I, II, and III Corps began to include a high percentage of northerners. These northernized units proved to have much less rapport with the local population than their predecessors.

Another change was the development of the liberation committee as the enemy's basic political unit in SVN. The liberation committee has several advantages over the old front committees. Unlike the front committees, liberation committees claim "government" status because of their "election" by the people. Should the situation at the negotiations require the communists to claim to be administering the countryside or should they try to establish their own provisional government, the liberation committees would give them a better, though still superficial, claim to legality than the front committee.

The formation of the new committees has been a high priority task for the communists throughout the year. They started at the hamlet and village level and worked upward so that today 22 provincial committees have been announced throughout SVN. The committees appear to vary considerably, some being pure figments of the communist imagination and others apparently having actually been elected by the local population in their area. A large percentage have been established in VC-controlled areas.

Still another organizational phenomenon produced by the communists in 1968 was the Viet Nam Alliance of National Democratic and Peace Forces. The Alliance appeared for the first time in announcements by the Liberation Radio during the Tet offensive. It was largely neglected by the communists until April when it was announced as a national body. A number of well-known, if politically unimportant, people made up its leadership. Since then, talk of the alliance has waxed and waned on Liberation and Hanoi radios. At times it appeared the Alliance might even replace the NLF as the major communist front in South Viet Nam. Of late, however, it has even more closely identified itself with the communists, and public announcements by it having diminished to the point where there now are only occasional revolutionary exhortations to students.

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The Alliance's domestic purpose appears to have been to provide a rallying point for anti-GVN, non-communist, urban Vietnamese. From the beginning, however, the new group was identified as communist (all its statements were over Liberation Radio) and few people rallied to its banner. On the international stage it had more success. Many people seeking for a "third way" to solve the Vietnamese problem seized upon the "neutral" Alliance as the basis for a compromise solution. But at year's end, even international interest in the group had fallen off, and today there is almost no mention of it in the press.

The military situation developed very favorably in 1968. Three enemy offensives were broken, each more decisively than the previous one, with the enemy suffering staggering losses. More than half of the enemy forces committed in the Tet offensive were captured or killed, and enemy losses for all three offensives were well over 100,000 men. Despite these losses and the commitment of over 200,000 North Vietnamese troops to the effort, the enemy was able to take and hold none of his objectives. In the last of the three offensives, the enemy was unable even to penetrate any urban area, being decisively defeated before his forces could approach their targets.

By mid-year Allied forces had definitely seized the initiative. By the end of the year, we had succeeded in driving substantial portion of the NVA elements and many VC elements outside of SVN. VC main forces were shattered and Allied forces assumed a dominant military posture for the first time since the entry of U.S. forces into SVN. By mid-November the enemy was in such a state of disarray that he could have been knocked out of the war completely had he been pursued in the manner that US forces pursued the German and Japanese armies in World War II.

The success of Allied forces as due to a combination of factors and tactics. Perhaps the enemy's worst mistake was in overestimating his political strength. If, as he apparently expected, the people had risen to support his attacking forces and the RVNAF had suffered massive defections, the military history of 1968 would have been very different. But the people did not rise against their own government, and the RVNAF, although surprised and below strength, fought well from the beginning.

As the year progressed, RVNAF ranks were swelled by the successful general mobilization effort, jumping from total strength of 643,000 at the beginning of 1968 to about 822,000 by year's end. Not only did the RVNAF grow in size, but it consistently improved its performance. Part of the improvement was due to better weapons, particularly the M-16, which we provided on an accelerated basis in order to meet the enemy's sharply upgraded weaponry. Part of RVNAF improvement was due to better leadership, which improved as the year went on. Probably also the intangible element of morale was very important. Having survived the enemy's Sunday punch and rolled him back at Tet, the RVNAF from then on had a new confidence in their own fighting qualities vis-à-vis the enemy.

Of the 182,740 enemy KIA in 1968, RVNAF was responsible for 77,387 while US forces killed 101,127 enemy last year. Overall, RVNAF suffered 23,884 KIA in 1968 while the US took 14,491 KIA. The RVNAF acquitted themselves very well in all three of the enemy's 1968 offensives. At Tet, the RVNAF took the brunt of the initial attacks and accounted for 4,959 enemy KIA and 1,698 wounded. In the second offensive the RVNAF forces held their ground in Saigon and the approximately 180 other attacks, killing an impressive total of 9,370 enemy in May. The enemy fall offensive was marked by the brilliant RVNAF defense of Duc Lap as well as the successful actions to Tay Ninh and in the Delta.

There were other reasons for our military success last year. Better intelligence was a major component. In part this was the result of painstaking effort over a long period of time which finally came to fruition. In part it was simply that the people became more willing to provide Allied forces with information on enemy movements and plans.

I think General Abrams should also be given great credit for his successful tactics. His use of our superior mobility to apply "pile on" pressure whenever and wherever opportunity offered cost the enemy dearly. His understanding of the enemy strategy, and especially of the enemy's need to lay out his logistic net in advance of any offensive, proved brilliantly successful in aborting enemy attacks. His personal direction of the B-52 capability, a disrupting and frightening weapon from the enemy point of view, also played an important part in our victories.

In the last instance, of course, it was Allied fighting men who turned the enemy back and forced him to retreat to his refuges in Laos, Cambodia, and North Vietnam. American fighting men proved again and again that they are the best in the world. And let me hasten to add that they found in their RVNAF allies tough, hard fighting comrades-in-arms.

This does not mean that the enemy is finally beaten. He has still the option of retiring to his safe havens and preparing another offensive. This has been his tactic after each attack in 1968, and if he believes the impact on American opinion is worth the cost, he can undoubtedly try once more.

In December there were again indications that the enemy was trying to prepare a new countrywide series of attacks, the objective being political/military successes which might influence the negotiations in Paris. Following the bombing halt, there was a tremendous logistic build-up south of the Dong Ha area. This could portend an attack on the northernmost provinces of SVN, most likely through the DMZ. We have also noted what may be preliminary logistical activity to build up a striking force in Laos opposite the two northernmost provinces of SVN. Intelligence and interrogations indicate the enemy is also at least planning for yet another thrust at Saigon from his bases in Cambodia.

If, in fact, the enemy does attempt a fourth offensive in 1969, I believe that his objective will be more political than military, concerned primarily with its impact on opinion in America. I expect that our forces and the

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RVNAF will be as successful in defeating any further enemy attacks as they were in 1968. In fact, I question whether the enemy will be able to get another major offensive off the ground.

Pacification momentum has been completely regained since the Tet set-back and now surpasses by a considerable margin that achieved in late 1967. Increased GVN resource input and interest in the entire range of civil-military activities that comprise pacification have been main contributors to gains made in 1968. But more than any other factor, the elimination of enemy military pressure permitted expansion of territorial security and government presence.

At the outset of 1968, the enemy Tet offensive completely upset 1968 pacification plans and wiped out gains made in 1967. Relatively secure population as measured by the Hamlet Evaluation System dropped from 67.2 percent at end-January to 59.8 percent—a loss of about 1.3 million people.

Recovery was initially slow. By June relatively secure population had improved to about 63.3 percent—i.e., about half of the Tet loss had been recovered. By July-August, however, recovery was well under way, the GVN was out of its urban shell, and resources and management attention were returned to pacification. Mobilization augmented the RF/PF and an improvement program further strengthened the capabilities of these territorial security forces. By October, pacification was proceeding at the fastest pace in recent years.

President Thieu seized the opportunity and launched on November 1 an accelerated pacification campaign. This bold, across-the-board campaign includes increased military spot operations, a concentrated attack on the VC infrastructure, a stepped-up Chieu Hoi effort, much greater attention on people's self-defense forces, an extensive psyops effort, and a plan to secure more than 1,200 contested hamlets.

A great deal of effort was focused on upgrading RF/PF. The force was expanded by about 100,000 to more than 390,000 during the year. More than 100,000 M-16 rifles were issued; over 150,000 more will be issued early in 1969. The recently-approved 39,000 RF force increase will allow for continued expansion.

Another bright spot is the stepped-up attack on the VC infrastructure. By the end of November more than 13,000 VCI had been eliminated in 1968, exceeding the year's goal of 12,000. The 2,333 VCI eliminated in November [after] the stimulus of the accelerated pacification campaign was 60 percent above the previous monthly high achieved in October. Preliminary figures for December indicated a still higher rate.

The GVN also put stronger leadership at the key district and province levels and developed programs for strengthening village/hamlet government. Reform measures, taken at presidential direction, resulted in removal for cause of 20 province chiefs, 91 district chiefs, and scores of lesser officials such as police chiefs and technical service chiefs.

The enemy's emphasis on establishing his own liberation committees puts the GVN to test. Hence, re-establishing GVN local administrations is a key aspect of the accelerated pacification campaign. By mid-December, 873 administrations were functioning in the 1,238 hamlets targeted in the campaign.

The trend in Chieu Hoi ralliers is up from roughly 1,000 per months in October and November, and about 2,800 in December. More than 16,000 returnees rallied to the GVN during the year. The preponderance have come in IV Corps, where the VC are mostly southerners. This gives hope that the southern base of the insurgency may be eroding.

Although in October pacification made its largest gain in years, November saw this record surpassed as relatively secure population increased 3.5 percent to 73.3 percent—6.1 percent above the pre-Tet high. In December another three percent, or 537,300 people, were added to the relatively secure category and VC-controlled population dropped to 12.3 percent. The momentum appears to be building up as enemy resistance remains light and uncoordinated. Even an enemy counteroffensive, though it would temporarily cause the line to drop on the graph, is not likely to change what appears to be a strong overall upward trend.

Based on progress achieved, ambitious 1969 guidelines have been developed and approved by the Prime Minister as head of the newly-formed Central Pacification and Development Council. These guidelines call for further expansion of effort to bring 90 percent of the people into relatively secure status and to occupy all hamlets by the end of 1969.

The year 1968 was not a year of great progress for the Vietnamese economy. In terms of the total volume of economic activity, income levels and in many other respects, the state of the economy in January, 1969, resembles that of a year earlier. But this criterion is probably not the most significant one by which to judge the economy in 1968. Rather, one should judge it by the way in which it responded to the destruction, the uncertainty, and the pressures caused by the enemy attacks in the early part of 1968. The restoration of the earlier prosperity and momentum was a major feat. Moreover, developments in the latter half of 1968 augur well for 1969.

While estimates of Tet and mini-Tet damages vary, it is probably safe to say that aggregate destruction of property was in the neighborhood of \$200 million, a figure equal to about six percent of GNP. The destruction included some \$50 million in damage to industrial plants, \$80 million to residential housing, \$60 million to warehouses and their contents, and \$20 million to agricultural equipment and crops. The many small but heartbreaking losses of personal belongings will never be measured.

But the physical damage was perhaps not the most serious of the effects of Tet. Two others were critically important: the disruption of transport, and the blow to business confidence. Immediately after Tet, and for months afterward, most private firms discontinued new investment, put back purchase orders, sought to reduce inventories and laid off personnel. Since consumers were tending to behave in a similar way, by increasing savings and cutting

back luxury expenditure, a period of stagnation ensured. The volume of economic activity and incomes slumped.

In some respects this "recession" had offsetting benefits. It helped keep prices down in a period when supplies were inevitably short, and it loosened up the manpower balance, just when the GVN began its effort to mobilize more men into its armed forces.

Economic recovery from the destruction and difficulties just described was gradual. During the first few days after the attacks began, all markets and places of business were closed. They began to reopen one by one and, within two weeks, all Saigon markets were open. After that, commerce within the city limits approached normal conditions. By early March, traffic on Route 4 was reasonably secure as far as My Tho, and it could be said that connection between Saigon and the Delta had been established. In June, a joint US-VN industrial reconstruction fund was established and provided with VN\$1 billion and US\$10 million, to assist in rebuilding damaged plants. In July, the National Assembly passed a war risk insurance law, providing government backing for war risks to factories, warehouses and goods in transit. The reconstruction loan fund and war risk insurance law gave psychological as well as material support to private enterprise, and the return to more normal business attitudes toward investment and risk-taking dates from about July or August. Beginning in July there was a sharp increase in import licensing.

The USAID retail index levelled off in August after a last spurt in July, and then remained substantially unchanged until the end of the year, at a level around 30-32 percent higher than that of January 1.

By the last two months of 1968, there were few signs left of the troubles that began in February. Business seemed vigorous in all trades. The large textile plants near Saigon that were devastated during Tet were almost completely rehabilitated. In Saigon itself, the buildings left unfinished when Tet came were completed and new ones begun.

While the effects of Tet and the subsequent recovery of the economy to pre-Tet levels represent the most important feature of the economic scene in 1968, there are some other significant aspects. The first half of 1968 saw a marked increase in the GVN budget deficit. Revenues were declining as the expenses of recovery and mobilization placed new demands on the budget. To cope with this the GVN imposed severe restrictions on non-war-related expenditures, a freeze on hiring and some delay in new projects. There were also two major tax increases: in April austerity taxes on imports were raised by 5 to 15 percent; in July a 20 percent surcharge was placed on most domestic tax rates. Despite these measures, the 1963 budget deficit was VN\$42.9 billion as compared with VN\$1.9 billion in 1967.

Vietnamese foreign exchange reserves at the beginning of 1968 were about \$325 million as compared with an agreed ceiling of \$300 million. We negotiated an agreement which placed \$50 million aside in a special escrow account for purchase of American rice during the ensuing year. This, together

with a sharp increase in imports in the latter part of the year, caused reserves to drop to \$271 million by December 31.

Rice imports for the year totaled 678,000 tons, most of it from the U.S. Over the year Saigon retail prices of principal rice varieties went up about 20 percent while the general food index rose 33 percent. Delta deliveries for the year were 310,000 tons, about 2,000 tons higher than the 1967 rate. The late November GVN action to raise the wholesale price of US rice accomplished one of the major goals of US economic policy in Vietnam, i.e., to raise rural incomes, and provide farmers with an incentive in the form of higher paddy prices.

The Vietnamese economy at the end of 1968 was still dominated by the characteristics it has had since the American troops' commitment became important in 1965. Most of its rather slender resources, especially in manpower, are fully employed, and there is continual inflationary pressure. The heavy commitment of resources to the war effort has, however, not been drawn from the consumption standard of the population. Imports of some \$700 to 750 million a year, financed by USAID and earnings from our presence, permit a living standard, at least in the cities and secure rural areas, that is higher than Vietnam has ever known before.

The buoyancy and bustling activity of the cities, the daily traffic jams, burgeoning TV aerials, and crowds of people obviously well-dressed and well-fed, contrast with sand-bagged guard posts and other reminders of the war.

In the less secure areas of the countryside, especially those controlled by the enemy, economic life has a different cast. There, population is thin; large areas of formerly cultivated land are idle; economic activity is stagnant, and standards of living are primitive. That people lead a better life on the GVN side is not lost on those who live in communist-controlled parts of the country.

The present condition of the Vietnamese economy is somewhat precarious in the sense that it could not be sustained without our financing of imports. As peace approaches, and as it becomes possible to demobilize a large part of the Vietnamese armed forces, the resources thus released could eventually be directed into new production, but this would take considerable time and the application of sensible policies, otherwise unemployment and serious disruption would take place. Thus the economy of early 1969 has to be regarded as rather fragile and brittle with respect to the consequences of a peace settlement. Continued aid during a substantial period of transition will be required to convert the economy to self-sustaining growth.

I believe it can fairly be said that substantial progress toward the objectives I mentioned at the beginning of this message has been made during the past year. An encouraging element is the fact that this progress has accelerated, especially in the last half and even more particularly during the last quarter of the year.

Determination on the part of the Vietnamese government to maintain the momentum is evident. Plans to sustain the tempo of the pacification program

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and for a dramatic land reform program in 1969 have already been announced. The Vietnamese government has made clear its intention to assume an increasingly large share of the war effort. With a modicum of patience, I believe that the goals and objectives we have set for ourselves will be reached. Whatever success we in the American mission here, civilian and military, may have had has been due to your steadfast and unswerving support and your determination to stay the course. For this all of us are deeply grateful.

#### LXXVI

#### FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY SEVENTY-SIXTH WEEKLY TELEGRAM, FEBRUARY 22, 1969 In my last overall assessment on January 16, I tried to sum up the progress and shortcomings of 1968 and the situation as I saw it at the end of the year. In this message, I shall attempt to evaluate in similar fashion the period between our New Year and the Vietnamese New Year, January 1 to February 16, 1969.

In looking back over that period, it seems to me one of the most significant events was the concession on procedural matters by the other side in Paris in mid-January and the intervention by the Soviet Union in bringing this about. Although the GVN had agreed to yield on the issue of the table, the other side came forward with a compromise proposal before this became necessary. This suggests to me that the other side clearly found itself under compulsion to get on with the substantive negotiations, a tacit acknowledgment that the trend on the ground in Viet-Nam is unfavorable to him and that time is not working in his favor.

He is, therefore, clearly adopting in Paris a strategy to obtain there what he cannot secure on the ground in Viet-Nam. The tactics he is employing are designed to gain political and psychological advantages both in Saigon and in the United States. The means he is using are military, political, and psychological.

There was much evidence both through his intensive logistic activity and heavy infiltration in December and January that the enemy has made extensive preparations for an offensive. He would hope to get himself in position to launch attacks which would inflict significant casualties on us, thus creating the appearance of military strength and affecting opinion in the United States. But it is General Abrams' judgement, in which I fully concur, that the enemy lacks the strength to make an effort like that of Tet 1968, even though he might clearly like to do so. We have moved aggressively to break up the enemy preparations; we have consistently picked up large enemy caches, intercepted his advance units and inflicted mounting casualties on him. During January, 11,500 enemy were killed in action, in the first half of February more than 4,800. The KIA figures do not, of course, reflect the total dimensions of enemy losses. The more than 2,000 killed per week does not include those who died of wounds, died of disease or in Laos, nor manpower losses due to defections, prisoners, and the attack on the VC infrastructure. While the

enemy is not doing well militarily, he will, I believe, attempt to maintain such pressure as he is capable of, while posing the psychological threat of an all-out offensive. He will thus hope to tie down our forces and divert them from the pacification effort, the success of which is of increasing concern to him, and keep up terror attacks and small unit operations.

Hanoi's political tactics are also becoming clear. He wishes to get some movement into the political situation in Saigon by refusing to discuss military matters unless political matters are discussed also, and then refusing to discuss political matters with the present government of South Viet-Nam. By assuming an attitude of sweet reasonableness, he hopes to influence opinion in both South Viet-Nam and the United States: he puts forward the proposition that only a few small changes are needed to put in motion a political settlement; some members of the present government could be included in a "peace cabinet"; for example, individuals such as General Duong Van Minh (Big Minh) or Au Truong Thanh would be acceptable in a transition government; why should the US stick so firmly to a few individuals whose presence in government is blocking the road to peace? Thus the US is provided a face-saving solution to the war; it could negotiate directly with the North on military matters, while it had a non-communist SVN ally willing to arrange for a coalition government in South Viet-Nam and a political settlement with the NLF. In other words, the objective is to maneuver the US into a position where it will put pressure on the GVN to accept the communist demands for internal changes, thus discrediting the government and bringing about its collapse.

The enemy's efforts are also directed at creating apprehensions and uncertainty in South Viet-Nam both through feeding suspicions of our reliability and commitment and by appealing to the ambitions of various SVN opposition groups to inspire in South Viet-Nam what might pass for a genuine popular demand for a "peace government." Hanoi has tried to feed suspicion of the US, taunting the GVN in broadcasts which declare it is being abandoned by its masters. It is likely that the VC are responsible in part for stimulating some of the recent peace agitation by various SVN opposition elements. They probably calculate—perhaps quite accurately—that the removal of the present elected, constitutional government would cause the collapse of non-communist political organization and morale, leaving the communists a clear field to set up the NLF-dominated coalition government they have long demanded.

Hanoi is thus employing a combination of military, political, and psychological tactics. I suspect that Hanoi believes another offensive (if it is able to bring it off) will serve to make a "peace government" more acceptable to us. They probably calculate that more heavy fighting, more destruction (particularly if they can get into some cities, however briefly), and more casualties will cause the GVN either to want to break off the Paris talks or take a very hard line in the negotiations. At the same time, they may expect another offensive would persuade American opinion that the war is hopeless and must be ended quickly at all costs. Hanoi may reason that such a contradiction between the GVN and US views would be resolved by a US move to change its present

"puppets" for others more disposed toward peace, and willing to negotiate on NLF terms.

Psychological factors are important in any war. In this limited and unconventional struggle, they probably loom larger than in any previous war we have fought. Through employing the tactics I have described above, the enemy doubtless still believes he can break the will to resist of the South Vietnamese and American people. I cannot pretend to evaluate American opinion today, but I think Vietnamese morale is basically good and quite capable of becoming stronger. But I must also add it can turn downward.

The South Vietnamese have gone through a major readjustment in their thinking. As Thieu has pointed out, a year ago one could speak only in terms of a military victory. Today the idea of a negotiated settlement is accepted. Now they are beginning to wrestle with the idea of acceptable political arrangements with the NLF. Any kind of an accommodation with communists was long regarded here as certain to lead to a communist takeover. Now nationalist Vietnamese are rethinking that long-held assumption. I believe that it is an evidence of the psychological self-confidence of the South Vietnamese nationalists that the prospect of political competition with the enemy has not resulted in a wave of pessimism and defeatist thinking; on the contrary, people are thinking out loud as to how this may be developed and what an acceptable basis for such competition would be. They are sincerely worried about our continued support, however, and especially at present, need to be reassured that we do not want peace at any price and that we see in their elected, constitutional government the best hope for a free and independent South Vietnam.

Your fine inaugural address and your first press conference provided some of this needed reassurance. Your remarks on a ceasefire and the hazards of negotiating in an overly optimistic time frame were particularly helpful. Ambassador Lodge's comments on the legitimacy of the GVN were also warmly welcomed here. This kind of support is very important in keeping up Vietnamese morale, which in turn will encourage the GVN to take a forth-coming, self-confident stance in Paris.

On the positive side, the Vietnamese see may reasons to hope that 1969 will be a good year. In 1968, their confidence in their military capabilities increased steadily. This trend continues in 1969, a fact reflected in a recent Saigon opinion poll. In October last year, 63 percent of the people thought the ARVN "very capable" of countering enemy attack; this had risen to 71 percent in January of this year.

Vietnamese confidence in their armed forces is well founded. They have improved in equipment, performance, leadership, and morale. As general Abrams has put it, "They are paying the price and exacting the toll." Not only did the RVNAF and Allied Forces consistently meet and defeat the enemy in the three enemy offensives of last year, but under the general mobilization effort the RVNAF also grew from 643,000 men at the beginning of 1968 to about 820,000 at the end of January. Of this increase, 160,000 were

volunteers. With paramilitary and police, the Vietnamese now have over one million men under arms, 80 percent of all the physically fit males between the ages of 15 and 34. This is really a major achievement.

January 31 saw the completion of the three month Accelerated Pacification Program [sic] (APC) which substantially increased GVN control of the countryside. About 1,600,000 over the level of November 1968 when the APC drive began were brought under the relatively secure category. While the accuracy of the HES statistics is sometimes questioned, I think they do give a definite reflection of the trend. The trend is quite clear and it is a fact that substantial progress was achieved. At the same time, goals were exceeded in the number of Chieu Hoi ralliers and the monthly reduction of the Viet Cong infrastructure more than doubled.

On February 6, President Thieu announced a radical new land reform program. This involves a government supported "voluntary purchase" plan with new maximum retention limits that will encourage landlords to sell to their tenants. This program can have a strong appeal to many farmers and materially increase rural support for the government.

Thieu has also emphasized his determination to carry out elections in the villages and hamlets where these have not been held, to improve administration at the village and hamlet level through training of administrators, and to involve the local population in their own development and self-help projects.

Increased South Vietnamese self-confidence also stems from the successful operation of the political system set up under the 1967 constitution. Constitutional government proved a strong political and psychological support to the nationalists all through 1968. And in the past six weeks, the government has continued to strengthen the new constitutional institutions, notably the Supreme Court and the Inspectorate. There are still many serious weaknesses, but this is the most effective government and it has the widest popular support of any government since the early days of the Diem regime. With all its faults, it is also the most democratic government in Vietnamese history. Its growing strength is an obvious target for the communists who hope to undermine it by calling for extra-constitutional changes.

Despite the grounds for optimism about the coming year, the mood of Saigon is serious. Tet was a subdued affair this year. There is a feeling of greater strength, but also of greater danger during the forthcoming, most difficult phase of the war when the contest will be increasingly political and psychological. I think there is widespread feeling here that if the contest is waged on equal terms the communists will be defeated. The problem is to deny the enemy any undue political advantage.

Among the chief political developments during the period were the efforts of opposition groups to use the peace issue against the GVN, pressures and plans for government reorganization, and the return of FULRO.

Peace agitation: with simplistic, emotional and often xenophobic appeals for an immediate end to the fighting, some opposition groups have tried to discredit the government and its allies. Most prominent among these is the An Quang Buddhist faction whose leaders were particularly active in pressing their peace campaign in January. They apparently planned to climax the effort at Tet, perhaps in the hope that the Tet truce could be extended or converted into a lasting ceasefire. An Quang has used political "sermons," religious processions, Buddhist social welfare organizations, Buddhist youth activities and several newly-created peace fronts to further its demand for a change of government and an immediate ceasefire. The political monks involved in this agitation found allies in two fringe labor groups, some student factions, a handful of leftist Catholic intellectuals—and the communists.

The government reacted sharply to the potential threat posed by groups Religious leaders were urged to restrict religious such as An Quang. ceremonies, particularly processions, in order to prevent communist exploitation. One An Quang leader, Thich Thien Minh, was publicly warned not to repeat his virulent anti-GVN, anti-US sermons. The sentimental anti-war songs of a popular composer were banned. Thieu has publicly denounced those who try to exploit the desire for peace and those who advocate coalition government as a way to end the war. These measures apparently put the lid on such peace agitation for the time being. Whether they will serve equally well in the long run, I think is doubtful. A better tactic—one which I have urged on Thieu and will continue to press—would be to seize the peace issue as the government's own and to put forward reasonable and constructive proposals for a political settlement. Thieu has often pledged publicly that he will work for peace, and he has often pointed to the efforts of his government to find a way to a true peace. I think, however, that a more aggressive effort to portray the government as the champion of peace and to capitalize on the undoubted desire for peace among the people should be undertaken.

Government reorganization: pressure for a cabinet reshuffle began to build in the Assembly last November and December. The legislators officially "suggested" to Thieu that the government be reorganized. Two of the more controversial ministers have since left the government (Education Minister Tri was assassinated and Information Minister Thien resigned). Thieu announced February 6 his intention to name a Deputy Prime Minister for Pacification. (General Tran Thien Khiem, Minister of Interior, is scheduled to take on the new post in addition to his present duties as Interior Minister.)

Most of the agitation for government reorganization come from "out" political groups. Some are obviously jockeying for partisan advantage, but others believe the government should be broadened in order to confront Hanoi with a broader nationalist front. I think Thieu and Huong have seriously examined the possibilities of a government of national union but found that the political leaders whom they wanted to bring into the government either set too high a price on their participation or would not work well with other government leaders. Ideally it would seem advantageous to bring in some political leaders such as the Dai Viet leader, Ha Thuc Ky, to widen the government's political base. But Thieu and Huong have concluded that it

would not make sense to create an external image of unity at the expense of administrative effectiveness and internal cohesion.

The return of FULRO: one of the brighter developments of the past six weeks was the return from self-imposed exile in Cambodia of the dissident Montagnard tribesmen of the FULRO Movement which has been demanding autonomy for the Montagnards. This was the culmination of a GVN effort that stretched over several years, involving long and difficult negotiations with FULRO leaders to satisfy their legitimate grievances, without granting them autonomy.

February 1 at Banmethuot President Thieu formally welcomes back into the national community the more than 1,000 FULRO returnees and their families (about 5,000 total) who had been in exile in Cambodia. (As the FULRO exercise wide influence among all Montagnard tribesmen, the return of this group was much more important than the numbers might seem to indicate.) FULRO leaders announced the dissolution of their organization and pledged their full cooperation with the GVN in the fight against communist aggression. In a moving ceremony Thieu accepted the weapons which the FULRO warriors surrendered to him and then handed them back as symbol of his confidence in their loyalty and their dedication to the national cause.

Intense logistic efforts by the enemy in January and early February plus a [three words deleted] reports indicate the enemy is planning a major offensive. Our forces have aggressively sought to break up these preparations, and despite his general efforts to avoid contact, the enemy suffered over 16,000 KIA since the beginning of 1969. (Our own losses for the same period were approximately 1,000 KIA.)

Enemy logistic and reconnaissance activities seemed to be peaking as we approached Tet, with indications that tactical preparations for combat were under way. While the most likely targets now seem to be the Bien Hoa/Long Binh complex or provincial capitals such as Tay Ninh, there is abundant evidence that the enemy is still planning and training for an attack on Saigon as the objective of the 272nd, 101st, 88th, and Dong Nai regiments. There is good evidence of enemy efforts to infiltrate special action teams and munitions into the city. A large hospital complex discovered under construction on the Saigon River corridor suggests that large numbers of wounded were expected to move along this route and one captured document suggested that as many as 10,000 wounded were expected during the coming offensive.

While Saigon is undoubtedly the preferred target, there seems little or no chance that the enemy can in fact reach that objective with any sizeable force. Major enemy units remain two to four days march from the city, and the enemy will probably choose alternate objectives such as Tay Ninh or Bien Hoa if he decides to try to launch an offensive in the near future.

Enemy preoccupation with his offensive preparations has given us a relatively clear field to pursue our pacification objectives. As I noted above the GVN concluded a highly successful Accelerated Pacification Campaign (APC) January 31. The focus of the pacification effort now is on consolidation of the

substantial gains realized under the APC.

President Thieu took a direct and a very personal hand in the recent pacification drive, and in large part it was because of his personal direction of the effort that GVN resources were mobilized very effectively.

The first element of the APC consisted of stepped-up military spoiling operations, to preempt enemy reaction and provide a shield behind which pacification could take place. The involvement of both US and ARVN in the campaign under the "one war concept" proved highly beneficial and was a major factor in its success.

Under the APC, the provinces were required to identify 1,000 hamlets formerly in the contested (D or E in the HES) or VC category, for upgrading to a minimum of C (relatively secure) by end-January. After their initial selection, a number of provinces added more hamlets so that a total of 1,335 hamlets were finally listed as targets for the extension of GVN security during the three month period. Of these, 1,055, with a population of about 1.2 million people, were actually raised from the contested to the C rating. In all, during the campaign about 1,600,000 people were raised in security to meet its goals and 79.2 percent of the nation now fall in the ABC categories.

The third element of the campaign was the attack on the VC political control apparatus, the so-called VC infrastructure. Under this program about 1,200 VCI per month were captured, defected or killed during the autumn. A goal of 3,000 per month was set and although this proved too high, the GVN police and other security forces actually doubled the rate of their successes against the infrastructure for the three months of the campaign to over 2,300 a month. Unfortunately, most of these are low-level cadres and this program needs to refine its targets so as to identify and seek out the more important cadres.

A fourth and interesting element of the total program is the people's self-defense force, an unpaid, part-time militia. At the end of the APC, the GVN reported 1.1 million citizens enrolled in this force, of whom 659,000 had received some training. We have some reservations as to the accuracy of these figures, but we are quite confident that the GVN actually has distributed 170,000 weapons throughout the country to the members of this citizens' militia. The VC has shown its concern over the potential of this force by conducting object lessons of murder or terror against its members. On a number of occasions the local militia has stood up effectively against VC attacks.

The fifth element of the campaign was to induce some 5,000 Viet Cong to rally to the government under the Chieu Hoi program. Some 8,600 actually left the enemy camp in the three month period. Nearly three quarters of these rallied in IV corps zone in the Delta as a result of an exceptionally successful program there, as opposed to somewhat disappointing results in the other corps. This substantial Chieu Hoi rate in the Delta, where the enemy is almost exclusively Viet Cong as distinct from North Vietnamese, suggests that the indigenous base of the rebellion may be deteriorating.

Price stability. Although the pre-Tet period is normally a time of rather sharply increased prices, prices have in fact remained very stable. The Saigon retail index stood at 408 December 30, 1968. It continued steady within a narrow range (all well below the 408 level), and six weeks later, on February 11, it was at exactly the same level as that of December 30: 408.

Probably a significant factor in this price stability was the still-fresh recollection of last year's Tet attack, the rumors of another attack this year, and measures which the GVN has taken to maintain a state of readiness. It has been a sober and moderate period, lacking much of the effervescence and gaiety of past years' holidays. Fireworks and dancing were banned. Leaves have not been granted to troops. The market places seemed less crowded and people less eager to buy than is normally the case at this time.

However, the chief reason for this remarkable stability was the very heavy import arrivals of December and January, which saturated the market with a wide variety of consumer goods. Most GVN-financed imports come from Far Eastern sources, with delivery times ranging from three or four months down to a month or less. The heavy licensing of August-November resulted in such a flood of arrivals in December and January that for a time it looked as though the old problem of port congestion was going to plague us again.

Besides the usual array of imported goods, arrivals during recent weeks have included 2,000 tons of frozen pork, ordered by the GVN for distribution to army commissaries and other institutions. In addition, hundreds of thousands of baby chicks were arriving by air every week. Fed on rice bran and imported corn, they were saleable in about eight weeks. With pork and chicken in good supply, meat and fish prices in general were kept down.

We anticipate a renewal of inflationary pressure, especially as wages begin to rise once more, during the next few months. We estimate an increase in money supply of about 40 per cent for 1969. We are therefore trying to induce the GVN to take further revenue measures. Our first step was to nail down a short but specific list of anti-inflationary measures as a quid pro quo for the \$21 million PL-480 non-rice agreement. The GVN accepted our proposals and agreed to implement immediately after Tet three measures which would yield between five and six billion piasters of additional revenue during 1969. On this basis, the non-rice PL-480 agreement was signed January 14.

We also took advantage of the opportunity offered by negotiation of a new CIP program assistance grant agreement covering \$85 million in aid, to assure, at least in principle, the negotiation of a more comprehensive stabilization program. We intend to aim for a specific list of additional revenue measures, with incremental effect of about 15 billion piasters, over and above the measures conditioned on the PL-480 agreement.

Post-war economic planning: the Joint Development Group formed by Mr. David Lilienthal's Development and Resources Corporation and a staff of Vietnamese economists headed by Minister of State Vu Quoc Thuc, has been drafting its second annual report. The report includes a well-reasoned section [on] the general economic policy decisions Viet-Nam will face after the war,

arguing the case for a private enterprise, open economy. The D and R Corporation has also submitted a preliminary appraisal of their Mekong Delta Development program. They are proposing a very comprehensive program for water control in the Delta, including flood control, irrigation, drainage, and control of salt water intrusion. It is their thesis that this can be accomplished within the national borders of Viet-Nam without adverse effects on Cambodia and without waiting for the large up-stream dams in Cambodia and Laos, which appear to be a good many years away. The essence of the scheme would be construction of a series of polders [reclaimed land], surrounded by levees and supported by a system of pumping stations and drainage canals.

Our economic staffs are also preparing analyses of the economic impact of US troop withdrawal. We hope to assess what the effects would be on the Vietnamese balance of payments, their requirement for foreign aid, the inflationary balance, and the standards of living.

The most important yardstick by which to measure progress is not so much what we can do but what the Vietnamese can do for themselves. If one applies this standard of measurement, I think it is fair to say that not only has progress been made but that it has continued at the accelerated pace I mentioned in my last message. This has been true especially of pacification which embraces so many aspects of our total effort here, especially in the rural areas. It has been evident in the military situation. The GVN has reiterated its determination to assume an increasingly larger share of the war effort and is adjusting to the possibility of reductions in American forces this year. Progress has also been discernible in the growing self-confidence of the Vietnamese government and people. Evidence of this is seen in the attitude toward the generally recognized forthcoming political contest with the communists and toward the arrangements which eventually must be worked out with the NLF. Much remains to be done, but these are encouraging signs.

## LXXVII

## FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY SEVENTY-SEVENTH WEEKLY TELEGRAM, MARCH 21, 1969 In the message I sent February 22, I mentioned the intensive enemy activity and the heavy infiltration by the enemy in the preceding month, obviously extensive preparations for an offensive. The attacks began the night of February 22–23. I think it is clear that the objectives of this present offensive are essentially political and should be assessed in that light.

I believe the enemy hoped that this offensive would: (a) create the impression, particularly in the United States, of continued strength and ubiquity to persuade the world and particularly the American public that the communists cannot be defeated here; (b) increase U.S. casualties, so as to further disillusion the American public with the war and increase pressure for American withdrawal; (c) divide the USG and the GVN over the question of retaliation; (d) achieve de facto invalidation of the understanding between Hanoi and the Johnson administration and to create the impression that we misled the Vietnamese concerning the understanding; (e) halt and reverse progress in pacification; (f) create doubts among the South Vietnamese that our new administration will live up to American commitments here; and (g) ultimately hope to force concessions from the Allies in Paris.

Enemy tactics reflect these political goals. There was virtually no effort to take and hold any major objective. Whereas in the 1968 Tet attacks the enemy committed large forces to the offensive, this time he employed economy of force tactics designed to maximize friendly casualties and minimize his losses. His husbanding of forces is probably designed to create the impression of his ability to continue on the offensive over a prolonged period.

So far, Saigon has been shelled five times, Hue twice. Hanoi almost certainly calculates that this kind of measured violation of our "understanding" is more than enough to generate sentiment for retaliation in South Viet-Nam, but below the threshold which would "justify" retaliation in the eyes of the American public.

Apart from the rocketing of the cities, American installations and units were apparently the preferred targets. This contrasts with Tet 1968 when the enemy appeared to avoid contact with U.S. forces to concentrate on Vietnamese targets.

Even the timing of the attacks was probably more political than military. For good military reasons, the enemy usually prefers the dark of the moon to launch his attacks. This time, he moved at the full moon. The attack was

timed to coincide with your European trip, no doubt an effort to embarrass you and perhaps even to influence the outcome of that important venture.

I have the impression that the enemy has had a measure of success in some of his political objectives. Newspaper reports in the U.S. seem to contribute to the image that the enemy wants to create of a strong military capability. American casualties increased sharply in the first week and while enemy losses were extremely high, they were relatively less than in previous offensives. No doubt this has had an adverse effect on U.S. opinion. It is also a fact that the rocketing of Saigon and Hue created some significant pressures for retaliation here, though not in the U.S.

But in purely political terms, the enemy has also suffered some significant failures. Most notably, the rocketing of Saigon and Hue did not serve to divide our two governments. While pressures have built up in various quarters here for retaliation, the attitude of people generally has been calm and confident. I think Thieu especially, and Huong also, deserve a great deal of credit for the moderation with which they have reacted. As Thieu said to me and repeated to Secretary Laird, "We must be wise, correct, and deliberate in our response and we must agree together on when and how this should be made."

The enemy also failed to accomplish any de facto invalidation of any understanding with the Johnson administration. Your strong statements, together with those of Secretary Laird and Ambassador Lodge, made it clear to Hanoi and to the world we expect the "understanding" to be honored.

The enemy's political failures in his most recent offensive were most apparent in South Viet-Nam. While many South Vietnamese leaders are concerned about American determination, I do not think this offensive materially increased their apprehension. Ky was reassured by his conversation with you, and Secretary Laird's visit was helpful. We will need to keep on reassuring our Vietnamese friends about our intentions, particularly as we move closer to a settlement, but they were not shaken by this enemy action in part because they saw how effective our forces were in helping them to defeat it and by your statements.

The enemy offensive in fact raised South Vietnamese morale as it became apparent that the enemy had failed militarily. Most Vietnamese are convinced that current enemy tactics reflect enemy weakness rather than strength. The other side of the coin is the fact that South Vietnamese confidence has increased correspondingly. In fact, Hanoi's hopes of creating a popular South Vietnamese demand for peace at any price or a "peace government" were reduced rather than increased by these later attacks.

One good indicator of Vietnamese reactions is our most recent Saigon opinion poll. While this reflects some drop in feelings of security, though not a significant one, there is little change in the previous high level of confidence in RVNAF (in January, 71 percent considered RVNAF "very capable" of countering enemy attacks; after the recent enemy attacks 69 percent still felt

this way). Most interesting is the fact that seven out of ten say the enemy offensive did not in any way change their opinion about enemy strength—and of those whose opinion changed, the overwhelming majority said they now think the enemy is weaker than they had thought previously.

Probably another of the enemy's political objectives was to improve or at least maintain the morale of his own forces. One political indicator, the Chieu Hoi rate, suggests he also failed in this effort. Normally, the Chieu Hoi rate drops sharply during an enemy offensive. However, record numbers of ralliers have come in during this period, close to one thousand per week. We have continuous evidence that the enemy has a morale problem, and I suspect he will have still more of a problem as it becomes apparent to his troops that they are still not occupying any South Viet-Nam urban areas or achieving other military or political objectives in South Viet-Nam.

To sum up, weighing the results of the enemy efforts in political terms, I think the balance is against him. In this round, the enemy lost more ground politically in South Viet-Nam than he gained. Whether his partial political success abroad compensates for his loss here is difficult to judge from Saigon, but I would hope that it does not.

Whatever the balance on the purely political side, the military failure of the enemy is obvious. He penetrated briefly into the edge of Bien Hoa—at a heavy cost—but was able to puncture the defenses of no other area. He never got near his major target, Saigon, although it was clear from captured documents that he planned to attack the city. The pacification program remains virtually unaffected; indeed the relatively secure population moved ahead by one percentage point in February despite the Tet holidays and the hostile attacks. Almost all RVNAF forces remained in place in the countryside. The enemy on the other hand took extremely heavy losses. Over 14,600 were killed in the first three weeks (this does not include losses from died of wounds, killed by air and not counted, disease, ralliers, or infrastructure neutralized).

In the 1968 Tet attacks, the enemy failed in a frontal military attempt to cause the collapse of the GVN. He has now changed his tactics and is fighting a war of political attrition. He will seem to conserve his military forces while stepping up the campaign of terror and assassination; he may stage occasional dramatic demonstrations on the ground in order to increase U.S. casualties; and he will attempt to correlate his military tactics with the talks in Paris and his estimate of U.S. impatience, hoping he can force American withdrawal for political reasons. But the enemy is suffering from attrition too, political as well as military. If we continue to maintain maximum military pressure, while strengthening the RVNAF as rapidly as possible, if we leave the other side in no doubt that an effort to drive a wedge between the GVN and ourselves will not succeed, then there is good reason to think that the enemy will be no more successful in this war of political attrition than he was with his "general offensive" in 1968.

I have previously reported concerning Thieu's increasingly flexible approach to the problems of a political settlement and the essential role he has played in bringing the country along with him. In my talk with him March 17, he went further than he has yet done in discussing the problems he faces in arriving at a political settlement. He sees the NLF as functioning as a political entity and ways in which they might enter into the political life of the country. One possibility is to let them take part in the regular elections due to come up under the Constitution; for example, in local elections, in the 1970 elections for half of the Senate, and then in the lower house and Presidential elections in 1971. He did not see a change in the Constitution as unduly difficult if general elections were necessary in the terms of a political settlement. He felt that international supervision of the elections, NLF membership on the election boards, or participation in monitoring the polling booths were all feasible. He said, "It is a matter of bargaining and what we get for it."

When I raised with him the fact of the NLF fear of reprisals once the North Vietnamese leave, Thieu replied that this was understandable, they would have to discuss this with the NLF, and were ready to give guarantees. Perhaps an international commission might be helpful in terms of seeing these guarantees fulfilled.

These most recent ideas present another step in the progression of Thieu's thinking which has been evolving ever since last summer. It is a long way from the situation a year ago when one could talk only in terms of a military victory.

Significant internal political developments in the past month included some Cabinet changes, local elections for village and hamlet officials, an Executive-Legislative squabble over the budget, government action against An Quang leader Thich Thien Minh, and a decision by Thieu to take the lead personally to promote nationalist political organization. The enemy tried with notable lack of success, to influence and disrupt political development by dramatic acts of terror, particularly in the shelling of Saigon, and the attempt on the life of the Prime Minister.

These events were overshadowed by developments on the battlefield and at Paris and influenced by them. But despite the uncertainties injected by the war and the Paris talks, I think it is fair to say that the domestic scene continues to be marked by political stability and satisfactory progress. The Cabinet changes, the local elections (carried out almost everywhere despite the February–March attacks) and even the budget squabble are a normal part of a functioning constitutional system. There were no demonstrations, no coup plots nor even rumors, and this has been true for many months. One has only to look back to the pre-constitutional period of 1966 to see how remarkable this is in Viet-Nam, especially in light of the strains created by enemy attacks, enemy terror, and the GVN joining the Paris talks.

It could be argued that the GVN action against Thien Minh belies the appearance of relative political stability and functioning constitutional

machinery. But it must be recalled that Thien Minh and some other An Quang leaders have engaged for some time in an effort to use the peace issue to force a sweeping change in the government. They have no respect for the Constitution and the elected officials, including the Assembly, and say so quite clearly. They have never made any bones about their hopes of ousting Thieu and Ky. Given the enemy tactic calling for the installation of a "peace government" it is understandable that the GVN felt compelled to act.

Thien Minh was first warned privately, and then publicly about his activities; then, acting on information supplied by a confessed VC cadre living in Thien Minh's Buddhist Youth Center, the police raided the Center and found a weapon, explosives, VC propaganda documents, and a number of deserters and draft dodgers on the premises. Eight of the latter were hiding in Thien Minh's room. Thien Minh and some of the youth apprehended at the Center were turned over to the courts under whose jurisdiction such matters fall under the State of War legislation.

The sentence passed against Thien Minh—ten years at hard labor—was excessively harsh and will not improve the image of the GVN abroad. I mentioned to Thieu the adverse effect the sentence will have on public opinion in the United States. He said that while there was no question of Minh's guilt, he intended to mitigate the sentence. I am glad to report that he has done so. He has issued orders through the Prime Minister that Thien Minh will be held in a private location separate from other criminals and in a manner different from other criminals; he is guaranteed the right and privilege to observe the obligations and perform the ceremonies required of him as a bonze; and is guaranteed any special privileges and care which his health may require. Thieu told me that in the course of two or three months he would probably reduce or suspend Thien Minh's sentence. I do not anticipate a strong popular reaction here. Our contacts are unanimous in discounting anti-GVN demonstrations. Most seem convinced that Thien Minh was guilty of wrongdoing and deserving of at least some punishment. Thieu has said that Tri Quang is personally happy about the arrest of Thien Minh whom he looks upon as an activist and rival who might very possibly move to displace him. [Five words deleted] told an Embassy officer that in his opinion the arrest of Thien Minh is probably a favorable development.

I reported in my last message some of the pressures for Cabinet changes and the decision by Thieu and Huong to strengthen the present government in its administrative aspects rather than try to launch a radical new "politicized" government. The new Cabinet announcement March 12 contained no dramatic departures. The changes do make clear, however, that Thieu and Huong are determined to press forward on several key programs, notably on pacification and land reform.

Thieu has taken very direct personal interest in the Accelerated Pacification Program and much of its success stemmed from the leadership he gave to it. He has now indicated clearly that he continues to give very high priority to pacification by the appointment of a new Minister for Revolution-

ary Development (a portfolio Huong himself held) and a Deputy Prime Minister for Pacification (previously there was no Deputy Prime Minister).

Tran Thien Khiem, the newly-appointed Deputy Prime Minister, will continue also as Minister of the Interior. In his new post, he will have the duty of coordinating the work of all of the ministries involved in pacification. At the same time, Huong will be relieved of the more detailed work of pacification and will be able to concentrate more on basic policy.

While Thieu had told me earlier that he was considering naming Dr. Phan Quang Dan as Minister of Agriculture and Land Reform, he finally selected Can Van Than, [seven words excised] who has been serving as Thieu's personal adviser on economic and land reform matters, and whom Thieu described to me as "dynamic." Thieu said that he felt that Than had the qualities needed to push ahead vigorously on land reform, a program which he has assigned the highest priority.

In other changes, assassinated Minister of Education Tri was replaced by his Deputy, Le Minh Lien, a man who reportedly shares Tri's views on the need for reforms in the educational system. A new Cabinet post for veterans was created. Thieu explained to me that he felt it was important to do this both because of the political potential of a veterans' organization in the postwar period, and because of the magnitude of the veterans' welfare and other problems which will arise in the wake of a peace settlement. He hopes to create a more effective, pro-GVN veterans group than the now almost moribund Vietnamese Veterans Legion.

An encouraging development this month is the carrying out on schedule of local elections for villages and hamlet officials. These are being held on successive Sundays. In the first two Sundays, an average of 89 percent of registered voters turned out to elect 2,208 village and 788 hamlet officials. Figures for the third week are not in although it appears that the voter turn-out will follow the trend of the previous weeks.

Although there were a few scattered incidents, the enemy did not make any serious effort to disrupt these elections. This is not surprising, since the communists have proved unable to disrupt any of the many local and national elections which have been held since 1966. Their preferred tactic against local officials is still assassination and intimidation. Fear was evident in some areas where local leaders were reluctant to step forward as candidates. In such cases, district and province chiefs "encouraged" people to run for election.

These local elections are not only another step in the direction of democracy, but they restore what has been a traditional form of local government in the villages and hamlets. They also serve to increase the GVN's claims of legitimacy throughout the nation, which accounts for the angry attacks on the elections by the enemy's propaganda machine.

During much of the past month, the Executive and Legislature have been haggling over the 1969 budget. The sums at stake are quite small, but the principle—Executive or Legislative control of the purse strings—is considered

very important by both sides.

The controversy began over a question of whether under the Constitution the President may request amendments to other legislation. The question was submitted to the Supreme Court for decision, after which the Legislature again failed to act on the President's requests for amendments and again asked for another Supreme Court ruling on another technicality.

The Supreme Court then exercised "judicial restraint," leaving the matter still unresolved. On February 28, President Thieu attempted to resolve the matter himself by promulgating the Executive version of the budget. He took the position that the Assembly had failed to override his amendments and the Executive version therefore stands. The Legislature responded by again asking for a Supreme Court ruling on this vexed issue.

While this prolonged wrangle has not improved the working relationship between the two branches of government, neither has it posed a threat to the constitutional system. Both sides attach importance to the principles and precedents being set within the constitutional frame. Both sides are tacitly agreed that the functioning of the government should not be hindered and the independence of both the Legislature and the Supreme Court was clearly illustrated.

I recently raised with Thieu the continuing problem of political organization and the disappointing progress of the government umbrella organization, the Lien Minh. Thieu explained that he now intends to take a more direct hand in order to forge nationalist political unity. He wants to bring into the Lien Minh a number of groups now outside that body and intends to personally urge their leaders to take part. At some point, he plans to call a conference of such leaders to discuss the necessity for national unity, which he hopes to achieve under the aegis of Lien Minh.

An inter-ministerial committee also has been formed to work out a program for "political mobilization." The intention is to use the existing organizational structures of the Self-Defense Corps, the civil service, and the military to indoctrinate and unite the national politically in preparation for the expected political contest with the communists.

Neither of these efforts appears to have moved very far up to the present. Both are promising if implemented vigorously, however, and I am hopeful that the so far painfully slow progress toward effective nationalist political organization will be speeded in the coming months.

I noted above the main features of the enemy's military failure in his latest offensive. This effort came as the culmination of a very long period of preparation on the part of the enemy. His planned offensive was frustrated and postponed a number of times as a result of our vigorous and effective counteractions, but finally got underway on the night of February 22-23.

The long-awaited enemy push consisted primarily of numerous indirect fire attacks throughout the nation. Few ground attacks were attempted, but the overall tempo of enemy activity increased sharply. Enemy losses were very heavy: over 6,600 in the first week of the offensive, more than 4,000 per

week for the following two weeks. The enemy also lost significant quantities of weapons and rice during the period. The largest ordnance and ammunition cache of the war was seized in late February near the Laotian border in southwest Quang Tri province.

Enemy activity dropped off during the week of March 915, with continued low intensity attacks by fire and some minor ground probes the only enemy action. He is still in a position to attack several important targets in III Corps, notably Tay Ninh City, the Long Binh-Bien Hoa area, or the Sau Tieng-Trang Bang area. There is no evidence of any coordinated attack threat to Saigon in the near future, though the enemy continues to plan for such an attack.

An important element in breaking up the enemy's offensive and preventing more effective enemy ground action was General Abrams' skillful use of B-52 strikes. At a rate of 1,800 sorties per month, this weapon was used most effectively to strike troop concentrations, storage areas, infiltration routes, staging areas and base camps in III Corps both prior to and since the beginning of the most recent enemy offensive.

Because of the enemy's heavy losses and his logistics problems, President Thieu thinks enemy forces are "short of breath" and cannot maintain offensive activity for a prolonged period. This seems to have been borne out by the pattern of enemy activity in the past three weeks. It is also significant in terms of American casualties—one of the enemy's major objectives in my opinion—which dropped from 453 to 388 to 351 during the three weeks from February 23 to March 15.

I should also report that since the October high in RVNAF desertions, the rate has declined steadily. Desertions from all forces, including Regular, Regional and Popular, was 9,485 in January, a decline of 8.4 percent over December.

Pacification is in transition between its rapid expansion, exemplified by the three-month Accelerated Pacification Campaign ending January 31 and a longer, harder pull over the next year. Security continued to grow in most of the country, although at a slower pace as the effort struck nearer to long-established Communist base areas. At the end of February, the relatively secure population as measured by our HES system rose by 1.1 percent to 80.3 percent. This increase compares to the three percent rise during January. Hamlets in the contested category dropped to 8.7 percent. Enemy-controlled hamlets stand at 11 percent, dropping less than 0.5 percent as we approach the hard core. These figures are far from absolute, but the trends are certainly valid general indicators.

Although the primary targets of the recent enemy offensive were military establishments, there were also a substantial number of attacks by fire against outposts and hamlets and some movement of enemy forces in rural areas. As of March 8, province-by-province reports state that in 36 provinces there was no or slight effect on pacification momentum and progress; in four provinces momentum was slowed, although rural security was not significantly lower; in

two provinces momentum was halted with some lowering of rural security; and in two provinces (Phuoc Long and Kontum) pacification was set back. Only 11 outposts were lost or abandoned countrywide. RF/PF units stayed in position—only 34 platoons out of more than 7,000 were redeployed. Likewise, all but 31 RD cadre teams stayed in position.

Destruction was relatively light (5,172 homes destroyed or heavily damaged); comparative few new refugees were created (26,777); and civilian casualties, while frequently tragic, were limited to 640 killed and 2,137 wounded.

Although pacification was set back in only two provinces, this series of attacks is not necessarily over and there could be substantial impact on pacification if the enemy committed regiment or divisional-sized units. It also must be recognized that an intensive targeting at local hamlets in the country-side could set pacification back more than the recent attacks on military establishments. Nonetheless, the additional confidence generated by the successful repulse of this latest "general offensive" should strengthen the pacification program for the longer pull of the 1969 Plan.

The 1969 Plan is now being implemented. Deputy Prime Minister Khiem is visiting all four Corps to review the machinery and planning for pacification. The program will involve moving territorial forces to the villages and hamlets, continued training and arming of self-defense groups, division of the RD cadre into smaller teams to work in additional villages, holding elections in some 600 villages during March, and spreading throughout the country the details of a new program for village development in which local communities will decide how to employ the Government funds made available for economic improvement in their areas.

Perhaps the most significant economic event in the past month was the failure of prices to react sharply to the VC post-Tet offensive. The most sensitive item, local fresh vegetables, rose in the first week but fell below pre-Tet levels by March 10. This is the best indication of how little disruption the fighting caused in normal trade channels.

The GVN took another step toward raising revenues by transferring various imports into higher tariff categories. This is a welcome but only a small step toward reducing the inflationary gap. Negotiations toward the signing of a stabilization agreement have begun but little progress has been made. The target date is April 1. In accordance with an earlier agreement on grant commercial import assistance, the final \$40 million tranche for FY 1969 cannot be released until there is a stabilization accord.

In the meantime, money supply has begun to rise again (5 percent in two months) after being stable in the last quarter of 1968. The reasons are principally the growing level of budget spending, even though revenues are also rising rapidly, and credit to importers as the record level of import orders of last fall has produced higher imports and inventories since January.

February 1969 was the second month in which Viet Nam's domestic tax collections exceeded VN\$1.9 billion. This level was achieved despite the

tapering off of government activity during the Tet holidays. Total tax revenues during the first two months of 1969 were VN\$4.4 billion, compared to collections of VN\$2.3 billion during the same period last year.

Factors contributing to increased tax collections are the steady improvement in management capabilities of the Tax Department and streamlined procedures. Two Tax Directorates have merged and tax offices have been consolidated, reducing overhead and simplifying management requirements.

I think perhaps the most salient fact to note about the last month is that the government and people of South Viet Nam have been subjected to another period of testing. The enemy had hoped to break down their morale, to create dissension between them and us, to take a long step toward the collapse of the government here through the impression they hope to make on public opinion in the United States and through rocketing of the cities, and to build up pressures for a peace cabinet. The fact is that the enemy has failed in all these efforts. His failure to disrupt the political scene here or to set back pacification has been clear. His failure to achieve his military objectives has reinforced Vietnamese popular opinion that he is growing weaker. The result has been that both the government and people have remained calm and confident and have acquired a further sense of their strength relative to their adversary.

# LXXVIII

# FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY SEVENTY-EIGHTH WEEKLY TELEGRAM, MAY 6, 1969 The enemy's most recent offensive has ended. Evidence is accumulating of preparations for a new, and fifth, effort. Our forces last week picked up 23 significant caches compared to eight the previous week. Intelligence indicates that the enemy may try to launch this offensive in early summer, perhaps June or July. He thus continues his strategy of "talking while fighting" in the hope and expectation that our will can be eroded and concessions forced from us at Paris. Thieu has expressed to me his belief that in the meantime we can expect a lower level of offensive action by the enemy while he waits to see the results of what he hopes will be growing impatience in the United States. The enemy's willingness to contemplate a new offensive in face of the military and political setbacks he has suffered in Viet-Nam highlights the fact that his real target is U.S. public opinion.

I concluded in my last message that the enemy was making little progress in South Viet-Nam toward achieving his essentially political goals. Events in the past months have strengthened my conviction of this. In fact, in some significant respects he is losing valuable ground. Here in Viet-Nam, time is not on his side.

In my last message, I outlined what I believe to have been the enemy's principal objectives in launching this post-Tet offensive. He signally failed to achieve one of his most important aims, to divide the USG and the GVN over the issue of retaliation for the shelling of the cities. Although, as I have reported, some apprehension continues among our Vietnamese allies about our ultimate will to meet our commitments here and continued reassurance is therefore needed, the significant point is that nationalist morale remains intact. The enemy also failed to reverse or significantly check progress in pacification. He failed to impress the population with his military strength. On the contrary, the feeling is quite general that his recent military failure indicates growing weakness. And, although the precise extent is difficult to judge, the morale of his own forces appears to have suffered. For example, Chieu Hoi rates at 900–1,000 per week, have remained remarkably high.

Although the offensive seems to be over, there is an important pattern about enemy casualties in that they remain significantly higher after the offensive than they were before. During the seven weeks prior to February 22nd the enemy lost on an average 2,500 killed per week; during the 5 week period from February 23rd to March 29th when the offensive was at its most

intense, he lost on the average nearly 5,000 per week. During the subsequent five week period between March 29 to May 3rd as the offensive slowed and then petered out, the enemy has lost an average of about 3,300 per week; this of course is without taking into account the unknown number who died from wounds, were killed by air, or were killed in Laos. Nor does it take into account ralliers and infrastructure eliminated, together some 1,300 per week. Friendly losses during this period were 2,163, of which 955 were American.

Viewed from the communist vantage point, the overall situation in South Viet-Nam this spring must offer some other unfavorable perspectives. They are aware, because they are suffering the consequences, of the continued and accelerating trend toward improved RVNAF performance. (President Thieu told me that he believes that one of the enemy's greatest concerns at present is the prospect of a "Vietnamization" which permits a reduction in U.S. forces. This, they fear, may counter American impatience, on the importance of which they are placing so much hope.) The communists must also know of important GVN moves to improve its relations with the people in the countryside, especially in strengthened village and hamlet government and in land reform about which the President has recently spoken so eloquently.

[five words excised] that the enemy is observing with acute concern recent steps to improve relations between ourselves and Prince Sihanouk, as well as evidence of growing rapport and cooperation between GVN and Cambodian officials along the border. He must fear that if this trend continues, it could eventually impair use of his vital Cambodian sanctuaries.

Finally, in what could prove to be one of the most important political developments in South Viet-Nam in many years, Thieu has launched an initiative toward the consolidation of nationalist political unity, an initiative which must be profoundly distasteful to the communists. (I shall discuss these topics in greater detail later in the message.)

Balanced against these factors, of course, must be weighed the effect on United States public opinion of the casualties inflicted on our forces. I think it is clear that the communists attach overriding importance to this aspect of the conflict. Nor do I suggest that the situation here must appear so unfavorable that the communists' will to fight has been seriously affected. Our opponents have amply proven their tenacity and ability to sustain heavy blows and come back for more. However, there are indications that they may be in the process of scaling down their objectives. In this connection, a most interesting COSVN guidance was recently captured by our naval forces in Long An province. It makes a perfunctory acknowledgement of the "great victories" achieved in the offensive just ended, especially in the killing of so many Americans, which "gave a great boost to the anti-war movement in the United States." However, the thrust of the document is a grim exposition of the difficulties which the communists face, and the slow progress they can expect. For example, it redefines "the general offensive and general uprising" as "a course of action through which we repulse the enemy one step at a time and obtain piece-meal victory. Why is this so? This is because the enemy

still has more than one million men." Aside from this clear recognition of the impossibility of achieving a military victory, the document further states that "the final victory will not come to us in...an easy way, but it will come in a difficult and complicated way. It will be a limited victory, and not a clear cut victory."

I have reported to you the extensive conversations on a number of subjects which I had with President Thieu after my return from the United States. With regard to the negotiations, I reported to him the importance you attach to developing an agreed position on a political settlement; to put down in concrete terms our ideas on how negotiations on such a settlement could progress. I have urged him to have a paper ready for discussion with Secretary Rogers when he arrives in May and he told me yesterday that he hoped to be able to discuss a draft with me within a few days. I added that I thought it important that we have an agreed plan, then decide on the timing for using it; what we should say in public; and what we should be prepared to say in private talks.

As you know, since my last message, President Thieu has taken an important step in strengthening the GVN's public position on a peace settlement by his announcement that his government is ready to enter into direct and secret talks with the NLF in Saigon, in Paris, or anywhere else. This was a bold initiative which might have caused considerable uneasiness had it been interpreted as stemming from weakness. In the actual circumstances it was welcomed here and treated as evidence of strength.

I should, however, add a word of caution. While I think Thieu may soon be in a sufficiently strong position to lay down a public challenge to the other side to transfer the military conflict into a peaceful competition at the ballot box, negotiations about the conditions under which such a competition might take place could prove the touchiest and most difficult of all subjects. The enemy will undoubtedly require some special assurances and safeguards before he risks such a competition. In fact, Thieu has said that this was understandable, and that the GVN would be prepared to offer safeguards, possibly international supervision of both the elections and of guarantees to the NLF. But if we expect the GVN to go as far as may be necessary in conceding such special assurances and safeguards, we must be prepared to consider what assurances we, on our part, can provide the GVN. This emerged clearly from a conversation I had with Thieu in March. He said, in effect, "How flexible we can be depends on what assurances we receive."

Four or five months ago it would have been unthinkable for Thieu to announce that he was prepared for direct dealings of any kind with the NLF. That he can do so now, at so little political cost, is impressive evidence of the evolution which has taken place in South Vietnamese opinion regarding the fundamental issues connected with a peace settlement. Much of the credit for this healthy evolution must go to Thieu, who has guided public opinion instead of being led by it.

There is nevertheless a growing feeling among many nationalist politicians that the GVN has gone about as far as it can in making concessions and it is now for the other side to come up with proposals. As I mentioned above, there is still apprehension over the durability of the American commitment over the long terms. Statements by senior American officials are, as you know, minutely scrutinized here for indications of a weakening in our will.

Twice during the past month we had evidence of this hypersensitivity, once when Secretary Rogers referred to "ambiguity" in the Manila Conference communique regarding troop withdrawals, and again when Secretary Laird commented that a coalition government, if it comes to power in South Viet-Nam through free elections, would prove acceptable to the United States. Both statements were initially greeted here as radical departures from established policy. Although Thieu accepted our assurances that neither statement implied changes in U.S. policy, Foreign Minister Thanh felt compelled to call a special televised press conference to deny that there are any differences between the U.S. and the GVN on the fundamental issues of accommodation with the communists or allied troop withdrawals.

Regarding the latter point, Thanh delivered what I find to be a carefully thought out and useful exposition of the GVN view of how a phased withdrawal of allied troops might take place. The fundamental principle in this matter, Thanh said, is that troop withdrawals take place in such a fashion as to be "neither advantageous to the aggressors nor disadvantageous to the victims of aggression." He continued: "If an agreement on mutual withdrawal could be reached, the withdrawal of allied troops will be made in harmony and in accordance with NVN military and subversive force withdrawals. Unilateral withdrawal of Allied troops is out of the question." The Foreign Minister also distinguished between mutual troop withdrawals, which was a matter to be negotiated in Paris, and the possible reduction of U.S. troop levels. The latter, he said, would take place by agreement between the GVN and the U.S. and will be based upon improved RVNAF capability without in any way changing the balance of forces between the enemy and the Allies in South Viet-Nam.

I must refer to the saddening discovery of additional mass graves near Hue of victims of communist murders during the 1968 Tet offensive. There may well prove to be more than 2,000 corpses in the graves now being opened. These are in addition to the 1,000-plus discovered last year. In an act of cold-blooded arrogance comparable to those of the Nazis in World War II, Hanoi Radio April 27 in a broadcast beamed to South Viet-Nam proudly acknowledged responsibility for these mass murders. It spoke of the bodies as being those of "the hooligan lackeys who had incurred blood debts to the Tri-Thien-Hue compatriots, and who were annihilated by the southern armed forces and people in early Mau Than Spring." This admission of the murder of several thousand of their countrymen hardly accords with the benevolent facade the NLF attempts to maintain in international activities. I am sorry that the story, which is reminiscent of the Katyn Massacre, came out at the

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time when there were bigger news events, and thus did not get the international attention it deserved.

The most important political event since my last message was President Thieu's statement before the National Assembly April 7 that he is prepared to lead a political movement in an effort to achieve nationalist political unity. This is not without risk. The consequences of failure could seriously affect nationalist political morale and I should think could also affect adversely U.S. public opinion.

I do not think the President will fail. Enough key groups and individuals have indicated their intention to join in this effort so that at the very least the result should be a marked improvement over what we have had before. What is likely to emerge at first is something like an alliance of political forces. Eventually this could lead to a more unified nationalist political organization, but we should not expect anything monolithic.

The President seems well aware of the danger of seeming to repeat the experience of Diem, who built the Can Lao party as his own private political instrument. Thieu's political enemies—among them the Buddhist militants and some Southern extremists—are already leveling this accusation against him. The President in his Vung Tau speech April 21 and in private talks with me has strongly denied that he is founding a political party in order to become its leader. Furthermore, some of the most important politicians cooperating with him are erstwhile opponents of Diem, a number of whom were jailed for their opposition to his dictatorial rule. They are not likely to cooperate in building Thieu into "another Diem."

In order to fashion this new political organization the President is finding it is necessary to pay a price. Since he is dealing with politicians, obviously one problem is the sharing of power. Thieu is making clear that he sees no necessity to bargain over cabinet positions, and that he is not now prepared to do so. However, the politicians can expect support and sustenance from the powerful office of the Presidency, and no doubt see themselves as winning influential positions in the government in the not too distant future.

The details of organization are still being worked out by Thieu. He has made it clear to the political leaders that he expects this to be a serious and permanent organization; that they will have to earn their way into participation in the government.

There is another problem which could confront the President, and that is if the new political grouping should seem—as now appears rather likely—to be a Northern and Central combination against Southerners, and with a disproportionately heavy Catholic element. This could exacerbate the trouble-some regional and religious frictions at a time when greater national unity is the goal. Thieu and his lieutenants appear aware of this danger, and have sought and received the support of some significant non-Catholic elements, especially in the Revolutionary Dai Viet party and in the moderate Buddhist faction of the Venerable Tam Chau. There is a possibility that other Southern-oriented groups may join, which would also alleviate this potential

source of irritation. As long as Prime Minister Huong, a revered figure in the South, remains on the President's team, he will be protected from much southern criticism.

The attitude of Vice President Ky and Prime Minister Huong toward President Thieu's initiative will of course have come bearing on the success of failure of his efforts. Neither has much faith in politicians or political organizations in the present stage of the development of Vietnamese society. Ky is saying to his associates that he thinks the President made a mistake by "lowering himself" into the political arena; that he (Ky) has not been asked to play a role in the new political grouping and that President Thieu "should not count on him" as his running mate in the 1971 Presidential election contest. There is no indication the Vice President will in any way attempt to obstruct Thieu's efforts, and in any case neither Ky nor his rather small entourage are now in a position to exert a decisive influence on the course of events. I also feel certain that Ky understands it would not be in his interest or that of South Viet-Nam to make trouble.

As for Prime Minister Huong, he has long held politicians and "politicking" in rather autocratic contempt, and this was clearly reflected in a conversation with me April 24. I think it is clear that the Prime Minister will hold himself aloof from direct association with Thieu's political organization, but he will certainly not attempt to hinder the President's efforts in any way.

We have heard some disturbing reports recently about the Prime Minister's health, but in my April 24 conversation it emerged clearly that he has no intention of soon retiring from office. In fact, after remarking somewhat ruefully that "I seem to be condemned to continue in office," he then confided "a little secret" that he had recently told Thieu that he is willing to be his Vice Presidential running mate in the 1971 elections.

Another long-awaited political event has taken place since my last message to you—the upper house, which had stalled the Political Parties Bill for almost nine months, finally passed the measure April 28. I expect the version which passed the upper house will also emerge relatively unchanged from a second reading in the lower house and scrutiny in the Executive. When finally promulgated, this bill will encourage the merger of smaller parties into larger ones. Together with the President's personal political initiative, this measure should go a considerable way toward bringing some order out of the chaos which has characterized the nationalist political scene in South Viet-Nam.

President Thieu has resumed the energetic schedule of travel to the provinces which he initiated with such success last summer, and continued through the autumn and winter. During the last month he visited all four corps, inspecting pacification projects and speaking eloquently to the local people about the need to prepare for the coming political struggle with the communists. The President has told me that he is convinced that improved village and hamlet government is a key element in this struggle. As another step in bringing the government closer to the people, President Thieu has indicated that elections for provincial and municipal councils are to be held this

summer. Furthermore, these councils—which to date have been merely symbolic institutions with no real power—are to be given increased authority and responsibility. The details of this, however, are yet to be worked out.

The President delivered a convincing exposition of how he intends to create "village democracy" in an excellent speech to village and hamlet officials in Vung Tau April 21. As I have remarked previously, I am impressed with Thieu's greatly improved political style, his ability to handle crowds, and the evident enjoyment he derives from it. When the President talks to the local people, he uses no notes. His manner is informal and he establishes evident contact with them, almost always generating an enthusiastic response.

In Vung Tau the President pointed out that democracy is not just a matter of establishing representative institutions at the national level. The people, he said, "do not live in Independence Palace or in the National Assembly, but in straw huts in the villages and hamlets." Local officials have the responsibility for bringing real democracy to these people, and thus they must be given responsibility, authority, and the means to exercise authority. To this end, the President promised, the elected village governments will be strengthened this year with additional personnel and funds, and village chiefs will henceforth be given command authority over local armed forces—the Popular Forces militiamen, Self Defense personnel, and Revolutionary Development cadre. With these new powers and these new resources, he said, local officials will be held strictly responsible for providing good government to the people.

The President also promised that new and important emphasis will be given to land reform measures. All lands still held by the GVN will be distributed this year. "Our objective," he said, "is to make everyone who plows a rice field become its true owner with legal ownership papers." On April 17, the President told me in some detail of his land reform plans. He has ordered the launching of an extensive publicity campaign, and the preparation of a time-table for the turnover this year of the cultivable land the government still holds (some 160,000 hectares), with accelerated distribution to be well underway by June 30. (This campaign will also publicize the President's statement last summer in Ba Tri that peasants holding lands "given" to them by the Viet Cong need not fear dispossession when their hamlets return to GVN control.)

The second aspect of what he intends to be a true "agricultural revolution" calls for implementation of a voluntary purchase plan. Under this plan 800,000 hectares—almost 2,000,000 acres—would be purchased from some 16,000 landlords with 250,000 hectares to be acquired this year. Various schemes are under consideration for fair compensation to the previous owners, but the key to making the program work will be legislation lowering the limit of the amount of land that anyone may own. It may take a while to get this legislation on the books, but there is no doubt that Thieu means to see to it that this is done, and I believe the National Assembly will go along. In any case, the beginning of voluntary purchase does not need to wait for the legisla-

tion on lowered retention limits. Land reform and the strengthening of village government are closely related measures which if promptly and realistically implemented will make a vital contribution to improving the government's relations with people in the countryside.

In one respect, I regret to report, there has been no improvement since my last message. In fact, there may have been some deterioration. This has to do with the GVN's image in the western press. A number of developments have contributed to this. I mentioned in my last message that the harsh sentence imposed on the Venerable Thien Minh, even though mitigated to some extent by Thieu's order that he be confined in comfortable circumstances, was a political mistake. On top of this, the public mind became confused by the unnecessary mystery surrounding the recent series of assassinations and assassination attempts in Saigon. Although the GVN has absolutely conclusive evidence that these attempted murders were organized by a special assassination team of the North Vietnamese intelligence service, there are still some who believe it was more a matter of domestic politics.

The most recent event adding to the climate of skepticism was the arrest of a publisher of an English language daily newspaper, Nguyen Lau, on charges of treasonable relations with a senior North Vietnamese intelligence agent. The police committed a blunder by producing Lau before the press in the belief that he would publicly repeat his confession of complicity in espionage. Instead, Lau pleaded guilty to the lesser crime of not having betraved "a friend and fellow-intellectual" to the police—thereby giving people here and abroad the impression that no more damning evidence against him exists. (Thieu was furious about this blunder and, unfortunately, lashed out publicly against "whisky-drinking intellectuals," which only made matters worse.) The full story of the espionage ring has yet to be told publicly, but the press is now predisposed to doubt the government's story. One interesting aspect is that the brother of the key member of the ring is a prominent dovish member of the National Assembly. I refer to this story because it highlights three points: the clumsiness of the government here in handling the press; the complexity of personal relations between communists and non-communists; and the circulation of rumors, which I regard as absurd, that the government is preparing some kind of "purge" of intellectuals.

As I observed in the opening portion of this message, the enemy's offensive has ended but preparations are underway for another attempt in early summer.

I have already referred to the high losses the enemy sustained in his recent offensive and continues to sustain after its termination. This is due to the initiative of our troops under General Abrams' able direction and to improvement in the performance of the Vietnamese forces.

Terrorist activity remains high, with the number of incidents increasing slightly over the period reported in my last message. In the period March 9-April 19, communist terrorists killed 1,421, wounded 3,222, and abducted

1,640. The weekly average level of terrorism continues considerably above the 1967 and 1968 levels.

People's Self Defence Forces have been singled out as special targets for Viet Cong terrorists. [four words excised] the enemy had originally hoped to eliminate these forces before they could effectively support the accelerated pacification program. Recently captured documents, however, indicate that the VC now consider the Self Defence Forces as the backbone of the accelerated program. A VC prisoner captured in April stated that COSVN has targeted these units specifically because they have interrupted VC political and military efforts. In the month of April, PSDF suffered 359 killed and lost 683 weapons, while killing 422 of the enemy and capturing 308 weapons. The ratio of weapons lost to weapons captured may reflect in part the inadequate armament that these forces have been provided.

I mentioned earlier in this message indications of acute concern by the enemy over the prospects of improved relations between the United States and Cambodia. During the months of March and April, at least twelve meetings have been held between Vietnamese and Cambodian officials along the border, largely at Cambodian initiative. President Thieu has encouraged these contacts, most of which occurred in the Delta, where Vietnamese and Cambodian outposts are contiguous. During these amicable encounters [six words excised] and arrangements have been made to avoid incidents. There has even been some talk of possible joint operations to clear VC units out of border sanctuaries, but no such operations have yet occurred. Perhaps we should not expect too much in the way of such cooperation, but it seems to me useful for the Paris negotiations that the enemy should worry about the future of his Cambodian sanctuaries.

I have recently received a report which significantly revises the comparative figures for Vietnamese and American deaths in 1968. Those most recent updated figures, contained in a *Southeast Asia Analysis* report dated March 1969, reveal that during 1968 US forces suffered 14,592 killed while RVNAF forces lost 24,265 dead. I think these figures speak for themselves, and eloquently, of the burden borne by our Vietnamese allies.

This same report notes statistical evidence of markedly increased RVNAF effectiveness. In 1968, Vietnamese forces killed the enemy at 2.6 times the 1967 monthly rate. (US forces increased their kill rate in 1968 over 1967 by 1.9 times.) The report concludes that the better overall performance of Vietnamese armed forces—resulting from a combination of improved effectiveness and increased size—added the equivalent fighting strength to RVNAF in 1968 of about 166,000 American soldiers. This kind of improvement holds out a hopeful prospect for future reductions of US forces here.

Our program to increase the fighting ability of RVNAF is accelerating. General Abrams reports that during the period March 8-April 22, we turned over to ARVN two 105mm and one 155mm howitzer battalions, two light truck companies, and one medium boat company. Five more artillery battalions, an armored cavalry battalion, and an infantry battalion are in train-

ing, plus numerous support elements. Conversion of two VNAF H-34 helicopter squadrons to UH-1 aircraft is under way. The conversion of all three VNAF squadrons of propeller-driven A-1 fighters to advanced jet A-37's has also begun; one of these squadrons became operational April 1.

I am glad to be able to report that the figures for the month of February, which contain the latest data available, indicate that RVNAF desertions continued to decline for all forces. This marks the fourth consecutive month in which all branches of the Vietnamese armed forces have reported a decline in desertions. Of course, the term "desertion" as used by the Vietnamese includes what we call AWOL and the figures are inflated by the fact that some soldiers "desert" to enlist in units closer to their homes. There are very few desertions to the enemy, whereas on the enemy side most desertions are in fact defections to our side.

Enemy offensive activity in March and April has had only a modest adverse effect on pacification. While eight provinces showed a decline in the percentage of "relatively secure" population in March and April, for the country as a whole this percentage of "relatively secure" population actually increased slightly since my last message, to 82.1 percent. Again, I hold no brief for the exact figures, but believe the trend is accurately reflected by them. I am glad to report that the appointment of Interior Minister Tran Thien Khiem as Deputy Prime Minister with special responsibilities for pacification, reported in my last message, has already led to further improved coordination of the GVN pacification effort. President Thieu's own continuing interest in pacification, and his plans for land reform and improving local government—measures which will have a direct bearing on pacification—have been discussed elsewhere in this message.

I find recent evidence of progress in the Delta most interesting. As you know, the populous Delta has over the years proven a most difficult area for pacification. However, in the Delta during March relatively secure population went up by 3.1 percent as distinct from 1.8 percent for the country as a whole. In addition, the Delta has provided 70 percent of the 14,548 ralliers who have come this year up to May 3. The total last year for the same period was 3,852. We should not conclude from this that the enemy is on the point of collapse in the Delta, but this and other indications, suggest he is having increasing troubles in an area which was once his domain.

The attack against the VC infrastructure is undergoing a statistical revision as a result of new and more stringent criteria. Under those new criteria, 1,481 VC members of a significant rank were removed from circulation in March. Considerable attention is also being given to improvements in the legal processing and handling of these persons after capture in an effort to avoid premature releases or unreasonably light sentences on the one hand and to improve the administration of justice on the other.

One possible result of the enemy's offensive was that our program to resettle refugees made only slight progress in March. There are still 1,400,000 persons in this category, half of whom are "out of camp" refugees requiring little

assistance. We have a far more accurate picture of this problem today, however, and a variety of efforts are on the way to resettle about a half million refugees during 1969. The exact goal is still under discussion.

The continuing effort to negotiate a stabilization agreement with the object of a substantial increase in revenues and reduction in inflationary pressure, has so far met with no success. President Thieu has raised with me his unwillingness to undertake measures which will require legislative approval in the midst of delicate political negotiations, although he is prepared to take certain limited measures by executive action. Although the current rate of price rise is small, the continuing growth of money supply and the prospect of further wage increases make the prospect for continued stability highly unlikely. I intend to continue to urge the President to take appropriate and timely preventive action, using selected segments of our aid program as leverage.

Dr. David Lilienthal's arrival last week and his presentation of his group's 1968 report to President Thieu on April 28 ended another but still rather early phase in the planning for post-war development. Further progress awaits a GVN decision on internal organization for planning, and our consideration of how Mr. Lilienthal's group can best be used in regional planning, particularly for the Mekong Delta.

Prices fell slightly after the Tet holiday indicating that the supply situation is good and was completely unaffected by the recent wave of military activity. A major factor in continuing stability is the extraordinarily high flow of consumer commodity imports, most of which are financed with Viet-Nam's own exchange.

There have been some disappointments since my last message. The government has demonstrated a rather singular ineptness in its handling of the press and of the series of assassinations and assassination attempts in Saigon. Granted the government's concern for VC penetration of the press and infiltration of subversive elements into Saigon, its handling of these matters has not given an image of strength nor has it shown sensitivity to public opinion abroad. Secondly, due in large measure to the recent offensive, there was a substantial slowdown in the rate of refugee resettlement. Third, no progress was made toward a stabilization agreement due primarily to the GVN's concern of the effect of heavy increases in taxation during the period when it is engaged in the delicate process of attempting to put together a cohesive political organization.

On the other hand, progress has been evident in a good many ways. The enemy's offensive was defeated and he suffered serious reverses both militarily and politically in Viet-Nam. Continued progress has been made in equipping and training the Vietnamese armed forces. Important steps have been initiated by Thieu in an effort to achieve nationalist political unity. Progress has been made toward more effective local government. Legislative and organizational preparations for land reform are beginning to take concrete form. Though this is a difficult and complex problem, I am impressed by Thieu's concept of it, by the capacity and energy of the new Minister for Agriculture

and Land Reform, and by the way in which he is organizing his Ministry to carry it out. The GVN is continuing exploration of the problems of a political settlement. We came to an agreement with them last week on the principles of mutual withdrawal. Finally, I am impressed by Thieu's continuing pressure on all elements of the government to meet his target dates in all the priority areas he has established.

#### LXXIX

#### FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY SEVENTY-NINTH WEEKLY TELEGRAM, JUNE 5, 1969 As I survey the situation on the eve of the Midway summit meeting, I am struck by the number of important political trends that are in evidence. The last month has in fact been one of intense political and diplomatic activity. It saw the enunciation of the NLF's Ten Points, then your own May 14 speech, the visit of Secretary Rogers, and the Bangkok meetings. The political issues are getting to be more clearly defined, and Thieu has moved further in his thinking on the parameters of a settlement. At the same time, however, there have been growing fears in South Viet-Nam, largely as a result of news reports from Washington, that we may be drifting apart on some fundamental points regarding a political settlement, and again there are suspicions that we might be preparing a camouflaged abandonment of our Vietnamese ally. I am confident that the Midway meeting will provide the necessary reassurance. Meanwhile Thieu has regarded the situation here as sufficiently stable for him to travel to South Korea and Formosa.

Internally, there are a number of favorable trends and developments and a few that are potentially troublesome. On the plus side, there was the launching of the National Social Democratic Front as a vehicle for the consolidation of non-Communist forces in South Viet-Nam. I commented on the importance of this initiative in my last message. Although still beset with problems, creation of the Front is unprecedented. Ever since the abortive National Union government with the Communists right after World War II the organized non-Communists have been unable to unite in a common effort. That most of the important political forces did get together under Thieu's leadership is thus an event of considerable historic importance. Another historic move that is still in preparation but may be announced soon is a land distribution program which, in the boldness of its conception, would overshadow that the Communists have been able to offer the peasant of South Viet-Nam.

Military activity was relatively reduced since my last report, but the enemy's losses still run about 50 percent higher than in the lull before the February/March offensive. In part this is due to the new enemy strategy of short surges of intense activity consisting of indirect fire and a few ground attacks, preceded and followed by periods of relative calm. In part the higher enemy losses are due to more aggressive ARVN action, poorer enemy performance, improved allied intelligence, and—last but not least—rapid reaction and imaginative leadership, especially on the part of our forces. However, the

enemy probably finds his present strategy most suitable to his own primary objective which is to inflict casualties on U.S. forces in order to exert pressure on American opinion and thus induce us to make fundamental concessions in Paris. That that is indeed his primary objective continues to be apparent from captured documents and interrogations.

The enemy has a dilemma, however. He does not have the strength to do everything he would need to do and he recognizes that while attacking American and ARVN positions and installations is important, he cannot afford to neglect the GVN's pacification program which is constantly narrowing his economic and manpower base. Neither can he ignore the growth of the Vietnamese armed forces which, as one of his documents correctly puts it, "are being nurtured by the Americans to replace them when they withdraw." As he concentrates on quick thrusts, the Allied forces are still fanning out in the countryside and bringing more and more villages and hamlets under GVN control. The index of pacified hamlets continues to go up. In April, the goal which President Thieu had set for June (83 percent) was surpassed, and another accelerated campaign is in preparation to reach the year-end goal (90 percent) by the end of October. One does not have to accept the validity of individual figures to be heartened by the trend.

There are political and economic clouds on the horizon. I shall discuss the problem of a political settlement, as it appears in the light of the most recent developments, further below. In terms of domestic politics, the suspicions that the U.S. may yet accept some kind of "peace" or coalition government has had the result that a few politicians are gambling on American support against Thieu and are holding themselves out as potential bridge-builders to the Communists. This is especially true of Senator Tran Van Don, a former general who helped to overthrow Diem and who is now campaigning against Thieu's unity efforts and appealing to some of the military generals to associate themselves with him. On the economic front, while we have finally reached agreement with the GVN on measures needed to stem the inflationary pressures and while prices have not risen much recently, large additional government expenditures are to be expected due to the need to raise the pay of the military and the civil service and to finance various new projects including land reform. A number of steps to restrain demand are under consideration, but the necessary drastic revenue measures may not be obtainable or may no longer suffice, so that devaluation may become necessary sooner rather than later.

Before setting out the balance sheet in greater detail, I should like to return to the crucial point for Midway—that is the new uneasiness which has developed here in the last two weeks. As I have reported, the initial reception of your May 14 address was excellent. When Secretary Rogers saw the Prime Minister he found him enthusiastic, remarking that you would become known as "the Savior of the Republic of Viet-Nam." Incidentally, the Prime Minister followed through on what he told the Secretary about publicizing your speech: 200,000 copies are being distributed by the GVN throughout the country.

The message was correctly read as a pledge that we would neither compromise on essential principles nor let down our allies. Gradually, however, it dawned on the politically more aware Vietnamese that the U.S. has said nothing in answer to the enemy's contention that there must be a provisional coalition government to run new elections, or in answer to his position that the purpose of the elections must be to write a new constitution and to install a permanent coalition government.

This, as I see it, goes to the heart of the matter. If the enemy really believed that the NLF represents a majority of the people, then he would long since have agreed to withdraw the North Vietnamese forces in order to get our forces out. He would have insisted on fair elections, but he would not have insisted on a change in the government before elections because he would have expected that the whole GVN apparatus would collapse shortly after the withdrawal of U.S. and Allied forces. It would have been sufficient for him to have guarantees that the elections would be truly free. But as in Poland or Hungary or Romania after World War II, the Communists know that they would be beaten in genuinely free elections, so they try to create conditions favorable to themselves before they would contemplate a contest at the polls. In South Viet-Nam, as in Poland after Yalta, the device to create those favorable conditions is a coalition government (in Poland it was called Provisional Government of National Unity) to run elections in such a manner that the Communists are insured a key position in the election outcome.

Our willingness to compromise on this issue is therefore the touchstone of our commitment. On all other issues Thieu is showing a remarkable flexibility. Although he has told the Secretary that he feels strongly that the present constitution must be preserved, he has made it clear that some of its provisions must be amended. Publicly Thieu still rejects the idea of amending the constitution to re-schedule elections and permit communists to run, but privately he told the Secretary on May 17 that "the NLF might run as a Communist Party, as the NLF, or under a new name." He had told me earlier, before my visit to Washington in March, that "if it should become necessary for a settlement of the war to go this way, i.e., general elections right away, we would be prepared to accept it," and he added, as he does in connection with all these issues, that "it is a matter of bargaining, and what we get for it"—in other words, that he is reluctant to make concessions, unless and until there is evidence of flexibility on the other side and at least the outlines of a settlement become visible.

There are indications that the enemy is planning another offensive in June or July. The COSVN directive for that offensive links it clearly to the Paris talks. Since he has too often promised final victory as the outcome of his offensive—which must have created a substantial credibility gap in the minds of his supporters—he now merely forecasts a series of "limited victories" that lead to eventual "total victory." Yet an increasing number of captured enemy documents state that the U.S. is on the verge of settling the war and that the only requirement for speeding this process is for the Communist forces to

keep up the pressure. The enemy sees us in a hurry for results in Paris, and our Vietnamese ally is worried that the enemy may be right.

I think the enemy's arrogance and seeming certitude about the outcome of the war is a cover for his growing concern. We know enough about his internal communications to conclude that he is genuinely worried that a protracted war may favor our side rather than his side. He therefore is profoundly disturbed about the prospects of Vietnamization of the war, seeing it as a "perfidious trick of the Nixon Administration" which could snatch away the victory that he had seen as coming to him due to anti-war pressures in the U.S. We also know that the constant shrinkage of the enemy's base in South Viet-Nam is causing considerable problems for him. The VC have increasing problems of manpower, money, and morale. The quality of the NVA soldiers as well as leadership seem to be declining. Cambodia is a new worry to the other side. Communists are usually arrogantly unyielding until the very moment when they do yield in negotiations, and they usually start yielding when they become convinced they won't gain concessions by stonewalling. I therefore believe that when you declared on May 14 that "our fighting men are not going to be worn down, our mediators are not going to be talked down and our allies are not going to be let down," you markedly improved the prospects of an acceptable negotiated settlement.

The most significant political event of the month in Viet-Nam—and perhaps since the establishment of the present constitutional government of SVN in the autumn of 1967—was the agreement reached between President Thieu and six of the largest and best organized nationalist political parties to establish a working political alliance. This alliance, launched as the National Social Democratic Front (NSDF) at an inaugural ceremony in Saigon May 25, brings the president and the parties after much hard bargaining into a cooperative venture in which both have very largely committed their political fortunes. As he foreshadowed in his April 7 speech before the National Assembly reported in my last message, Thieu has thus taken the important step of involving himself and the prestige of his office in the effort to achieve greater nationalist political unity.

I believe Thieu is right in taking this risk, and I think the odds are that he will succeed—with some difficulty—in welding the NSDF into an effective nationalist political coalition. I have always felt that when the South Vietnamese nationalists face the reality of a political settlement and the prospect of political competition with the well-organized Communists as the large-scale fighting tapers off, they would close ranks for self-preservation, and do it in a typically Vietnamese way. A single political party was hardly conceivable, given the character and history of the country's divisionism. What they are working toward—a working confederation of political parties, sharing the burdens, the risks, and the spoils of the political contest—is the next best thing. I have no doubt that there are still plenty of problems, but they are moving in the right direction.

Prudently, Thieu took the occasion of the launching of the NSDF to announce that it is "not a party which monopolizes patriotism, or seeks dictatorial power...I do not advocate a one-party system, or dictatorship." He made it clear that there is room for a non-Communist opposition, and indeed some elements of such an opposition have been organizing at the same time. But most of the major organizations which had been standing aside are now under the NSDF roof, which prompted Thieu to remark to me jokingly that he had just become "the leader of the opposition." It is true that the constituent elements of the NSDF have more experience in opposition activities than in cooperative group effort, but for that very reason the remarkable thing will not be that they cooperate with difficulty but that they work together at all. To persons familiar with the sad and complex history of the last 25 years (as most of the journalists attending the occasion were not) there was something inspiring in seeing to the right and left of Thieu men who only a few years ago had jailed each other under Diem and in the aftermath of the Diem regime.

The elements that are standing aside from the NSDF are by no means unimportant even though they are heterogeneous and for the most part unorganized or badly organized. I referred in my last monthly message to the relative weakness of southern representation. An essentially southern organization has been formed around Nguyen Van Bong and Nguyen Ngoc Huy (the latter being [one] of the GVN's negotiators in Paris). Although this organization, the Progressive Nationalist Movement, has some links to fuzzy pacifist elements, Bong told me his organization would most certainly cooperate with the NSDF in any showdown with the Communists. The An Quang Buddhists, of course, are also standing aside, and so are two conspicuously unemployed persons of political stature, Generals Duong Van Minh and Tran Van Don, both of whom are priding themselves on their good relations with the Buddhists and both of whom, no doubt, are on the receiving end of exhortations from the NLF to hold themselves in readiness for some kind of peace or coalition government.

The case of Tran Van Don (who together with General Minh and General Le Van Kim overthrew Diem in 1963) is especially interesting. His failure to cooperate with Thieu is essentially due to personal rivalry and a long history of past feuding since Minh was overthrown by General Khanh, with Thieu's support, in 1964. Finding himself on the sidelines, Don has taken to championing social reforms, press freedom, veterans' benefits, has vaguely called for a government of national unity, and criticizes the NSDF for including "certain undesirable elements" and for excluding "those forces which contributed most to the 1963 revolution." He has told us that he is being courted by the NLF but that he has rejected its advances. In the Senate, he has fanned suspicions about the ultimate intentions of the United States. It is quite possible that he considers himself a possible bridge-builder to the other side, which could be a constructive role under certain circumstances. For the present, however, his political activities are very annoying to Thieu and are in fact detracting from the national unity that the president is trying to create.

Although the political party leaders had to give up their claims for immediate participation in the government as a price for their accession to the NSDF, I believe the issue has only been postponed and will arise again in the not too distant future. Thieu has taken the position that the politicians must first demonstrate their ability to work together and to mobilize the masses at the village and hamlet level for the political competition to come. Some of the party leaders take the position that they can only work effectively at the lower levels if they are part of the government system, i.e., if they have patronage to dispense. I would not think it at all unhealthy if the demonstrated strength of some elements of the NSDF were eventually to be put in the service of the cabinet. Since not all of those elements can possibly be satisfied. however, one can already predict some in-fighting of major proportions when the time comes for the politicians to be given a share of political power. This would not be much different, however, from the situation in other countries when coalition partners have to sort out their respective claims to positions in the government.

The government has acted prudently in its relations with the An Quang Buddhists during the last month, especially by deciding to lower the sentence of Thich Thien Minh from ten years to three. The GVN also handed the Buddhist Youth Center back to the An Quang Pagoda. On the occasion of Buddha's birthday, Thich Tinh Khiet, the aged patriarch of the Unified Buddhist Association, issued a "peace message" (probably written by Tri Quang) with the usual line that the war was brought to Viet-Nam by the super-powers, that it has nothing to do with the interests of the Vietnamese people, and that only the Buddhists can "conciliate" the opposing sides. There was documentary evidence that the NLF hoped to stir up the Buddhists and to insert themselves into demonstrations on Buddha's birthday May 30, but the day passed uneventfully, partly due to intelligent and moderate handling of the An Quang Pagoda by the government.

A realignment of the parliamentary blocs should logically be expected from formation of the NSDF, and when it comes it is apt to be a constructive development; but it will not by any means end contentiousness between the executive and the legislature. There was a good deal of this during the last month, and some of it quite acrimonious—thereby showing that the division of powers is working only too effectively in South Viet-Nam and that the National Assembly is far from being a rubber stamp of Thieu or anyone else. The conflicts in May revolved around interpretations of the Constitution, with the Assembly insisting, for instance, that the government does not have the right to impose certain taxes by decree and that presidential amendments are to be considered rejected if the Assembly fails to muster an absolute majority of its members to sustain (rather than override) them. Fortunately there is a Supreme Court to adjudicate such matters.

In my last monthly report I referred to the land reform measures that were underway or were in preparation at that time. Since then there has been a major re-thinking of the entire concept, which amounts to a true revolution in land tenure rather than the reform that had been contemplated. In brief, it is now proposed to scrap the idea of voluntary purchase and to transfer title to tenant farmers outright, without any compensation to be paid by them, and with the government assuming the responsibility to reimburse landowners. Perhaps we should not count our revolutionary reforms before they are fully hatched, but it seems to me that this is a most welcome political development which should vastly improve the government's image in the Vietnamese countryside as well as abroad. Perhaps the most welcome aspect is that this rethinking of the basic concept of land distribution was done entirely by the Vietnamese on their own. The idea did not come from us, it came from President Thieu's new, young and dynamic Minister of Land Reform and Agriculture, Cao Van Than.

Present indications are that the Assembly will vote such a revolutionary land distribution program although the cost to the taxpayer will of course be a problem. Thieu and Than would wish to pay off the landlord fairly quickly, but the larger the down payment and the shorter the period of subsequent payments the larger will be the need for foreign (meaning US) assistance. It is obvious, I think, that an "All Lands to the Tiller" program of the kind that is contemplated would make a major contribution to the pacification effort. I believe we should look upon it as an integral part of the war. The Communists have "given" land to the landless farmers, but they were unable to give them permanent legal title. They have always been suspected of eventually intending to impose collectivization, and of course they have crushed the farmers with progressively higher taxes. The distribution of titles by the GVN will thus give the farmers a vested interest in the GVN cause, especially if land distribution is followed up by measures for assistance of the kind that the Communists have never been able to furnish, in the form of fertilizers, pesticides, seeds and credit.

Countrywide during the period April 24 to May 27 there were some periods of increased enemy activity in all Corps Tactical Zones. The activity was characterized primarily by indirect fire attacks, ground attacks, some of which were conducted by battalion size enemy forces, and attempts to interdict lines of communication. The majority of the indirect fire attacks were directed against military targets. During the same period there were 19,379 enemy KIA. Friendly forces suffered 2,727 KIA of which 1,015 were US. There are preliminary figures subject to further refinement.

Let us stop for a moment and look at the KIA figures, which cover a period of a little under five weeks. The average enemy KIA per week were thus on the order of somewhat over 4,000 a week, which compares with slightly under 5,000 a week during the Feb/March offensive and an average of about 2,500 per week during the first seven weeks of the year. US KIA figures, on the other hand, notwithstanding some surges during days of maximum enemy activity, are generally at the level at which they were during the period of relative lull at the beginning of the year. The new strategy of lulls punctuated by widespread attacks-by-fire and ground probes thus seems to be

hurting the enemy more, relatively to an outright offensive, than it hurts us. A large part of enemy KIA are the result of small-unit actions initiated by our side to keep the enemy off balance and to secure the countryside for the GVN.

Gratifying progress was made in ARVN Phase II deployments during the period. One infantry battalion, one armored cavalry squad, three light truck companies, and four logistical support battalions (divisional) were deployed. New units in training include two engineer construction battalions, three 105mm howitzer artillery battalions, two 155mm howitzer artillery battalions, one armored cavalry squad, two light truck companies, one medium boat company, five logistical support battalions (divisional) and two military police battalions. Conversion of one VNAF H-34 helicopter squadron to UH-1 aircraft was completed, and two others are in the process of making the same conversation. The second of three VNAF fighter squadrons to be converted to A-37 aircraft became operational on May 1. The third is to complete conversion by August 1.

Enemy terrorism against the civilian population of South Vietnam steadily increased during the month of May. In the first three weeks, the number of terrorist acts jumped from 103 to 203 to 295 respectively. This increase was countrywide and in every category of incidents. Data from the first four days of the last week indicate that a still higher weekly total will be recorded. Terrorism in the capital military district (CMD) has not followed the general pattern. Captured enemy documents called for a "high point" of terrorist action in Saigon between 11 and 17 May. During this period, the number of incidents jumped threefold. Following this peaking period Saigon itself has been free from terrorism, while the larger CMD area also has escaped significant activity. The incidents during the month may be characterized as professionally executed and targeted against government (military and civilian) installations. Infliction of civilian casualties, unlike earlier periods of increased terrorism in the city, has not been an apparent aim of the terrorists.

One of the interesting developments in the military field has concerned Cambodia, which rejected our border declaration but otherwise was not notably hospitable to the VC and NVA. We have had reports during May of no less than 17 armed engagements between Cambodian forces and VC/NVA elements, most particularly in the border areas of the highland provinces in northeast Cambodia but also in the "parrot's beak" 40 miles west of Saigon and in the border area where the Mekong flows into the Delta of Viet-Nam. Sihanouk himself has announced some of these engagements. On the other hand, the meetings between Cambodian and Vietnamese officials to which I referred in my last message seem to have dried up.

Pacification continued its steady but unspectacular progress. There was a slight rise in enemy attacks on hamlets undergoing pacification, Chieu Hoi centers, and refugee camps, as well as an increase in terrorism, but the program continued relatively unaffected by these, except in certain isolated spots. The hamlet evaluation system results in April showed an increase during that month of 1.2 percent to 83.3 percent. While these figures are by no means ab-

solute, the steady trend over the past months is reflective of the overall atmosphere of the situation. May results are not yet available, but I would estimate a general continuation of the same trend. Incidentally, when President Thieu set an interim goal for pacification in February, he fixed it at 83 percent to be reached in June. Thus the program can be said to be a couple of months ahead of that target date.

Several of the ministers are following the President's example and getting out to the provinces to supervise their part of the pacification program. The main focus of the effort during the last month has been on gradual implantation of forces in new hamlets, further efforts to accelerate the arming of the People's Self-Defense (a program which had fallen slightly behind its goals), and stimulating the machinery to implement the new village development program which gives real authority to elected village chiefs. The President has indicated that he is thinking in terms of launching another special four-month pacification effort at the end of June, to try to accomplish by the end of October the goals originally set for the end of the year.

The attack against the VC infrastructure has proceeded steadily, but without any spectacular success either in terms of increasing the number of members neutralized or getting at really important leaders in the enemy's political organization. During April 1,795 VC infrastructure members were removed from circulation—about 20 percent better than March. May results are not available, but at the current rate the VC infrastructure is being eliminated at a rate of about 20 percent a year, not counting replacements the enemy is able to upgrade or recruit.

At the national level, President Thieu's guidance on strengthening local government has been carried out through a series of decrees, instructions, and training sessions. Changes are just now being felt in the villages and hamlets, in the form of elections, increased funds for village development, and greater responsibility and authority of village/hamlet administrative committees. During April, 33 more village and 179 hamlet elections were held, raising the totals of elected governments to 1,737 and 7,740, respectively. Concurrently, at the President's direction unpopulated villages have been consolidated with larger, functioning villages, reducing the total villages to 2,130. Hence, after about 300 village elections are held during June, more than 95 percent of the villages in SVN will have elected governments.

People's Self-Defense forces have grown to almost 1.3 million, with 800,000 considered trained and over 210,000 weapons distributed (although not necessarily all are yet in the hands of self-defenders). According to captured documents, the enemy had originally hoped to eliminate these forces before they could effectively support pacification. A recent document admits failure and indicates COSVN has targeted these units specifically because they have interrupted VC political and military efforts. The loss of 359 self-defenders killed in April attests to the enemy's concern. However, these poor-

ly trained and inadequately armed Self-Defense forces killed 422 enemy and captured 308 weapons during the same period.

Although the decline in number of Chieu Hoi ralliers last week (down 30 percent) may have signalled a change in the rising trend since late 1968, the weekly average in May has been 932 ralliers, or about three times the average rate during 1968. Oftentimes a drop in ralliers precedes a general enemy offensive. Or the decline may have resulted from the enemy's attacks against Chieu Hoi facilities—six during the past two weeks. However, with more than 17,000 ralliers so far this year against an end-year goal of 25,000, the Chieu Hoi effort is exceeding everyone's expectations.

Considerable attention has been focused on expanding and improving the National Police as it becomes evident to GVN leaders that military forces alone cannot provide the desirable degree of security and population control. At their present strength of 77,000, the National Police are not adequate for providing police protection in both cities and rural areas. We have suggested a buildup at the fastest sustainable rate of 92,200 by end-1969. President Thieu approved the plan and has ordered it executed. But, two constraints must be overcome—availability of manpower and funds. It appears that the Ministry of Defense will furnish the men from the conscription system and an austere supplemental budget will be requested from the Assembly. Meanwhile, the police force continues to show gradual improvement with operational results running far ahead of a year ago. For example, in the most recent two-week period, the NP killed 567 VC, captured 1,282, arrested 1,133 VC suspects, and captured 296 weapons (19 of them crew-served), at the cost of 18 policemen killed and 55 wounded—a remarkable ratio.

At Midway you may wish to make a remark to show your awareness that much of the improvement in pacification over the last year results directly from President Thieu's interest and direction. Not only has he made himself immediately available to make decisions on pacification issues, but he has taken the lead in formulating and announcing important pacification concepts such as expanding village/hamlet elections, launching the accelerated pacification campaign, instituting the village concept, increasing territorial security forces, strengthening police in rural areas and upgrading local officials. He now plans to review Phase I progress and personally influence Phase II in a series of field trips during early July.

In the present atmosphere of nervousness about overall American intentions in connection with a political settlement of the war, our efforts to induce the GVN to take measures to cope with inflationary pressures were bound to be misunderstood by some people. As we were withholding \$40 million in AID funds to exert leverage on the government to take certain urgent steps to increase revenue, there soon was an outcry that we were applying not economic pressure for economic reasons but economic pressure for political reasons. This flurry of excitement came to an end when I directed USAID to release the second tranche of AID funding for the second half of fiscal year 1969. I did this on the basis of an agreement with the government that certain mea-

sures will be taken to increase tax revenues, and that there would be a certain modus operandi for addressing the question of inflation in the next six months.

The government has signified its intention to introduce various tax measures designed to raise six to seven billion piasters (at an annual rate) in additional revenues. The agreement also provides for joint discussions of the implementation of "appropriate measures" in the event the increase in the level of advances by the Central Bank to the public sector should exceed 30 billion piasters, either in absolute terms or at a quarterly rate of increase expressed as an annual rate. Meanwhile prices, which had been remarkably stable since mid-August 1968, may already have begun a new uptrend. USAID's retail price index rose 10 percent in the six weeks to May 26, the advance being uninterrupted over this period. Within the overall rise, food prices alone have risen 13 percent. Black market dollar and gold prices have, however, generally eased, which seems to suggest the absence to date of any resumption of general inflationary psychology.

Monetary stability has continued even though price pressures have mounted. As of mid-May, money supply had shown no increase over the previous month and was up only three percent over the end of 1968. An exceptionally heavy volume of import arrivals, together with an unusually high level of import-related tax receipts, has been the principal factor in this relative stability. Import licensing has remained at generally satisfactory levels, although below the very high level of fourth quarter 68, and we can accordingly expect some decline in imports and foreign trade tax receipts in the second half of 1969. At the present time government expenditures will very likely be rising strongly under the impact of military and civil service pay rises and various new projects, notably land reform. Thus, even assuming the adoption of the tax measures enumerated in the new stabilization agreement, a sharp increase in monetary pressures appears inevitable. We shall have to examine other measures for restraining demand with the government in late June at the time of IMF consultations. These measures will include devaluation.

Rice stocks in Saigon have declined to around 180,000 tons in mid-May, reflecting this year's reduced imports of US rice and some decline in Delta deliveries. The latter is attributable primarily to increased use of certain varieties as animal feed and to speculative activity by farmers and merchants. While prospective imports and Delta deliveries should suffice to maintain the current stock level—which in itself is not unsatisfactory—there is a possibility of a decline to 100,000 tons by August, especially if the government should continue in its reluctance to use the rice escrow account for new US purchases. It is the awareness of this prospective tight situation that has fed the recent speculative activity among traders and which has been instrumental in sharp increases in both paddy and retail rice prices over the past month. It is possible that this latter has also fueled some part of the general price increases.

The Joint Development Group's report on post-war economic development has been distributed to the foreign and local press, GVN offices, the diplomatic community, and within the Mission. Reaction has been generally favorable, and Minister of State Thuc has requested that the Prime Minister convene an inter-ministerial group to review the recommendations and proceed to the implementation of policies and programs where feasible. It appears, however, that further progress will have to await GVN decision regarding internal organization in this area. In the meantime, Mr. Lilienthal's group will be assigned to assist Min. Thuc in his ongoing activities, principally regional planning for the Mekong Delta and the five northern provinces.

Both our own and Vietnamese forces are preparing to meet the next attacks by the enemy which it is anticipated may come in June and again in July. As I have mentioned, indications are that it is likely that these will be similar in character to those experienced in May. I am confident that these will be turned back as previous ones have been. It seems quite apparent that Communist losses from all sources, killed in action, died of wounds, those killed by air and artillery uncounted, defections, and infrastructure eliminated exceeds by a considerable margin what has gone into the infiltration pipeline and local recruitment over recent months.

Nationalist elements foresee the possibility of a political settlement and have set about the task of consolidation of their political resources.

The slow but steady progress in pacification characteristic of recent months has continued. The number of infrastructure eliminated in April, 1,795, exceeded the figures for March by 21 percent. As of today the number of ralliers (Chieu Hoi) is almost equivalent to the total for the entire year 1986.

Finally, the possibility of some reduction in US forces is accepted generally, I think, as both natural and inevitable.

# LXXX

# FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY EIGHTIETH MESSAGE, JULY 16, 1969 As I look over the last half year, I see the following as its most important developments: the emergence of free elections and who is to run them as the key political issue in the negotiations; the reduction or replacement of U.S. troops as a viable element of our strategy; the enemy's increasing concern with conservation of his manpower, and the drastic reduction, probably temporary, of infiltration from the north; the enemy's assumption of a tough negotiating posture apparently based on the belief that time in terms of American opinion is working in his favor; the emergence of Cambodia as a variable, rather than a constant, in the political/military equation; slow and painful progress in political mobilization in South Viet-Nam; the developing strains on the economy; and the extension of pacification and social political development in the country-side unimpeded by the various enemy offensives.

In the development of a liberal and flexible negotiating position on the key political issue of elections, Thieu must be given full credit. He managed to carry the country along to the point where talking with the NLF, challenging it to a contest at the polls, and opening up options as to timing and modalities of the elections—all things that would have been unthinkable here six months ago—have now become generally acceptable to the Vietnamese people. The enemy, I think, will hesitate to accept the challenge of free elections because he knows that he will lose if they are free. But our side has now carved out solid ground on which to stand, or from which to move forward if it is advantageous in the negotiations.

The enemy is far from happy about the Vietnamization program because he sees it, correctly, as a manifestation of growing strength of the GVN and as buying time for us and for the GVN. It is encouraging to see how the first increment of reduction has been accompanied by a rise, rather than a decline, of morale in Saigon. The GVN leadership now correctly sees the alternatives before them as a settlement by negotiations or a "long haul, low cost" strategy with progressively lessened U.S. support. They understand that the latter alternative is in the cards only if they show flexibility in the negotiations. On the other hand if the pace of our troop reductions is too fast, the situation here could deteriorate to the point where nothing could be salvaged, with or without negotiations.

On the military side, we have seen some important new trends. The enemy has developed tactics which are designed to maximize, and especially American, losses while preserving his own manpower. Although still very costly to him these tactics—largely standoff attacks by fire and limited ground probes—temporarily resulted in increased American casualties, very valuable to him in terms of anti-war pressures in the U.S. But the price the enemy had to pay is considerable. He has been unable to make any significant gain against the pacification program; has suffered losses upwards of 150,000 from all causes during the six month period, has failed to take any significant objectives; and when—as in the case of Ben Het—he tried to demonstrate the inability of the ARVN to defend a position, he proved the exact opposite. I think it is significant that Ho Chi Minh, according to a Hanoi broadcast in May, exhorted army cadres to "economize human and material resources." This is exactly what the enemy has tried to do in the south in recent months, but even so his losses have been very high.

That this is not a temporary phenomenon is suggested by the drastic reduction of infiltration entering the pipeline from the north since March. It seems clear that the enemy will not be able to remedy his supply difficulties in the northern part of South Viet-Nam until well after the rainy season ends in the Laos panhandle in the fall. Where Cambodia is a source of logistic support, he currently suffers some of the same stringency. While he is still able to mount damaging attacks and even offensives, he can no longer sustain such initiatives for any length of time. He has shown no ability to penetrate into any major city. He wanted very badly to take at least Tay Ninh, which is not a major city but which might have given him a "capital" for his provisional government. Increasingly, some types of enemy attacks on fire support bases are so senselessly expensive for him in relation to the losses suffered by us that one wonders about the quality of the enemy leadership or suspects that he may be operating under some time limit or other compulsion.

The recent low level of enemy activity could have several explanations. It could be due in part to lessened capability, caused largely by our efforts against him. It could be part of the normal cycle of attack, retreat, replenishment, refitting, retraining, and renewed attack. It could also, of course, reflect a policy decision, perhaps to encourage withdrawal of U.S. forces while conserving manpower in the north to be sent in eventually in greater force. This might explain the reduced infiltrations since March. The interpretation that seems most likely to me is that the enemy's difficulties have forced a temporary reduction in his offensive activity which still leaves him capable of mounting short and damaging attacks. It is fairly satisfactory from his point of view, while he waits out developments in Paris, and in our withdrawal policy. Yet when all is taken together, the enemy is certainly in a weaker posture today than he was six months ago.

In the negotiations there have been very important developments despite the lack of an effective dialogue. I consider the testing of our response to violations of the October understandings to have been one such development. The enemy could not have expected his rocketing of Saigon to make much capital with the general population. His abuse of the DMZ was also political

as well as military. He tried to stir up a major quarrel between us and the GVN. He failed largely due to Thieu's recognition of the importance of keeping cool. The enemy also tried to demonstrate to the world and to his supporters that the bombing halt had been in effect unconditional, i.e., that the U.S. had been forced to yield. Most important, I am afraid he may have convinced himself that he can now predict our actions—or our inaction—in certain circumstances and this is a matter of some gravity. As long as he feels he can count on our always being reasonable and prudently cautious in view of our domestic opinion, the risk factor is small in his calculations.

That is why the vaguely ominous passage in your May 14 speech "I must also make clear in all candor, that if the needless suffering continues, this will affect other decisions" was of the greatest importance. Its point was not lost by the enemy leadership. The May 14 speech captured the initiative for our side, proved the reasonableness of our position, and demonstrated our adherence to principle. I remarked in my last message on the probably salutary effect on the enemy of the passage that "our fighting men are not going to be worn down and our allies are not going to be let down." I should have added that reassurances of this kind are of the greatest importance in Saigon where there is a constant worry, sometimes quiescent, but periodically flaring up, whether the U.S. is not somehow preparing to let down its ally. Thus reaffirmations of this kind pay double dividends—by backing up morale in Saigon and by shaking some people in Hanoi.

I believe we have since March blocked the enemy's political offensive. He no longer emphasizes the call for a "peace cabinet" and now talks vaguely of broadening his Provisional Revolutionary Government into a coalition government by the addition of elements from outside. One hears almost nothing of revolutionary committees and claims to control territory repeat the old refrain. US/GVN cooperation has held firm despite efforts to divide us. Our joint rejection of the kind of coalition government that the enemy has in mind—a government dominated by him and forced upon the GVN by a U.S. eager to get out—has dashed his hopes for an easy and early political victory. If we do not react disproportionately to any real or fancied de-escalation, if the GVN continues to expand its control and if Vietnamization proves to be a viable program, there is a good possibility that the enemy will move toward serious negotiations in the not too distant future—not to make an equitable settlement but to try to negotiate us out of the country even at the cost of his own withdrawal which he may see as a temporary one.

It is always risky to make predictions about Cambodia. I wonder, however, if there may not be a connection between the lessened rate of infiltration from North Viet-Nam and the lessened hospitality of Cambodia for enemy troops. Both seem to have begun at about the same time, in March. Sihanouk's complaints against communist encroachment against his territory were soon followed by military clashes in March, April, and May. In June [seven words excised] and there were reports of hold ups in logistic support for the enemy. Even if the communists have reached some temporary modus

vivendi with Sihanouk in July, which is probable, the Cambodian sanctuaries seem to have become distinctly less privileged to the enemy.

The political situation inside South Viet-Nam is far from satisfactory, but there have been some important improvements during the half year period. Dissatisfied with the inability of the politicians to group together, Thieu in April announced that he would take action himself, and on May 25 he launched what is known as the National Social Democratic Front, which is hopefully only the first stage of a broader effort to create anti-communist unity. Thieu made it clear that he did not intend to emulate Diem by trying to head a "party in power," but that he was creating an alliance of political forces that are prepared to support the government and that eventually may participate in it. At the same time he assured those who did not wish to join that there was room for a loyal opposition—and this resulted in a grouping of forces also among opposition parties. Some of the latter are showing energy and imagination, but they are not hostile to the government and the important thing is that at long last there is some coalescence of non-communist groups on the government side and among the opposition. From this, in time, could come real national anti-communist unity, but there still is a long road to cover in that direction.

Meanwhile, encouraging progress was made in bringing greater political participation to the population of the villages and hamlets. Elections have been held in 88 percent of the villages and 81 percent of the hamlets of the country, which means that the government has been able to hold them also in contested areas. Voter turnout was good, almost 90 percent. While there was not yet much party competition, it is noteworthy that in the hamlets the ratio of candidates to seats was 2.5 to 1. Perhaps most encouraging was the ability of the government to organize these elections and to carry them through efficiently, sometimes on short notice and under unfavorable security conditions, which augurs well for its ability to handle other administrative tasks such as land reform on the local level. Most important, the elected village and hamlet officials now have considerable authority over budgeted funds and cadre sent by the GVN to their areas and they are being encouraged to control the local and regional forces stationed in their localities. All this has given a boost to the self-respect and feeling of responsibility of the villagers, which should be heightened when land reform is implemented in the next half-year period. It is a trend that is highly unfavorable to the communists if there should be a peaceful political contest.

Any general assessment of the course of our efforts to protect and further U.S. interests in Viet-Nam during the first half of this critical year must close with a tribute to the performance of our fighting forces. Under General Abrams' leadership, they and their allies have completely denied the enemy even one of the many military successes he so desperately wanted and sought. They have shown great valor and ingenuity in fighting this war. General Abrams has devoted himself tirelessly to developing new strategies and tactics aimed at keeping the enemy away from the populated areas; keeping civilian

casualties and damage to property down; opening new areas to the GVN; using airpower (including the B-52s) and artillery to defeat the enemy's assaults while keeping our casualties to an absolute minimum; and moving ahead at all possible speed to prepare the RVNAF for the assumption of an ever-growing role in the war. His success in all this has been impressive and growing day by day.

Without this magnificent performance by our forces and its brilliant leadership, the progress I am able to report in this message in other fields, be it pacification, political, economic, or whatever, would never have occurred.

The enemy's political strategy has emerged clearly—and incidentally very much along the lines that we predicted—during the first half of 1969. Faced with heavy losses and little to show for them in terms of military advantage, the enemy hoped to capitalize on the combination of American war-weariness and political weakness in South Viet-Nam by making the GVN appear the sole obstacle to peace. He hoped that we would so tire of the war that we would put pressure on the Thieu government to make more and more concessions to the NLF so that we could disengage. He expected that if the GVN resisted our pressure there would be growing strains in our relations and further pressure. If, on the other hand, the GVN yielded and made major concessions to the enemy, there would be disintegration in South Viet-Nam and finally the coalition government that he is seeking.

There is no doubt that this has been, and continues to be, the enemy's strategy. It was to produce such results that he revised his military tactics, that he stone-walled in Paris and refused to talk to the GVN, that he issued the ten points and proclaimed the PRG. I think this strategy of the enemy is failing, largely because of the excellent rapport that has been established between yourself and President Thieu. By working closely together and refusing to let the enemy divide us we have established joint positions which prove our reasonableness and put the enemy under pressure to negotiate. The important thing now is to give this position a chance to produce results. I fully recognize how difficult that will be, given the pressures in Congress and in some sectors of American public opinion, yet it is very important—both for success of the negotiations and for our relations with the GVN—that we demonstrate to the enemy that there is a point beyond which we will not go in making concessions.

It would be idle and dangerous to underestimate the continuing strength of the enemy in South Viet-Nam. His organization still extends deep into government-controlled territory, he still collects taxes in many parts of the country, he continues to recruit some 5,000-6,000 young men and women every month (largely in the Delta), and even though he must conserve on supplies and manpower he still represents a respectable force. Yet it is significant that the captured documents no longer speak of victory coming through "allout offensive and continuous uprising." They speak of limited and partial victories, and recently there are even statements that "even after the war comes to an end, we will have to struggle hard for total victory." One of the most re-

vealing recent documents, entitled "COSVN Resolution for the 1969 Summer Phase" says quite openly that their hopes and expectations are not for successes on the ground but for increasing disillusion with the war in America. They also hope that as American withdrawals increase, friction and rivalries among the non-communists will provide opportunities for them.

Frictions and rivalries among the non-communists are nothing new in Viet-Nam, and although as indicated above I see some improvement in the picture through the coalescence of pro-government and opposition forces, the situation is still far from satisfactory. Seen in its broad outlines, there has been some simplification of the situation since instead of the multiplicity of contending groups there are now tending to be, essentially, three groupings: The various parties and groups concentrated in the pro-government NSDF, the efforts to coalesce the non-communist opposition, and of course the NLF. This pattern would give grounds for optimism if there were any assurance that non-communist opposition would unite with the government, the army and the NSDF in support of peaceful goals and tactics employed by President Thieu. Perhaps when the chips are down such unity will eventuate out of fear of the alternatives; but it is also possible that the lines may harden to the point that there would be a three-way competition between government, noncommunist opposition, and NSF. Other even less attractive patterns are also possible.

Illustrative of the problem is the position of General Duong Van (Big) Minh and General (Senator) Tran Van Don. While Minh is ostensibly holding himself aloof, Don has begun to campaign for Minh as a successor to Thieu. Don also is a leading figure in the efforts to united the non-communist opposition and is possibly also acceptable to the An Quang Buddhists who are currently still uncommitted and somewhere between the non-communist opposition and accommodation-minded elements further to the left. Minh and Don privately agree with President Thieu's July 11 initiative, but refuse to say so in public. In his conversation with the Embassy Don has been quite open about the reason. They will cooperate at a price, and that price is a piece of the political pie to be dished out in advance. But this is what Thieu has refused even the politicians of the NSDF, until they earn it by their cooperation. Despite the trend toward consolidation, we thus still have the unseemly spectacle of politicians grasping for power and impeding progress toward real national unity.

The situation on the left is still more complex. There are not only the essentially loyal oppositionists of the stripe of Minh and Don. In the same category are a number of politicians and organizations, some of them highly respectable, who may have the merit of attracting people who dislike the GVN but would vote for a non-communist opposition in preference to the NLF. But there are also more accommodation-minded elements including the An Quang Buddhists whose hatred of Thieu and Ky and fear of the Catholic predominance combines with a kind of pacifism that weakens the war effort. And still further to the left are elements, such as Tran Ngoc Lieng who calls

for a "government of reconciliation" and, wittingly or unwittingly, directly plays in the hands of the communists.

In face of this situation the government has a difficult time distinguishing between constructive opposition and sedition. By and large, criticism of the government on issues unrelated to the war is free in South Viet-Nam and there is a wide latitude on that score. But the government has acted harshly, and often unwisely in my opinion, in temporarily suspending papers for relatively minor offenses, and in failing to explain when taking even justified actions against individuals. American critics of GVN politics toward press and opposition have had a field day with such incidents, usually overlooking the fact that there is a great deal more latitude for opposition in South Viet-Nam than in most other countries of Southeast Asia.

Although the following refers to a development subsequent to June 30, I think it necessary to comment on the attitudes of the pro-government and opposition forces toward President Thieu's July 11 speech. This has shown, I think, the wisdom of Thieu's efforts to harness the more right-wing elements ("right" being again in relation to peace issues rather than necessarily on social issues) with the government. Almost all the trouble he is currently having is with elements of the NSDF who, hopefully, will be restrained in their reaction by the fact that they belong to the governing majority. The noncommunist opposition has, with two important exceptions, reacted well to Thieu's proposals and this is especially important in the case of the An Quang Pagoda which has welcomed those proposals with unusual warmth, giving the government credit for goodwill. The exceptions are General Minh, who has said nothing, and Senator Don who in effect also speaks for Minh and who has taken the occasion to redouble his attacks on the government, not over the substance of the proposals (with which he actually agrees) but for "lacking consistency, clear-mindedness and especially sincerity." By and large, however, I think the consolidation of the government and of the noncommunist opposition is in this instance furthering, rather than impeding, national unity on the peace issue.

The Thieu/Ky/Huong government is sometimes described as narrowly based and lacking in representational character. This is true in the sense that the electoral support for Thieu and Huong together was just under 50 percent in the 1967 elections, but it is entirely inaccurate in the sense in which those observations are usually made, for the critics imply that the opposition is broadly based and more or less united. In fact, the majority of politicians who are in opposition basically accept the sacrifices of the war and want the same thing as Thieu and the GVN—an acceptable outcome to the war that does not turn the country over to the enemy. And they are not united. Thieu's strength rests on the solid base which he and Huong command in the country, on the fact that the opposition does not fundamentally want a different outcome, and on their divisions. This explains why Thieu himself is probably more widely accepted in the country than at any time since he became President. The government is vulnerable because there is a great long-

ing for peace, it cannot allow free advocacy of dangerous proposals, and a politician who exploits the peace desire unscrupulously could undoubtedly garner much support. This, undoubtedly, accounts for the suspicion with which Thieu regards Big Minh who could probably exploit the support the An Quang Buddhists have indicated they are willing to give him.

The dialogue between the executive and legislature also leaves much to be desired. Basically, I suppose, the assertiveness of the National Assembly testifies to the vigor of the constitutional system. The Assembly has its own weaknesses plus a good dose of demagogy, but the greater fault for the frequent scrapping between Government and Assembly lies in the failure of Thieu and Huong to cultivate the legislators. They do not adequately prepare the way for legislation. They do not take time to explain the issues and policies nor do they ask for their support for unpopular measures. In short they take legislative support for granted, and are surprised and annoyed when trouble breaks out. With economic issues especially troublesome, the Assembly has balked over taxes and customs duties, but more in protection of its prerogatives and over details than in opposition to the necessary sacrifices. Some of this contention has been healthy and necessary since it resulted in issues being referred to the Supreme Court to decide more precisely where the rights and duties of the two branches of government are to be demarcated. On important substantive issues such as land reform the Assembly shows every sign of supporting the government.

Partly as a result of the troubles between government and legislature, the influence of Prime Minister Tran Van Huong has gradually declined during the six-month period. The newly formed national unity organization, the NSDF, is waiting to send some of its leading exponents into the cabinet as a price for their cooperation with Thieu. The Prime Minister's autocratic attitude toward the Assembly has soured even some of his supports in that body. Although he himself is still regarded as one of the few scrupulously honest politicians in the country, it is a fact that he is lacking in vigor and that with the passage of time his position has somewhat eroded. Some cabinet changes are likely to be made, but I do not believe that Huong himself will be changed, at least not in the near future. If he is changed his successor would have to be a southerner, since Thieu is from the center and Ky is from the north. As of now, the most likely and best qualified successor would appear to be Deputy Prime Minister Khiem. If he gets appointed, there will be criticism abroad on the ground that Khiem is a general, but he is probably the present cabinet member most keenly attuned to the needs of political development at the rice roots, he is a fairly strong administrator, and he is better qualified than most of the other candidates for the office. He certainly enjoys more of Thieu's confidence and is better able to work with him than any of the party leaders.

On corruption there has been some progress, but not enough. South Viet-Nam has a fourth branch of government, the Inspectorate, which is co-equal to the executive and the legislature, and which has gradually gotten itself or-

ganized in recent months. A healthy competition has developed between the body and the government's own self-policing agencies. Recently the Inspectorate has issued accusations against a division commander, a province chief, and a ranking ministry representative in a province. In each case they also fingered some ten ranking subordinates who were involved in the same peculations. The government continues to set up administrative procedures that are supposed to make the taking of graft more difficult, and of course each ministry has its own anti-corruption apparatus. Some 27,000 officials have submitted property declarations. Many province and district chiefs have been relieved of their duties and some have been disciplined. I wish I could say that all this has amounted to a vigorous house-cleaning, but the problem is much too deep-seated to permit any quick solutions. All one can say is that the government is going after some of the more corrupt and most inefficient of its administrators. Sometimes our prodding has helped, but in other cases men were promoted after being transferred for corruption or inefficiency. Overall, I would say that there has been some, but limited, progress.

Our periodic survey of public attitudes indicates the feeling of security of the people in Saigon has remained at a high level since January with only minor fluctuations. There is a high degree of confidence in the ability of ARVN to protect the capital city. Thus the announcement of replacement of 25,000 of our troops and the prospect of further replacements have been received calmly with more people viewing the move as beneficial than not. On the other hand, the Saigonese continue to express doubts about the ability of ARVN to assume full defense of the country with little aid from foreign sources.

The Saigon general public's belief in the dependability of the United States as an ally reached its highest point (52 percent) since Tet 1968 in June. The low point (32 percent) was at the time of the bombing halt in early November 1968.

During the first few weeks of 1969, the signs were unmistakable that the enemy was planning an offensive of major proportions. [two words excised] indications were there: the emplacement of numerous caches (many of which our forces picked up before they could be used by the enemy); the redeployment of his forces; and information from [word excised] prisoners, ralliers, captured enemy documents, villagers, and other sources. The Bien Hoa-Long Binh complex and the provincial capital of Tay Ninh were clearly to be among the important targets, but the evidence was abundant that if the initial attacks went well the main target would be Saigon.

Under General Abrams' leadership, friendly forces worked unceasingly to spoil enemy preparations, and when the enemy finally launched his attacks on the nights of February 22–23, they were defeated on every front. The attacks at Bien Hoa-Long Binh and in Tay Ninh Province and the Michelin area cost the enemy enormously and did little damage to the cities themselves. The enemy's hope of getting into Saigon never even approached realization. There were numerous indirect fire attacks throughout the nation but relatively few

large-scale ground probes. Within five weeks, the offensive had petered out and the enemy had lost over 23,000 killed.

Since then his undertakings have been much less ambitious. He has since mounted only two efforts involving nationwide coordinated attacks by indirect fire and some ground probes, few of battalion size, both of only a few days' duration. Enemy directives related to these "high points" called for tactics which would conserve manpower and ordnance. The policy was to pursue "limited objectives" with the hope of inflicting heavy casualties, particularly on U.S. forces, expanding his control over the population, and destroying GVN administration.

The first of these, beginning May 11-12, while brief was quite intensive, with more attacks by fire in its first two days than in the comparable period of the two Tet offensives. The effort was concentrated against U.S. forces, which received 50 percent of the ground attacks and 55 percent of the attacks by fire, the highest percentage recorded for any of the enemy offensives. The second "high point," which began June 5-6, was 30 percent less intense in its first four days than the May phase, but enemy casualties dropped less than 10 percent. ARVN casualties were about the same as those in May, while US losses were about 40 percent less.

Since then, there has been no attempt at coordinated nationwide attacks, even for similarly brief periods. There were two principal actions. One was against Tay Ninh City, where allied forces inflicted exceptionally heavy losses on the enemy. The other was around the Ben Het CIDG camp. Here a planned assault by two reinforced enemy regiments against friendly forces in the Dak To area and the camp was defeated by ARVN ground forces supported strongly by allied air strikes and artillery, and the enemy withdrew to Cambodia. The latter action was of particular significance in that it was fought in an area where the ARVN had assumed total responsibility on the ground. Our contribution was air and artillery support. An enemy success there would have been costly indeed, and in fact had been advertised by the enemy in their propaganda as a forthcoming "Dien Bien Phu."

Thus the enemy has not achieved a single military success so far this year. His attempts to reverse the pacification gains have failed, the Chieu Hoi rate is far ahead of last year, and he continues to take heavy losses. We estimate that the enemy has suffered losses upwards of 150,000 men from all causes during the first six months of the year. With infiltration down to about half that of last year the enemy has clearly suffered some attrition during the past six months—possibly to the extent of 40,000-50,000 men. At the level of combat during May and June (when enemy losses were about 30,000 each month), and with his shrinking population base from which to draw southern recruits, this attrition may continue and even increase. Such attrition, if allowed to continue, would probably require the enemy to reexamine his strategy to reduce his losses, possibly by more limited military activity, or to sharply step up his level of infiltration. These considerations may influence the planned July "high point" (planned as part of the enemy's 1969 summer

offensive). Captured enemy documents state that this phase is to be more intense than those of May and June. We do not foresee major assaults against urban areas, with the possible exception of Tay Ninh City, where the enemy may make another major effort. Prisoners of war have stated that the enemy plans a sapper campaign in Saigon, but he is having difficulty infiltrating men and prepositioning supplies in the city, and his capability of mounting a major terrorist campaign is questionable.

During the first six months of 1969, ARVN losses are reported at about 8,000, or about 58 percent of the friendly total. On past form, later reports will increase this percentage very substantially as more complete ARVNAF reports become available. U.S. killed in action during the first six months of 1969 totaled 6,315. It is this figure, which the enemy paid an enormous cost to achieve, which he no doubt rightly perceives as his notable military achievement during the first half of 1969.

New ARVN units deployed during the period under the Phase II modernization program included two infantry battalions, eight artillery battalions, two armored cavalry squadrons, three military police battalions, seven truck companies, one medium boat group, five logistical support battalions (divisional) and three ordnance direct support companies. New units in training as of 30 June 1969 included four artillery battalions, one armored cavalry squadron, two engineer construction battalions, one military police battalion, two truck companies, two medium boat groups and five logistical support battalions (divisional).

Conversion of two of VNAF's H-34 helicopter squadrons to UH-1 aircraft was completed and two others began the conversion process. The latter two squadrons will become operational 31 July 1969 and 31 August 1969, respectively. Two of three VNAF A-1 fighter squadrons converted to A-37 aircraft and the third squadron is to complete conversion 1 August 1969. In addition, a special air mission transport squadron became fully operational during the period. Eight Patrol Craft Fast (PCF), two Coast Guard Patrol Boats (WPB) were turned over to the VNN during the period and were declared in service. In addition, six River Assault and Interdiction Divisions (RAID) became operational through the turnover of 109 river assault craft. The VNN has taken over responsibility for all 19 inner coastal surveillance stations (Market Time) in the Fourth Coastal Zone and the majority of the river assault operations in the Mekong Delta.

Desertion within RVNAF is a continuing major problem. The rates during the past six months show a decline in January and February continuing a trend which began in October 1968. March rates rose to approximately the January rate and were followed by a levelling off during April and May. Preliminary data indicate that the June rate will approximate that of May. The current monthly gross RVNAF desertion rate is 12.1 deserters per one thousand personnel assigned; the net RVNAF desertion rate is 10.7 deserters per thousand personnel assigned. JGS and MACV agree that this rate is too high and have initiated several programs to reduce desertions.

At mid-year, pacification continued its steady expansion of security, with the development of more political participation by the people in decisions about their future. January saw the end of the highly successful three-month Accelerated Pacification Campaign, which brought within GVN security a million and a half (1,569,900) formerly considered in contested or VC areas. The first phase of the 1969 pacification campaign ran from February through June. Using the HES as an imperfect but the best available test, ABC security was extended from 79.6 per cent of the population at the end of January to 85.6 per cent at the end of June, or slightly over a million additional people brought up to the C or mid-point level on the security scale. Since the goal for the first phase was 83 percent, the program could be said to be ahead of schedule on its year-end goal of 90 percent. Translated into hamlets, some 1,562 hamlets formerly judged D, E, or V on the lower end of the security scale were raised up to the ABC level.

The basis of this continued expansion of security is the pressure maintained on the enemy. The vigorous efforts of our regular forces, with ARVN participation, held the main force enemy units generally away from the more heavily populated pacification areas. The government's general mobilization program of 1968 and the increase in the numbers and effectiveness of the Regional Forces and Popular Forces continued to show dividends in local security during the semester. The Regional Forces increase of approximately 39,000 men in 278 companies added weight to our security effort. Both the Regional and Popular Forces benefited also from the arrival of 113,492 additional M-16 rifles and other better equipment, as well as extensive attention from 353 small mobile advisory teams of two US officers and three NCO's. The result was seen in additional operations; additional contacts with the enemy; and RF KIA ratio of 4.4:1 and PF ratio of 3.4:1; a weapons-captured ratio by RF of 5.2:1 and by PF of 2.6:1; and a growing inability of the enemy to forage, conscript or tax in more and more areas in which he formerly roamed free.

During this semester, some 473,193 more members of the People's Self-Defense Force were enrolled for a total of 1,480,934 and 163,761 additional weapons distributed for a total of 270,527. Unpaid, only moderately trained but representing a commitment by the local citizens to protect their communities and families, the PSDF was engaged in many actions against the enemy, aside from its long hours of guard duty. The cost was 1,197 killed, but the enemy suffered the larger number of 1,487. With respect to weapons, the picture was less positive as the PSDF lost 1,508 weapons and only captured 709. While some PSDF have failed to defend themselves or yielded after token resistance, there are increasing stories of their fighting heroically and effectively. In sum, the contribution of the PSDF in terms of security may be modest but in political terms it is substantial.

Security has not broken out all over, however, as can be seen by the 6,247 terrorist incidents, resulting in 3,877 civilians killed during this six months. Some 9,794 additional were wounded as a result of continued Viet

Cong rocketings, mortars, assassinations, bombs in market places, and other forms of attack.

The Phoenix Campaign against the internal enemy, the covert Viet Cong infrastructure, continues to make its contribution to the wearing down of the communist apparatus. Some 7,262 members of this infrastructure were captured, killed or rallied during the six months. Against some very soft estimates of the total strength of the VCI, one could say that approximately nine percent of the VCI had been picked up. Aside from the enemy's ability to replace such a percentage, it is clear that more must be done to insure that VCI picked up are actually handled so as to be taken out of the war for the duration and not slip back through premature releases or light sentences. The government issued a new classification system to require that local authorities impose sentences measured by the level of the VC in the apparatus, and is developing systems to track individuals from their arrest through their legal processing to their detention arrangements. This is combined with the increased attention being paid by the government to the development of a proper iudicial system to protect against wrongful imprisonment or abuse. The organizational and conceptual work of the Phung Hoang has in great part been accomplished; the problem now is to develop the [two words excised] operational capability necessary to deal with the sophisticated, entrenched and experienced covert VC apparatus.

The National Police have continued to perform a real service. Their operational results during the semester were 3,733 VC killed, 8,737 VC arrested, 14,157 suspects detained, and such contraband seized as 2,311 individual weapons, 265 crew-served weapons, 4,507 grenades and 9,313 items of explosives. However, this has been a difficult period for the police. Since their recruits were limited to individuals not subject to military mobilization, the actual manpower strength of the NP declined from 78,431 to 76,819 during this semester. Despite this, a vigorous program was initiated of putting police into villages and some 5,908 policemen are now in 579 villages. In the next six months an additional 13,000 personnel will be provided by transfer from the military. Police will be posted in 1,847 villages, with a strength of 14,988 policemen.

The Chieu Hoi program has been the star of the semester. The 20,924 ralliers received during the first six months has already exceeded the 1968 total and the trend continues high. Most of these come as a result of the expansion of security into new areas of the country side and the consequent decision of many local residents who formerly participated in local guerrilla and similar VC activities to switch for the government side. The great majority of these ralliers have come in the Delta area. Unfortunately, there has been little or no success in inducing North Vietnamese to join the government side.

In March and in June, an intensive campaign was launched to conduct elections in as many villages and hamlets as possible, in order to demonstrate the legitimacy of the government's claim in the face of alleged Viet Cong "Revolutionary Committees." Some 794 village and 4,461 hamlet elections

were held during the period. The hamlet elections included 1,219,967 voters or 86.6 percent of those eligible with approximately two and one-half candidates for each seat. On the village level, the voters numbered 735,594, or 89.75 percent of the eligibles, and the candidates about 1.34 to each seat.

By the end of June, some 2,839 village officials throughout the country had already been graduated from a special five-week Vung Tau course in their duties and in the political objectives of the government, and about 2,000 more are there now. A new program provided funds for development purposes to the village government which was also given authority to decide on projects and spend without further superior approval. There was some slowness in getting this program started, as it represented a revolutionary change from past practices in which "senior officials know best" with respect to the needs and desires of the villages. The change has been generally promulgated throughout the country by this time, however, and seems to be under way in most areas. The RD Cadre were changed from 60- to 30-man teams during this semester to put greater emphasis on their political and organizational functions and less on their paramilitary. The 1,477 RD Cadre teams with a total strength of 43,724, plus another 7,412 Highlander Cadre, is an example of the investment of the government in the political development function. The directives are clear that elected village officials should have full authority over all organizations working in their village such as the RD Cadre, the National Police, the Information Cadre, and others, but it cannot yet be said that the process of turning these directives into reality has begun.

The government's attention to the refugees is an integral part of pacification. The struggle between the President and the National Assembly over the government budget held up refugee operations early in the year. When this was resolved, however, the Ministry began an intensive effort not only to care for its current refugees and respond to new crises, but also to start a major new effort to assist the refugees to return to their original and now pacified hamlets. The government now is ready to give special assistance to any individual returning to his original area, refugee or not. As a result of these efforts, for the first time in many months, the number of refugees still under government care has declined from the all-time high of 1.4 million in February 1969 to 1.2 million at the end of May. Of these, approximately 82,220 were actually returned to their original villages while the remainder were dropped from the rolls after being paid their final benefits, choosing to resume a normal life in a new area. This process is being accelerated and ambitious goals have been set for the reduction of the refugee problem by the end of the year. I believe that on balance the government has done a remarkable job in the midst of this war of dealing with a problem of immense proportions.

The pacification program continued to reflect the attention given it by President Thieu, and now has a reasonably effective organizational structure to prosecute it, the Central Pacification and Development Plan and Council. Thieu is now making his fourth series of visits to each corps to review current

progress, and explain and exhort with respect to new directions of the campaign over the coming months. He still insists that 90 percent of the population must be brought to the C category by the end of the year, but he has accelerated the whole process by demanding the completion of the year-end goals by 31 October. He has also added the significant and first priority goal of increasing the population in the higher security categories of AB to 50 percent, in order, as he explains, "that we can be sure they will vote for us if it comes to an election between ourselves and the Communists." This will place greater emphasis on the internal security, local security, and political aspects of the pacification program. It seems to me to be an appropriate reading of the overall trend of the war, which is turning more and more into a political contest. The momentum of the campaign is being well maintained and will be increased by a large bloc of additional Popular Forces, police and trained local officials in the coming months. While the enemy has not to date heavily attacked the pacification program, these additional forces and the popular support which the program has developed put it in a better state to withstand any such turn of the enemy tactic.

In the past half-year the major [economic] theme has been one of growth, of change, of development. The Government of Viet-Nam has approved in principle a revolutionary new land reform program. There has been a steady acceleration of the "miracle rice" program. And there has been a striking Vietnamese success in maintaining a remarkable degree of price stability in the face of steadily rising defense and other expenditures.

Land rent and tenure freeze: February 12 the Prime Minister announced a freeze on land occupancy and rents in newly pacified areas, and on April 25 this freeze was extended to all land. The purposes of the freeze are to ensure that the farmer now tilling the soil could not be evicted and would be the beneficiary of the Government's Land-to-the-Tiller program, and to guarantee that the tenant will receive all the return from any increases in productivity.

The land-to-the-tiller program: on July 1 President Thieu submitted to the National Assembly his proposal for a revolutionary new land reform program designed to eliminate farm tenancy in Viet-Nam. The proposal calls for issuance of titles free of charge to the tenant, squatter, or Viet Cong appointee who is actually cultivating the land. Following application by the farmer and issuance of the new title, the Government will pay the farmer-owner for his land in cash and bonds tied to the price of rice. Over the next three years the Land-to-the-Tiller program is expected to involve as many as 800,000 farm families and over half the riceland in Viet-Nam.

In anticipation of the submission of this legislation, Minister of Foreign Affairs Tran Chanh Thanh and I signed a Project Agreement in June providing an initial \$10 million support of the \$400 million program. These AID funds will not be used directly for payments to the farmer landlords but to finance imports from the U.S. to counter the inflationary effect of these payments. AID has asked the Congress for an additional \$30 million in fiscal year 1970 for this program.

Accelerated distribution of GVN-owned lands: At the beginning of the year President Thieu set a goal of complete distribution in 1969 of the remaining GVN-owned, expropriated and former French lands. On May 8, Minister of Land Reform and Agriculture Cao Van Than announced new procedures to accelerate this distribution by placing greater responsibilities on village officials. In June the Ministry, with assistance from an AID contractor, began a comprehensive training program to enable these officials to carry out their new responsibilities and to prepare them for the new Land-to-the-Tiller program. Without the benefit of the training and new procedures over 19,000 hectares were distributed by the end of June, well over 75 percent of the total distribution in all of 1968. On July 2 the Prime Minister issued a decree suspending all payment for this GVN-owned land; this is expected to accelerate further the progress of the distribution program.

Having met last year's target of 44,000 hectares planted in the new "miracle rice" varieties, the GVN has set a goal of 200,000 hectares for crop year 1969-70. Recent reports indicate this goal will be met or exceeded. The increased plantings, together with improved cultivation, are expected to increase domestic rice production by 600,000 tons of paddy or 360,000 tons of milled rice. This anticipated level of milled "miracle rice" would be the equivalent of more than the total, expected volume of rice imports this year. Over 150,000 farmers are participating in this nationwide program.

The general economic situation since December has been remarkably good. Industrial production continued to increase from the low of early 1968; rice shipments from the Delta, responding to higher prices and good security were the highest in three years. Prices remained surprisingly stable in the first four months but then rose sharply in May and June so that was a total increase of 10 percent in the period. The rate of increase of growth of money supply, reflecting the combined effects of the budget deficit and private bank borrowing, has slowed down somewhat, as it has been doing since the third quarter of 1968. It rose five percent in the first five and a half months as compared to 10 percent for the last half of 1968.

There are, however, several indications that we have just passed through the calm before another storm. First, money supply and prices have been contained by a large increase of imports to replenish inventories and to meet rising demand which has produced an increase in revenue from imports. As a result budget revenue, excluding counterpart, during the first six months, is estimated to be about 75 percent of what it was for all of 1968 and 75 percent higher than the comparable period of last year. Neither exchange reserves nor internal demand could sustain so high a level of imports, and the rate has declined substantially since the beginning of the year. Second, budget expenditures, which had levelled off in the second half of 1968 as the military reached authorized strength, are once again rising in response to higher salaries, force levels and costs. An across-the-board salary increase for government workers has been approved by the government.

For both reasons, the inflationary gap should be substantially larger in the second half of the year. The effects may be masked by the seasonal tendency for prices to stabilize in the period August-November but the rise may well be substantial nonetheless.

Over the past several months, the Mission has repeatedly brought to the attention of the GVN measures to meet the inflationary threat. These efforts resulted in the signature of a stabilization agreement and an associated exchange of letters. The four major points of this agreement and an earlier one in February were: (1) a series of import taxes that will have the effect of raising customs and tax revenue 7–8 percent in 1969; (2) a commitment to consider devaluation when major inflationary pressures arise; (3) a ceiling on credit to the private sector; and (4) the lapse of an earlier promise to support exchange reserves at \$300 million. This final point is especially significant because it means that the U.S. no longer has an open-ended aid commitment to Viet-Nam. It should stimulate further self-help measures on their part.

Exchange reserves have fallen about \$50 million since the end of the year. A further but much smaller decline is expected in the second half. Exchange reserves are currently about \$275 million, equivalent to about seven months of GVN-financed imports. Although imports have risen, earnings from U.S. spending in Viet-Nam mainly for military purposes are expected to rise about 30 percent this year and have cushioned the effects of the decline. The withdrawal of 25,000 troops will have negligible effect on GVN earnings in 1969.

Rice Shipments—The high rate of rice shipments from the Delta, which exceeds the level of any year since 1966, and the existence of exceptionally high stock levels at the end of 1968 have kept Saigon and the rice deficit provinces well supplied while at the same time cutting imports to 65,000 tons for the first six months. For the year as a whole, imports should be about 300,000 tons as compared to 750,000 tons in 1968. We believe that the IR8/5 program may add several hundred thousand tons more to domestic supply in the 1969–70 crop year.

Postwar Planning—In the area of postwar planning there have been two important events. First, David Lilienthal has submitted the report of his group on postwar development to you. This also signals a change of emphasis for the group from overall planning to regional development, particularly in the Mekong Delta where its project proposal will be shortly evaluated by the World Bank. Since Lilienthal's men were working with a semi-official Vietnamese group, the report received a cool reception from a number of Ministries whose operations would be affected. Postwar planning, given the preoccupation of the moment, unfortunately has a low priority in the GVN.

The second development refers to the various studies that have been made to predict the economic consequences of different patterns of troop withdrawal for Viet-Nam and for U.S. aid policy. This will be a continuing and increasingly important activity.

I think one must conclude that during the last half year substantial progress has been made in many areas.

Perhaps chief among these has been the development of a flexible and forthcoming negotiating position on the key issue of elections. Thieu must be given full credit for the skill with which he has carried the country along to this position. But the fact that it has been possible for him to do this is also a reflection of the growing strength of the Vietnamese government and the resultant confidence this has engendered.

This increasing strength is reflected in a growing effectiveness and stability of the government; in the beginning of political organization; and the drawing together of the leaders of the nationalist ranks in support of the government or as a "loyal" opposition.

It is reflected in the improving performance of the Vietnamese armed forces, not only the ARVN but the territorial forces as well, and in their equipment and training; in the enrollment of nearly one and one-half million people in the People's Self-Defense Program and the commitment by citizens to the government and to the protection of their communities and families which this connotes.

It is reflected in the steady development of the pacification program, which has brought increasing numbers of the population under government control, involving the people in greater political participation and in decisions about their future.

It is reflected in the elections of village and hamlet officials, and in training for more effective local administration.

It is reflected in the dramatic rise of ralliers to the government side under the Chieu Hoi program.

This progress has been manifested in a growing confidence on the part of the Vietnamese government and people, perhaps the most encouraging development of the policy we have pursued in Viet Nam.

This does not mean that there are no problems to be faced. Chief among these is the development of much greater cohesion and unity among the nationalist elements in preparation for the political contest with the communists. The attack on corruption still leaves much to be desired. The problem of inflation must be dealt with in a more determined manner. The functioning of the bureaucratic machine needs to be greatly improved. The Armed Forces need to be further strengthened; this is especially true in the vital area of leadership; morale and motivation need to be improved in order to bring down the high desertion rate.

These are all problems to which the government is addressing itself, and given the enormous strains to which the country's manpower and resources have been put I think it is fair to say that they are doing well.

The growing strength and resulting confidence of the government and people have made possible the beginning of the Vietnamization of the war.

This I think can continue; the Vietnamese people expect it to continue. But I must point out that the crucial factor in the Vietnamization of the war is the rate at which it takes place. If the pace of our troop reductions takes place at a pace faster than the Vietnamese are confident that they can take

# Eightieth Message

over, it could destroy their self-confidence and all that we have built up here step by painful step.

## LXXXI

## FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY EIGHTY-FIRST MESSAGE, AUGUST 1969 Since mid-July when I analyzed developments from the beginning of the year up to that time, there have been several important developments tending to change the situation. While the enemy has assumed a more static posture, a number of dynamic developments have come to the fore on our side. These were (a) the forthcoming political initiative taken by Thieu in proposing an electoral contest with the communists; (b) your visit to Saigon, the support it gave to Thieu's proposals, and the general confidence it engendered; (c) our development of a well-articulated position on troop reductions and replacements, which has by and large gained acceptance here and which has disturbed and upset the enemy; (d) the movement toward a broader based and more effective government of South Viet-Nam; and (e) the initiation of Phase 2 of the 1969 Pacification Plan demonstrating continued steady progress in both the expansion and quality of security.

What the press has called a lull actually was a period during which the enemy lost somewhat over 2,500 men a week in combat instead of the average of 3,500 which he had lost in the preceding period. It is clear that he had intended to launch an offensive in both July and August following the pattern of May and June. His failure to do so in July was due principally, I believe, to a combination of factors including allied preemptive action, relatively heavy losses during May and June, coupled with recruitment problems and logistics difficulties. His four-day offensive in August followed closely the May and June pattern, but on a slightly lower scale.

I do not think there is evidence to indicate that the military "lull" was prompted by an effort to gain political benefits; rather that he has found it increasingly difficult to mount offensives rather than "high points," or even to mount the latter in the relatively quick succession we have seen earlier this year. That he intends to continue this pattern may be indicated by the slackening of infiltration of troops from North Viet-Nam. The fact that indications are that infiltration will continue at a low level, only abut 13,500 are now in the pipeline to arrive in the balance of this year, coupled with increasing difficulties in recruitment would indicate that for the next few months his capabilities will be gradually degraded. This will be true also for some time for even though he increases his input into the pipeline it takes several months for the new troops to arrive in country. There may conceivably be a number of reasons for the enemy's embarking on these tactics. We know of

Ho's admonition in May to conserve resources and in June of Giap's urging the adoption of expanded guerrilla warfare. (Giap, incidentally, did not at the same time advocate reducing main force attacks.) It may, therefore, be the enemy's own version of a "long haul, low cost" strategy while he continues to wait for the effects of pressure of public opinion in the United States to force further concessions. It is possible that he is planning on some new initiative such as calling for a cease fire. It is conceivable also, and I am inclined to this view, that he is conserving strength for a major effort, possibly in 1970. But in the meantime, he is taking very heavy losses. (I am commenting on the last "high point" below.)

I believe our posture in Paris has assumed major importance in the promise it holds both for eventual progress in negotiations and its potential effect on military developments here. Following your July 30 statement in Saigon that our side has gone as far as it can or should go and that it is now up to the other side to show some movement, we needed time to convince the enemy that we are serious, that we are not over anxious to bargain, that he cannot win concessions from us unless he is willing to give something in return. Difficult as it is, I believe that we shall bring the enemy to substantive talks and in the long run save American lives by standing firm, by making a sustained effort to assure that the enemy really understands that we are serious about our essential commitment which is to give the people of South Viet-Nam a fair opportunity to decide their future in freedom. In this connection, I recall that in your May 14 speech there were two elements: (a) the constructive, conciliatory element looking for an equitable and reasonable way out of the impasse; and (b) the statement that "if the needless suffering continues. this will affect other decisions. Nobody has anything to gain by delay." If the enemy continues to play a waiting game both on the ground and in Paris hoping that we will tire and start making unilateral concessions, we may have to make it clearer to him that he has nothing to gain by delay.

The subject of a possible cease fire has come increasingly into public discussions both at home and in South Viet-Nam, and it is apparent that the idea has much appeal to many people. There are some circumstances where it could be highly risky and dangerous for us, as you have indicated in your press statements about unsupervised cease fires. There are other circumstances, especially when it is linked to agreed withdrawal and reasonably reliable verification, when we could accept it. It is clear, I think, that should the other side propose a cease fire, we shall have to be forthcoming in our response. The manner of our response, therefore, becomes of great importance. I believe the subject deserves to be explored with the GVN, especially to avoid a situation in which the enemy could use such a proposal to create disarray and division on our side.

Perhaps the most important and sensitive development during this period has been our management of the program of Vietnamization. Stirred up partly by press speculation in the U.S. about massive troop withdrawals, the psychological and political situation here was characterized by very consider-

able apprehension up to the time you made your visit to Saigon. Thieu's own position, in the aftermath of his July 11 proposals, was beginning to be affected and there was a suspicion that the Americans would press him for more concessions while leaving the allied side increasingly weaker on the ground. These fears were largely dispelled through your private talks with Thieu, your brief remarks to the assembled top officials, and your public declaration at Independence Palace.

Depending on how it is carried out, Vietnamization can on the one hand spur the GVN and the RVNAF to greater self-reliance and better performance. On the other, it could result in the destruction and loss of all that we have achieved here. During your visit the GVN made it clear that while they are prepared to push replacements to the utmost, they see a limit beyond which they simply cannot replace departing American troops. This is one problem area. The other is that if they get the impression that we are proceeding on a rigid time schedule, they will conclude that we are determined to get out come what may and they will lose faith in us and in their future. In this respect, the statement made on your behalf on August 23, that the next announcement of replacement will be delayed in view of the latest enemy "high point," has struck exactly the right note, indicating that we will look carefully before we move at every stage.

A good illustration of the problem of replacements was furnished by a recent private poll undertaken for us in Hue and Danang. There was widespread acceptance of the first increment of 25,000, as well as overwhelming endorsement of Thieu's challenge to the enemy to compete in free elections. The principle of troop replacement during the next year was endorsed 3:1 in Hue and 4:1 in Danang. But at the same time, a large majority expressed doubt that the Vietnamese forces could "assume the full defense" of their country within the next few years. The emphasis, I believe, should be on the word "full." Reasonable increments of troop replacements will be understood and accepted, even welcome, but people see there is a limit beyond which it will be dangerous to go unless the level of hostilities should continue to decline.

Although formation of the new Cabinet has not yet been completed as of the time of this message, enough is known of the developments leading to it and about the essential features of the new team to make some general observations. While the departure of Tran Van Huong was in one sense a loss, I believe the overall situation should be improved when the new team under Khiem takes over. This is because a political malaise had come over the country during the last months of Huong's Prime Ministership. He is a man of character and integrity, but his position had become eroded to the point where neither the Assembly nor the party leaders were willing to work with him. In addition to things for which governments are blamed when the going is tough, he had shown an unwillingness to work with the politicians and a patent dislike for the Assembly. Thieu's concept is that the time has come both to broaden the political base of the government and to establish good working

relationships between the Executive and the Assembly. This inevitably means securing the cooperation of the politicians.

Khiem, while he does not have as appealing a personality as Huong, has proved himself an able and efficient administrator. He knows how to work with the Assembly for which Huong had shown a marked incapacity; and he is, fortunately, a southerner and a Buddhist. He is a General, which is unfortunate in this instance, but next to Thieu he is the military man with the best grasp of building political institutions at the rice roots. Most of the party and Assembly leaders say they welcome his appointment. There also seems to be general approval among the literate public. I believe that he has the qualities to make a good prime minister.

The broadening of the base of the government will be real. What is important is that whereas the Huong government was essentially a cabinet of technicians, there will be many new faces in the Khiem government which will represent a broad spectrum of political groups, parties, and tendencies. A Council of Advisors will bring in still others. This will inevitably involve a certain amount of infighting among them, for Vietnamese politicians are not known for their ability to cooperate. But the real plus is that there is a new basis for a dialogue between the government and the people. Khiem told me this morning that the new Cabinet will be announced on September 1. Prime Minister Huong also confirmed the fact that Thieu had asked him, and he had agreed, to serve as Presidential advisor.

The press sometimes claims that a broadening of the base must extend to the "left" if it is to be meaningful, but as I have pointed out before, the terms "left" and "right" have no real applicability here. Thieu expects to include in the new Cabinet some representatives of the former "opposition," and has offered participation to a Buddhist who he believes will be acceptable to both factions. To the extent that by "left" is meant people who would entertain risky peace proposals, there is no organized body of such people. Thieu has moved as far in the direction of accommodation with the enemy as any politician could move at this time. Khiem will follow this line loyally. In domestic matters, too, he will be reform-minded and no less liberal than Huong. He can be expected to push the pending land reform. His chances of being able to get through the Assembly some much-needed revenue legislation, I think, will be better than Huong's. Given the problems the country faces, his government, in turn, may eventually run out of credit, but for the period immediately ahead there should be more dynamism, more efficiency, and broader participation in government.

In connection with pacification, I mentioned the progress in both the expansion and quality of security. In the past, our attention has usually been concentrated on the percentage of population in the relatively secure (A, B and C) category, which climbed from 76 percent in January to over 87 percent by the end of July. Now Thieu has set a new goal, concentrating on the quality of security; this is to have 50 percent of the population (not counting Saigon) in the A and B categories by the end of October. This makes sense

since the C category, "relatively secure," is not so firmly in the hands of the government that the population would in all cases feel safe in voting for it. Remarkably, by the end of July that goal was already exceeded as hamlets in the A and B category exceeded 53 percent. But a caveat is in order: Part of these better indices is due to the fact that the enemy, whether by choice or necessity, has not disturbed the pacification campaign much during the period.

In the care and resettlement of refugees there has been continued important progress. From a total of 1.5 million refugees in February, the number to be cared for has dropped to slightly more than 1.1 million. An estimated 250,000 have been resettled and received their final payments. An additional 160,000 persons have been returned to their original villages, a demonstration of growing confidence and expanding security. Barring the unforeseen generation of large numbers of new refugees the prospect is for a further sharp reduction in their number during the coming months, probably by several hundred thousand. It should be noted that approximately half the number of persons carried as refugees are not such in a true sense. They are not living in camps; a great number have gone to the urban areas in search of jobs, others are living with relatives. They are simply carried on the books because they have not yet received all the relief payments to which they are entitled.

In creating a broader-based government, Thieu had two separate and distinct problems to solve, and he went about solving them quite methodically. He had to form a more solid Assembly majority by translating the strength of the National Social Democratic Front into parliamentary terms, combining those senators and deputies with other supporters. As a next step, he had to negotiate the entry of representatives of the parties and groups into the cabinet, preferably into the Huong cabinet. Thieu never envisaged giving control of the cabinet to the politicians. What he had in mind, and what he is accomplishing, is an infusion of some of the political elements into a cabinet. He has in fact told the parties of the National Social Democratic Front that they will have to wait, that they will first have to demonstrate that they are strong enough and can cooperate together, before the Front itself can furnish the Prime Minister or even a majority of the ministers.

In making the transition from Huong to Khiem, Thieu once again demonstrated his consummate skill as a political tactician. He loyally supported Huong as long as he could, but when it became apparent that the reorganization of the government was turning into a government crisis, he "built a golden bridge for Huong's retreat" by making it appear that Huong himself had asked to be excused and that Huong had decided that the President should be free to choose someone else. The parting of the two has thus been entirely amicable, and this is important from a political point of view because Huong, while he has little organized following, is perhaps the most prestigious Southern political personality. Thieu has told me that his intention to name Huong as presidential adviser is to further emphasize that the two continue to cooperate.

The land reform bill is now under discussion in the Lower House where it has run into some difficulty because the opponents of land reform, who are few, combined with a number of proponents who wished to change the bill into something they thought better. This has involved the weighing-down of the reform with committee amendments that will have to be struck out in plenary if the reform is not to sink altogether. First the effort was made to benefit not only tenant farmers but also farm laborers. Next it was proposed that war victims and veterans should also have their chance to get land. Then the same was said about refugees (thereby introducing the irrelevant question whether northerners would be benefiting at the expense of southerners). Then a retention limit was suggested, so that the smaller landlords could keep their lands. Finally the down payment to the landlords was raised by the committee. I am still quite hopeful that a decent reform bill will be passed eventually, but the new government will have to step in soon to pull things together and mobilize support for a realistic measure.

General Duong Van Minh ("Big Minh") received a visit from President Thieu earlier this month. This was an excellent move on the part of the President, even though he did not go so far as to offer Minh a specific job since essentially each was just feeling out the other. One favorable result has been that evidence is beginning to come in that Minh is taking more of a distance from General (Senator) Tran Van Don, who is actively opposing the President and touting himself as Prime Minister, if, as he hopes, Thieu is replaced by Minh. Don is planning to visit Washington next month, and I am recommending that he receive not the slightest encouragement to think that we would back him or Minh against Thieu. Since both Don and Minh are reasonably close to Thieu on questions of peace and political settlement, it would be most desirable of course if they could be brought to support their government at least on that one issue.

There was a brief flurry in July when Vice President Ky met with Minh and Don and some twenty other retired generals and made his usual disparaging remarks about Thieu which were, as usual, immediately reported back to Thieu. Ky also made some hawkish noises to a War College audience which sounded as if he were criticizing Thieu's July 11 proposals for electoral competition with the communists. The excitement about these events was greatly exaggerated. It is true that Ky spoke of a coup when he met with the generals, but he merely bragged that he would have no trouble making a coup while clearly stating that he had no intention whatsoever of making one; he understands quite well that it would be the surest way to destroy our support. As for his speech to the National War College, a closer reading of it showed it to be quite carefully drafted and not really as disloyal as it seemed in the headlines. In fact, while Ky isn't helping Thieu much, neither is he harming him much. This is of course not a satisfactory situation but it is much better than a year ago. At any rate, in terms of power it is Khiem, and not Ky, who is now number two in the country. This was true even while Khiem was still only Vice Premier, but it is now clear to everyone that Ky's power position has steadily declined. Ky has contributed to the decline in his standing, for he has done almost nothing since his trips to Paris on the talks. His aides complain that since early this year he has done nothing, and they have nothing to do.

Because this was a period of relatively low activity, I will confine my remarks to one rather elementary but important observation: While the enemy has the capability of mounting coordinated indirect fire attacks and ground probes at virtually any time—in other words, while a "high point" may come without much advance notice—any real offensive is becoming increasingly difficult for him because of the constantly improving quality of our [eight words excised]. The price of keeping him from launching major attacks against the more populous areas is, of course, the constant probing, patrolling, sweeping, pushing, fanning-out and application of pressure at hundreds of places which is part of General Abrams' strategy. Were we to pull back from these activities—whether by a decision to de-escalate or under some ceasefire—the enemy's opportunities to move up his forces and to launch major, damaging attacks toward major population centers would be vastly improved.

The last "high point" of enemy action, on August 11/12, was less costly to our own troops and to the enemy than the previous two high points which had occurred in May and June. The enemy clearly tried to concentrate on Americans in his ground attacks, with the ARVN receiving proportionately less attention than during any of the earlier high points. The total number of rounds expended, however, was also lower than before. The kill ratio, on the other hand, was slightly less unfavorable to the enemy (1.5:7). From these figures, and from the fact that the enemy is threatening less and less important towns (he has long given up pushing in the direction of Saigon, and is now concentrating on even lesser objectives than Tay Ninh), I conclude with General Abrams that the enemy's capabilities have been reduced and that his willingness to sustain casualties has significantly declined, at least for the time being.

I am glad to report that Thieu has appointed new commanders for the 5th and 18th ARVN Divisions operating in III Corps. This is something for which General Abrams and I have long been pressing.

I sent a message on August 14 (Saigon 16371) on the ominous recent developments in Laos, where the North Vietnamese forces have been extending their control toward the two capitals and the Thai border. Most Vietnamese, preoccupied with domestic problems, have so far only noted these unfavorable developments, but some of the leaders are now beginning to cast nervous glances toward Laos. If the North Vietnamese continue to push in Laos, to the point where the Laotian Government is threatened, there will be the greatest anxiety here and that concern will develop very quickly.

The first month of Phase II of the Pacification Plan, while showing no startling innovations or developments, was marked by continued steady progress. The enemy, despite certain captured directives to the contrary, seemed

to consider pacification a less desirable target than U.S. and ARVN military forces. As a result, improvement shown by the statistical indicators was confirmed on the ground in terms of new areas opened up, the return of more refugees to their abandoned homes, continued high Chieu Hoi rates, implementation of the Village Self-Development program, and a rush toward recruitment of the additional Popular Forces authorized by the GVN. The total number of ralliers (returnees) as of the end of July passed the total of the last year, and as of this writing it is approaching 30,000.

The recruitment of territorial security forces is way ahead of schedule. Two-hundred seventy-eight additional RF companies have become operational so far, and of the 863 new PF platoons no less than 757 were recruited by the second week of August, and 531 were already in training camps which are crowded to capacity. Expansion of the police is moving forward, and operational results of the police are improved. The Phoenix campaign, on the other hand, continued to lag, with the latest operational figures (for June) showing a slight drop from the previous month. This is attributed to several factors: sensitivity of local officials to National Assembly and press criticism of the summary character of Phoenix operations, overcrowded detention facilities, legal and bureaucratic problems in sentencing members of the infrastructure, and some reluctance of local officials to attack the VCI in the expectation that those civilian enemy personnel might soon be allowed to operate legally if Thieu's proposals were accepted.

As the last item under this heading, I should say a word about the new Village Self-Development Program (VSD), which funnels government aid direct to the villages for local decisions on local improvement projects. This picked up speed after a slow start. The first countrywide statistics (end-June) indicated that 400,000 families were involved in VSD groups. The people's cash contributions to VSD projects amounted to 70 million piasters. Significantly, 1,545 village commissioners (out of about 2,000 villages) have received checkbooks, a step which helps move toward local control over local government.

We can be pleased, I think, that we have so far managed to help the Vietnamese to keep inflation within acceptable bounds, roughly 30 percent a year. (As you know, during the Korean war inflation in that country was 2,800 percent.) Given the importance of holding and extending the loyalty of the people in the pacification context, it is imperative that we continue this successful policy. So far this year things have not gone badly, and by the end of August prices will be only about 14 percent higher than in January; but during three of the last four weeks prices have been rising at the rate of about one percent a week. Nevertheless I think we can hold the rise to 30 percent by the end of the year. The real crunch will come next year, for as the South Vietnamese expand their forces and take up more of the burden, government expenditures will rise very sharply and they will need to raise more revenue and will need increased economic assistance from us, as well, to avoid a dangerous price

inflation. We are working on this problem and will have detailed recommendations on how to deal with it.

The long and delicate negotiations over government reorganization have caused a letdown on some fronts and delayed some decisions, perhaps chiefly in the economic area.

Yet in other areas, improvement and progress can be noted:

- —in equipment and training of the Vietnamese Armed Forces and their improving performance;
- —in the build-up of the territorial forces, essential to security;
- —in the expansion and the improving quality of security in the rural areas:
- —in training in local government and the assignment of increasing responsibility to hamlet and village administrations;
- —in increasing agricultural production and improvement in the economic status of the farmer;
- —politically in the creation of a government majority in both Houses of the Assembly and Thieu's moves to broaden the government and to organize it for more effective performance.

There have been developments with a negative side as well:

- —inflationary pressures have continued to build up and prices which had been stable for many months have also started to climb;
- -progress in getting at the infrastructure has been disappointing;
- —progress in getting at corruption has not been as great as Huong hoped for when he took office;
- —there are deficiencies in military leadership in both quantity and quality at the officer and non-commissioned officer level;
- —land reform legislation has run into difficulties in the lower house and it will take a major effort by Thieu to secure a satisfactory bill.

These and other shortcomings will need attention. On balance, however, I think it is fair to say there has been substantial progress in many areas.

#### LXXXII

#### FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY EIGHTY-SECOND MESSAGE, NOVEMBER 18, 1969 The enemy's greatest problem is our policy of Vietnamization. A comparison of COSVN Resolution Nine with last year's Resolution Eight shows that he is increasingly forced to react to what we and our Vietnamese allies are doing: [although] he now places emphasis on countering the pacification program, he still wishes to inflict defeats on the "puppet army." But above all he wishes to inflict casualties on US forces and generally to thwart our plans for an orderly transfer of responsibility to the increasingly capable RVNAF. His strident denunciation of our policy shows that he fears it will cheat him out of the victory that he saw within reach as a result of US domestic pressures for excessively rapid withdrawals. Thus I believe that his military actions in the months ahead will be designed primarily to spoil the Vietnamization effort, to demonstrate that it will not work, and thus to bring about an accelerated US withdrawal under panic conditions.

Your November 3 address dispelled the mounting fears in South Viet-Nam that such an accelerated withdrawal was impending or that other concessions might be made at our allies' expense. Your warning that renewed escalation by the other side would meet strong and effective measures was also exceedingly well-timed. On the whole, Vietnamese morale is good and Vietnamization is now far more a matter of pride than of fear. If Thieu can publicly announce his program to expand the military forces by 150,000 during the coming year, a basis will exist for substantial scaling-down of US combat forces. Bearing in mind, however, that an upsurge of enemy activity early next year is to be expected both seasonally and specifically to throw withdrawals into disarray, I believe it very desirable to continue the program on a pragmatic, "cut and try" basis rather than by setting a public target for the whole year.

The military situation continues to show some favorable trends. The enemy's casualties have been high even during periods of "lull," while our own went down in three successive months: in August there were 795 Americans killed, in September 504 and October 324. (There probably will be some increase in November). This reflects only in part the lower enemy activity; partly it is due to relatively greater South Vietnamese activity. For every American killed there are now usually four South Vietnamese killed and at least 30 enemy. The pacification trends, discussed in more detail further below, are also very marked: GVN recruitment is going well, VC recruitment

badly. ARVN and RF (but not PF) desertion is down, enemy defections are up. We reached an all-time high in Chieu Hoi (returnees) in October. In the same month 123,000 refugees returned to their homes and 67,000 were resettled. While there are many problems, it is noteworthy that even some hard-bitten newspapermen are beginning to see pacification as a success story.

With respect to the practical effects of Vietnamization, I should like in this overall section to draw particular attention to the situation in the Delta because in my view it points up some trends. The long-run importance of the Delta to the communists as recognized in COSVN Resolution 9 was reflected in continued allocation of military manpower there. In August the first entirely North Vietnamese unit entered the area, but rather than engaging in combat operations it appears to be providing filler personnel to depleted VC units. Evidence is accumulating that an additional regiment, and possibly even an NVA division headquarters, will be transferred from III to IV Corps to join the 273rd VC (now 80 percent Vietnamese) and 18B NVA regiments deployed in the summer. Meanwhile, after the withdrawal of the US 9th Infantry Division there are no US ground combat forces left in the Delta.

Yet the momentum of pacification is continuing there. The withdrawal of US forces from IV Corps Tactical Zone has not impaired the will or ability of the Vietnamese forces (including the RF/PF) to fight. They are engaging and defeating North Vietnamese forces. The enemy is losing an average of 500 killed a week in the Delta since October 1, plus an average of over 500 defectors a week. The South Vietnamese forces lost 150 per week during the same period in the Delta. South Vietnamese forces have made frequent and productive incursions into the enemy's once-impregnable base in the U Minh Forest, and in addition to hoi chanhs a considerable number of civilians from that area have rallied to the government. As the recruiting base of the VC is shrinking further, their need for NVA support will increase, yet we hear more about friction between VC and NVA; and their need to increase "taxes" is further alienating the population.

I do not mean to imply that the situation elsewhere is going as well or that the total withdrawal of US ground troops could be accomplished as easily in other Corps Tactical Zones. But in looking at the overall military situation I am struck by the correctness of our present strategy, the fact that the enemy is now essentially reacting to what we are doing, and that he simply does not have the resources to do all that he needs to do—combat pacification, attack the Vietnamese forces, and inflict casualties on the Americans. He will certainly try, but perhaps the most interesting thing about COSVN Resolution 9 is that his strategy tries to do too much. I would judge that a good deal of the enemy's bluster in Paris and elsewhere is an attempt to reassure himself and his followers and to cover up a deep sense of anxiety that the "perfidious trick" of Vietnamization will work.

We have now had enough time to assess the Khiem government, and I think it compares favorably with its predecessor in several respects. The PM himself is much more effective than Huong, and although he has had his trou-

bles with the Assembly he handled himself much more adroitly. The economic team of [Pham Kim] Ngoc and Hue (with [Nguyen Huu] Hanh in the background) are much better than their predecessors. The ministers of Foreign Affairs, Public Works, Rural Development, Communications, and Veterans' Affairs are all improvements. Measured against high hopes for a cabinet of politically popular and technically competent men, all of whom cooperate together, the present cabinet may seem lackluster, but it meets the other specifications; and it does include a few persons, like Vice Premier Vien and Dr. Phan Quang Dan, who have prestige and political appeal.

There have been two important internal political developments, and one absence of development, which are unfavorable: the government's handling of austerity taxes, the launching of the idea of a "third force" by Senator Don closely followed by entry of "Big" Minh into the political arena, and the sluggishness of the National Social Democratic Front which had been intended as a unifying political force. The handling of austerity taxes was an act of high political courage but of poor political implementation. As explained in the economic section of this report, those taxes (technically increases in tariff rates) were absolutely necessary to avoid a runaway inflation, and it was in fact remarkable that the government went beyond our recommendations and acted without waiting for agreement on what we would do to help them. But poor preparation and public handling caused major trouble with the Assembly, and the resulting excessive price rises, many of them hopefully only temporary, caused trouble also with the population.

There is in fact a close link between Thieu's announced desire to replace the bulk of U.S. combat forces in 1970, the imposition of unwelcome austerity taxes, and the opportunistic efforts of Tran Van Don and Duong Van Minh to exploit what they thought was a weakening of Thieu's position. The trouble with the Assembly, which is now simmering down, was probably inevitable because the austerity measures had to be imposed by decree. They simply could not have been passed by the Assembly within a reasonable time. But by springing the measure on the people without explaining their carefully graduated character which was designed to protect the mass of the poorest consumers, the government produced a temporary wave of speculation, prices surged, and the Assembly's anger at having been by-passed was expressed against a background of genuine popular dissatisfaction.

Somewhat belatedly the government has initiated a widespread public information campaign to explain to the people the necessity for the measures and the long term benefits which will result from them. At the same time, it has eased somewhat taxes on items such as wheat flour, gasoline and kerosene where price increases had been particularly burdensome on low and middle income groups.

For several months General (now Senator) Tran Van Don had been campaigning for General Duong Van Minh to succeed Thieu as president, but few people had paid attention since Minh himself had carefully avoided taking any public position. As pressures in the US for rapid troop withdrawals in-

creased, and as the hubbub about austerity taxes put Thieu in difficulty, Don thought it a master stroke to anticipate a US sell-out by publicly calling for a "realignment" away from the free world and for a "third force" that would, as he put it, be able to make peace and then go on to win in competition both against the pro-free world forces and the communists. "Big" Minh apparently also thought the time was ripe, and he vaguely called for the people's assembly to consider the state of the nation, and later for a referendum on support of the government, as if the time had come to advance the 1971 presidential elections. Both were knocked back by the surge of confidence in current policies which followed upon your November 3 speech, a surge of confidence that greatly benefited Thieu.

The affair of Don and Minh is important principally because their ill-considered initiatives tended to divide the country, or at least some political circles, at a time when national unity is so much needed; and because they indirectly further the purposes of the communists who wish by all means to bring down Thieu. Neither Don nor Minh is probably ready to consider a coalition government, but among their would-be supporters are some who would. Political cooperation is hard enough to achieve in South Viet-Nam, without jumping the gun by two years on a presidential election. Unfortunately, cooperation among political leaders has also made little progress in the National Social Democratic Front which in fact lost one of its six elements, the smallest one that had represented some Hoa Hao elements.

What hope there is for political unity will probably not come from efforts to call together popular assemblies, or to convoke councils of advisers, or to try to harness political groups and parties together. The concept which is increasingly attractive to Thieu, and which Khiem is in a way already pursuing, is to ignore the quarreling politicians and to build political strength "from the bottom up instead of from the top down." This involves a calculated policy of capitalizing on the political development that the government is promoting at the rice-roots level through its granting of autonomy to the villages, local elections, and the allotment of moneys and powers and responsibilities to local officials. A most important next step will be the election of provincial councils in the spring, for the first time on the basis of constituencies within each province. It is possible that around that time the GVN may begin to field candidates of a new party of its own, with the idea that its endorsement may become so attractive or even necessary that even some of the old parties will wish to join in order to keep alive, thus creating the greater unity that is eluding the politicians.

One of the most dramatic moments in Thieu's political life was when, in addressing the nation on the eve of Independence Day, November 1, in an emotional and moving passage he announced that he would step down if the people disapproved of his actions, because "I wish to save the nation, not to be president." This was in connection with his defense of the austerity measures, and it made a generally good impression of sincerity and dedication. There is no question, of course, of his stepping down and indeed I think he

has grown as a leader and in acceptance as such. He has been trying in a number of public pronouncements to become the advocate of the inevitable, to picture Vietnamization not as something forced on South Viet-Nam but as springing from its own initiative, as a matter of national dignity, of obligation, and as an opportunity—provided its friends will help the country in making the necessary adjustments. It was in this context that he declared on October 6 that he would rather "accept being unpopular if it could save the country." Many politicians expressed shock; how could a political leader advertise that he might have to be unpopular, even if it meant saving the country? The remark was either attacked as showing that he would undemocratically ignore the wishes of the people, or as a display of political ineptitude, or both; but I think it shows him to have the quality of selfless and courageous leadership, a rare thing in South Viet-Nam.

The parliamentary battle over the austerity taxes involved some important questions of principle and precedent, as well as a practical dilemma. As far as principles are concerned, I think the Assembly leaders are probably right in that the legality of the 1961 decree under which the government acted was dubious at best; but they are probably wrong in contending that they could have enacted such unpopular measures, whose necessity is generally recognized, in any reasonable time, if indeed at all. The record of the Assembly in that respect is quite discouraging. Much is made over the fact that the government did not even consult the Assembly leadership, but I think the problem does not lie there (for they would have had to object to implementation by decree if they had been consulted). Part of the problem, at least, lies in the ineptitude of the government in explaining its measures to the people as well as to the Assembly immediately upon their implementation. This is only one aspect of the distressingly weak performance of the GVN in the public information field both domestically and internationally.

The dilemma was that the government could by fully respecting the democratic process have produced an economic disaster; but by acting in a constitutionally dubious manner it could not avoid dealing a blow to the democratic process. I think this situation is righting itself simply by the extraordinary assertiveness shown by the Assembly in the aftermath of the affair. Virtually the whole cabinet had to submit to three days of interpellation by deputies and senators in the full glare of TV cameras. A motion to rescind the measures was passed by the lower house, but in the end there will probably only be some adjustments, including some that are entirely reasonable and indeed necessary, plus a formal act by the Assembly extinguishing any possibly remaining life of the resurrected 1961 decree by which the measures were justified. Some other revenue-producing measures which the government had hoped to put through will probably have to go to the back burner, at least for a while.

Land reform, however, which has been on the Senate's back burner, should be coming up for action around the end of the month. As Senator Sung, probably the Senate's ablest tactician, put it to the political counselor

last week, there has to be some time to allow some "demagogues who will vote against the taxes" to shift gears and vote in favor of a government-sponsored measure which they would support "for other demagogic reasons"—both land reform and opposition to taxes being regarded as crowd-pleasing. The newly elected chairman of the Senate Agriculture Committee is less inclined to cooperate with the government than his predecessor, but he apparently advocates an even stronger bill than the one he inherited. While the final terms of the law cannot be forecast with assurance the Senate bill would be a vast improvement over that voted by the lower house, and in the end the president can still suggest amendments to get fully what he needs, and those amendments would stand unless overridden by an absolute majority of the members of both houses. I am seeing to it that the right encouragement is given to the right people at the right time.

Unremarked by the press and thus by the general public, a major political event took place on October 29 when Senator Trinh Quang Quy, a close associate of trade union leader Tran Quoc Buu, filed formal application for permission to form a farmer-labor party. This will be a very different sort of creature than the current political parties, for it has a ready-made mass base in the 250,000-member Vietnamese Confederation of Labor (CVT). It will thus be the first mass-based (i.e., non-middle class), nationwide, anticommunist political organization in South Vietnamese history. That Thieu and Khiem are aware of its importance was shown when they prominently attended the CVT's 20th anniversary celebration the next following evening.

Formal unveiling of the party may take place only several months from now, but already politicians are trying to get into it. The Farmer-Labor Party, when launched, could be a major support to Thieu. As the representative of an interest group that appeals to voters on concrete issues and programs, it will be a refreshing departure from the clique-parties that have proliferated up to now.

The release of the imprisoned Buddhist bonze, Thich Thien Minh, should have helped the government's image abroad a little. The release of Minh, however, will not automatically improve relations between the GVN and the politically very volatile An Quang Pagoda, but it removed one irritant. One interesting fact about his release is that it would have happened earlier if political elements with an interest in bad relations between the GVN and the An Quang hadn't artificially prolonged the life of the "committee to abolish the sentence of Thich Thien Minh" after An Quang tried to disband it. It is possible that Truong Dinh Dzu may be released next month. I am aware that this would have a favorable effect abroad, but it could churn up the situation here and face the government with a difficult decision if he should resume advocacy of a coalition government.

As I am writing this, a group of saffron-robed Buddhist bonzes of the Cambodian minority who have been squatting for five days in front of Independence Palace have just broken up and returned to their pagoda. The is-

sue is their demand to be included as minority group in the newly organized Ethnic Minorities Council.

The enemy is feverishly improving his communications in the panhandle of Laos. This is usually followed by a major surge of infiltration but so far the surge has not yet taken place. As indicated earlier, I think the enemy has an interest in throwing our orderly withdrawal into disarray, but what he has done so far has not affected us in any serious way. The level of enemy activity has steadily increased since mid-October. His casualties during the week 9-15 November (over 3,500) were more than doubled the comparable period in October. Attacks by artillery fire continued to be the most usual form of enemy activity, and the majority of them were directed against military targets. Terrorism was down until last week when it took a substantial rise. It seems clear that the enemy has begun his winter-spring offensive and we are in for a period of rather severe testing. I believe that he will attempt to increase our casualties, to discredit the Vietnamese, and to attack the pacification program.

During October there were 9,450 enemy KIA. In the same period, friendly forces suffered 1,381 KIA of which 324 were US and 974 Vietnamese. Incidentally, the latest figures for desertion rates for the total RVNAF, as of 30 September, show them to have been the lowest since February.

The defense of Saigon is now entirely in Vietnamese hands as the last US combat battalion left the capital military district in October. In III Corps Tactical Zone most division-size enemy forces remained out of contact, in or near their Cambodian base areas. Discovery of many enemy caches probably contributed to preemption of planned enemy offensives. RF and PF continued to improve and assumed responsibility for more operational areas, thereby freeing additional ARVN units for employment in combat missions. In II Corps the enemy is trying to test the ARVN at Bu Prang and Duc Lap, and it is too early to give a conclusive judgment of the outcome. The pattern of increased enemy activity which I noted above has been evident in I Corps. Despite a thinning-out of US troops the rate of enemy defections has been gratifying, and there have been many reports of poor enemy morale due in part to severe food shortages. I have highlighted above the picture in IV Corps Tactical Zone.

Because Thieu's concept of Vietnamization in 1970 depends in large measure on upgrading the quality and responsibility of PSDF, PF and RF, each successively relieving the next higher category so that in the end more ARVN can engage enemy main forces, I think it may be helpful to have an overall look at how the expansion program has worked in the last few months. (I will discuss the PSDF in the following section.) A 39,000-man increase in the regional forces was equipped, trained, and deployed by late June and early July and brought to bear on the situation since that time. Similarly the Vietnamese recruited 863 new PF platoons by October 3, of which 530 completed training and are now operational. Issue of M-16 rifles and other improved weapons to territorial forces has been almost completed. As a result, the ex-

panded territorials have allowed seven of the 30 ARVN battalions previously supporting pacification to be withdrawn for mobile operations. An additional 23 RF companies and 137 PF platoons were recently authorized and will be activated by the end of December. The Vietnamese are also pressing for recruitment and activation of an additional 23 RF companies and 670 PF platoons beginning January 1. As Thieu remarked to me, the US has pretty consistently underestimated the GVN's capacity to recruit additional personnel.

Progress was made in ARVN Phase II Force Structure increases. During October, one armored cavalry squadron, two artillery battalions, and two ordnance direct support companies (essentially mechanics) were deployed; one engineer construction battalion began training. The fourth Vietnamese Air Force H-34 Helicopter Squadron completed conversion to UH-1 aircraft and became operational on October 1. The Navy turned over 53 river patrol boats and 13 fast patrol craft during October, making the turnover of riverine craft 71 percent complete. The number of RF companies as of September 30 was 1,478, which is 100 percent of the Phase II (accelerated) authorization. There were 5,724 PF platoons, 18 percent above the authorization; and, as indicated above, the GVN is pressing for further expansion of both RF and PF.

I wish to draw your attention particularly to the refugee situation. In January, the total refugee rolls were 1,400,000. As of October 21, the figure was 537,000. Not all of the reduction is due to people having returned to their villages or otherwise resettled during that period, as some (in the category of "out-of-camp refugees") had already substantially resettled and merely had claims that remained to be satisfied. But the return and resettlement figures are nevertheless truly impressive: some 347,000 refugees have been resettled so far in 1969, and some 396,000 have returned to their original hamlets. The latter is most dramatic throughout the country in that it involves the reoccupation of abandoned and destroyed farms and fishing communities. Again, the extension of security due to the availability of territorial forces has been a major factor in this re-entry into the countryside.

In the section above I have talked about expansion of RF and PF. Filling in behind them is the people's self-defense force which, as a people's militia, is in a sense the counterpart of the VC guerrillas. The "support" PSDF (women, youth 12 to 18, and men over 50), who are volunteers and now number 1,378,000. The regular or "combat" PSDF has an additional 1,269,000. Of these some 1,226,000 have received some training, usually rudimentary, and they have 386,000 weapons. Measured by the formal indicators of effectiveness, such as contacts with the enemy, KIA and weapons loss ratios, etc., the PSDF are no awesome military force. But they have engaged the enemy in a number of fire fights, and while they have run away from some they have stood and fought in others. Since the beginning of 1969, some 2,200 PSDF were killed in this type of action, and they claim some 2,300 of the enemy. But equally and perhaps even more important is the political commitment which participation in the PSDF entails. Thieu looks upon the PSDF as the "People's Army" with both political and military roles to play.

The second phase of the 1969 Pacification and Development Plan ended on October 31, having begun on July 1 and been foreshortened from its original end-December termination by President Thieu's decision to accelerate it and to use November and December for clean-up and launching of the 1970 plan. The main thrust of the phase was a qualitative improvement in security, administration, and law and order, consolidating the rapid GVN expansion in late 1968 and the first half of 1969. Thus, he had called for five percent of the population to be raised to A and B status and 90 percent to be A, B, or C. By October 31, both goals had been exceeded; the end-October AB rating was 55.1 percent and ABC was 92 percent. While these should not be viewed as absolutes, they contrast markedly with the end-June totals of 36.6 percent and 85.6 percent, respectively. Of course, one of the reasons for success of this phase was the reduction of enemy counter-action. But by his failure to take counteraction, which would have been costly to him, the enemy has allowed the government to consolidate its hold.

The Chieu Hoi program outdid itself in October and reached its highest monthly total in history, 5,609. There has been a slight downturn since the end of the month, but the totals are still in the 900 to 1,000 range each week. The year's total has now exceeded 40,000, more than twice last year's and well above the 27,000 of 1967, the previous high point. Meanwhile the campaign against the VC infrastructure (Phung Hoang) has somewhat improved. Some 2,005 VCI were neutralized during the month of September (the October figures aren't available yet). I have talked to the Prime Minister about the need for the President and himself to demonstrate their personal interest to the province chiefs and local commanders. One interesting new device has been publication (by poster and loudspeaker) of lists of "most wanted" members of the VCI. One of our officers reported that in one district that he visited in the Delta, two days after the posters went up two of the "most wanted" VCI were spotted and arrested, and three others were so demoralized by the publicity that they gave themselves up.

The National Police will not reach its strength goal of 92,200 by the end of the year, having actually suffered a decline to 76,300 between January and September due to mobilization restrictions on recruiting. In September the GVN authorized the transfer of 13,000 men from the military, and 6000 of them are now in training. There are a number of as yet unsolved problems having to do with the nature of its expansion, but I think the police deserve at least part of the credit for the reduced rate of terrorism, even though the reduction did not meet President Thieu's goal of 50 percent. The Special Police has been especially effective in neutralizing at least five major intelligence networks in the past year and effectively blunted the infiltration of sappers into the Saigon area. As a result, terrorist incidents in Saigon have dropped from a monthly average of 20 between January and June to an average of five in the past four months.

Your recent approval of our economic assistance proposals for FY 1970 has a direct and important bearing on our military objectives here. The com-

bination of a reduction in the government's foreign exchange earnings resulting from US troop withdrawals, and inflationary pressures flowing from a sharply increased GVN military budget and GVN's full mobilization posture will place severe strains on the economy and on the operations of the civil government in the 1970–71 time-frame. The economic and project aid levels approved are the minimum required to ensure the belt-tightening measures we are asking the GVN to adopt and to take up the remaining slack once those measures are implemented.

In the section above I termed the enactment of austerity taxes (technically, tariff increases) an act of high political courage but of poor political implementation. It was also an act of faith because the measures were taken before we had concluded the US/GVN stabilization agreement on which discussions have been going on with this mission and later with an IMF team ever since the day when the Khiem government was installed. The stabilization agreement will essentially trade GVN constraints on the budget and on credit to the private sector in return for US AID commitments for 1970. It appears that establishment of an accommodation exchange rate for Allied personnel is the only important area of disagreement. Thieu cannot grant this at a time when people are called upon to tighten their belt, for it would appear as if Allied personnel were reaping a windfall. In actual fact, a more realistic rate for alien personnel would be the only effective way to deal with the currency black market. Thieu understands this and has sent word to me that he will take action on the accommodation rate later, but the timing and rate are still unsettled

The austerity tax package is expected to generate revenues on the order of 40-45 billion piasters and thereby cut the projected 1970 budget deficit by roughly one-half. Other measures yet to be enacted may reduce the deficit to about one-third. In general, the pattern was to increase tariffs by a higher percentage for luxury products than for more essential goods. As noted above the government has yielded to the Assembly over some of the increases, possibly to the extent of losing five billion piasters in additional revenue, but Thieu has put the Assembly leaders on notice that he expects them to find additional revenue to make up for such reductions.

I have been talking with both Thieu and Khiem about the black market in PX supplies which continues to be an open scandal. We ourselves have had to take a number of steps to limit the problem, for inordinate amounts of PX goods had been drawn, for instance by service clubs and messes, especially of some of our allies. I was able to present the GVN leaders with a list of steps that demonstrate our good faith in dealing with the problem, and have indicated that the government will launch another cleanup drive. Such drives usually yield only temporary benefits but the next one should be particularly helpful in demonstrating a willingness to limit this evil by going after the black marketeers.

Problems and deficiencies still remain. The traditional inability of Vietnamese politicians to cooperate is still a fact of life. The front supporting

## Eighty-second Message

Thieu (reduced from six to five) has made little progress. Five "loyal opposition" parties in six months of effort have failed to find common ground. Tran Van Don and Big Minh have introduced divisive factors into the political scene.

While RVNAF effectiveness has continued to make progress, qualitative problems still remain. There is room for improvement in leadership and motivation. There is still a lack of trained officers and technicians, promotions are slow, improvement is needed in planning and in coordination, and desertions, although lower, are still a problem.

While a good deal has been done in the attack on corruption, notably in the removal of many province and district chiefs and in the police, much remains to be done. What the inspectorate has accomplished, if anything, is something of a mystery; as someone has put it, they catch the little shrimps, but the big fish go free.

Land reform, which hopefully will be passed within a month, has been caught in a legislative cross fire. Full mobilization and the demands it has made on manpower and other resources have placed a great strain on the country. The adjustment to the austerity taxes has been painful.

On balance, however, it seems to me that one cannot deny that very substantial progress has been made in many areas. The authority and effectiveness of the government have grown. Security has been expanded; at the end of October, 92 percent of the population were considered to be in a relatively secure category. In spite of some deficiencies, the intensive efforts being made to improve the size, equipment and training of the military forces have borne fruit. The Vietnamese armed forces are progressively assuming more of the combat role; for the last six weeks, Vietnamese casualties have been four times ours and they have been inflicting more casualties on the enemy.

There has been progress in other areas: in the development of local self-government; in the involvement of the people in their own development programs; in the movement toward a revolutionary land-to-the-tiller program; in the courageous action of the government in imposing high austerity taxes; in economic and social development despite the war.

These are all indications of the growing strength and stability of the government.

### LXXXIII

# FOR THE PRESIDENT FROM BUNKER PARIS FOR AMBASSADOR HABIB

HEREWITH MY EIGHTY-THIRD MESSAGE, DECEMBER 9, 1969 I believe the most important single development affecting Viet-Nam since my last report has been the disappointment of the high hopes the enemy had placed on the effect of anti-war sentiment and demonstrations in the United States on our Viet-Nam policies. Your handling of the Viet-Nam issue, particularly in your speech of November 3rd, has clearly shaken and disappointed his hope for a quick and easy victory here as a result of precipitous U.S. withdrawal.

Nor can events in Viet-Nam itself have been encouraging to the other side. I mentioned in my last message that the enemy's greatest problem is our policy of Vietnamization. Despite considerable enemy efforts against it, progress continued to be made in Vietnamization. The RVNAF seems successfully to have met the enemy challenge around Bu Prang and Duc Lap without any support from U.S. ground forces, and there are indications that the enemy is beginning to disengage. In IV Corps, the other major testing area at present, a few minor reverses have been more than offset by RVNAF successes against the VC and the newly introduced NVA forces (three regiments confirmed, another suspected but as yet unconfirmed). Experience to date gives good reason to believe that we will be able to proceed with the orderly withdrawal of U.S. ground forces and the accompanying steady assumption of more responsibility for the war by the RVNAF. An indication that the enemy fears this is the volume of his commentary on Vietnamization and the level of vituperation in that commentary, both of which have reached new heights.

On the political front the situation showed some troublesome aspects, but remained basically stable (despite some totally groundless coup rumors which circulated recently). The furor over the austerity taxes has started to die down, and the immediate effect they had of raising prices now seems to have run its course; in fact the price of rice dropped sharply today, perhaps an indication that holders have begun to unload. A possible crisis which would have been caused by the Supreme Court finding the executive decrees unconstitutional has apparently been averted. I have some residual concern about the incidence of those taxes that I will discuss later. Most importantly, however, I think the ability of the government to carry out in the face of such opposition what is basically a sound and badly needed policy in order to assure the economic future is a good indication of the Government's strength and effectiveness.

Senator Don is continuing to look for ways to make trouble for Thieu. His current preoccupation is with the My Lai affair. While the Government's initial handling of this was inept, My Lai hardly seems likely to offer Don more than nuisance value since the reports of the incident have not created the emotional reaction here that they did abroad. Also, Thieu's most recent statement on the incident, stressing his belief in "American justice," puts him in a much less vulnerable position.

One of the enemy's goals set forth in COSVN Resolution 9 was to inflict maximum casualties on American forces. Our casualties according to the most recent available figures, dropped from 796 in August to 477 in September, to 377 in October, and moved up slightly to 410 in November.

The targeting of pacification, another priority of the enemy, has also brought him little success so far. November showed another small gain in the ABC category, to 92.5 percent, while VC population declined slightly to an estimated 500,000, under three percent of the total population of South Viet-Nam. The number of refugees had dropped to 416,514 by the end of November, down over one million since the first of the year.

I think it is clear that the situation I am describing shows that the enemy is faced with difficult decisions. I feel it highly probable, therefore, that he must be carrying out a reassessment of his current strategy. We cannot yet know what the outcome of that reassessment will be. He might decide to build up for an increase in military activity, keeping the same set of goals but paying more in an effort better to obtain them. If so, he could cause some setbacks in pacification; increase our casualties; and perhaps slow Vietnamization. The costs of such a course would be very high for him, with no assurance of any success. He would have to keep in mind the warnings you have issued against escalating the fighting. He has no chance of achieving the strategic surprise that was the key to the success he had at Tet 1968, in addition to which the RVNAF forces he is up against are much better armed and trained than they were at that time.

I do not expect him during the period immediately ahead to take a more serious attitude toward the Paris talks, but he might start to explore the possibilities of some political compromise if he tries and fails to throw Vietnamization into disarray. He will certainly continue to try to divide the non-Communist Vietnamese and may make overtures to some of the opponents of Thieu in an effort to create more disarray on the GVN side.

We are currently carrying out a careful and thoroughgoing analysis of enemy capabilities and intentions which will be submitted separately in the near future.

The possibility of a major political and economic crisis was averted when on December 12th the Supreme Court, while finding no legal basis for the decree, found that the Senate (which had asked for an advisory opinion on the legality and constitutionality of the decree) had in effect withdrawn its request by declining to submit arguments. A test case could still be brought unless legislation is enacted which would obviate the problem. Thieu has informed

me that he proposes to include validation of the taxes in a "package" containing other revenue measures he will submit to the Assembly.

The price effect of the taxes was felt in early November. The retail price index has been stable since that time in Saigon although there are reports of additional price increases in some provincial areas. We will be watching the longer term impact of the new tax levels on the important fixed income groups: military personnel and the civil bureaucracy. Farm population is less affected (and perhaps even benefitted from price increases for rice and vegetables), but they too are concerned with substantial increases of prices on small motors used for pumps and boats and also, although to a lesser extent than the urban consumer, with the price increase on motor bikes. The decision which I mentioned last month to lower taxes on certain vital items such as kerosene and gasoline has eased the situation somewhat, but the feeling of bitterness over economic difficulties for which the government receives the blame is still there, and bears close watching.

The basic point remains, however, that the government was willing and able to take a tough decision on an issue of such magnitude and to see it through. A weaker government would have been content to let inflation continue and accelerate rather than face the immediate political problems associated with a tax increase. The latter could have been ameliorated by more skillful handling; if, for example, Thieu had made his 31 October speech a week earlier and if he had taken the Assembly into his confidence. While a more effective effort to achieve public understanding of the reasons for the action and its longer term benefits is still badly needed, the episode on the whole I think gives grounds for some encouragement.

President Thieu's land reform measure is still before the upper house. I expect it to be passed by that chamber by the end of the year. I believe that the upper house version will be a considerable improvement over the bill produced by the lower house. Sometime early next year, the National Assembly as a whole should present its bill to the President. If he takes exception to any of its provisions, he can propose amendments, and I doubt that the Assembly could muster the votes to override him. Therefore, I expect a good land-to-the-tiller law to be promulgated next year.

The lower house did a responsible and workmanlike job in approving the national budget with only minor cuts. The bill now rests in the Senate, where it probably faces a tougher fight.

A problem in legislative executive relations may arise out of the trial and sentencing of a former Presidential advisor, Nguyen Van Trong, charged with actions beneficial to the communists. This affair, in itself only a momentary sensation in Saigon politics, has become a broader issue with disclosures that confessions of some of those on trial have implicated lower house Deputy Hoang Ho. Because of legal problems posed by congressional immunity, President Thieu has forwarded Hoang Ho's file to the lower house, charging it with the responsibility for action against Ho under rules of the lower house. The case against Ho, while largely based on confessions of some of those ac-

cused in the Trong affair, seems fairly strong. Thieu also has asked for House action against two other lower house members, Tran Ngoc Chau and Pham The Truc. Truc has been in Japan since May 1969 where he has made pro-Viet Cong statements. The main complaint against Chau is that he collaborated with his brother, Tran Ngoc Hien, who was arrested in April 1969 and subsequently convicted of being an NVA intelligence agent.

Unfortunately, President Thieu made a rather intemperate speech at Vung Tau on December 9th which contained off-the-cuff remarks implying threats of action by "the people and the military" should the legislature fail to do its duty in this case. Thieu was giving a rather highly charged fight talk to a group of village leaders. While the official version of the speech does not contain these statements, many people are aware of them and the President will need to do some fence-mending in this matter.

Two completely different sorts of Buddhist activity have attracted some attention since my last report. The more dramatic but politically less serious of the two involved the Cambodian Buddhists of the Teravada sect. This is really not a Buddhist issue, although the bonzes are put in the forefront for obvious tactical reasons, but rather one involving the demands of an ethnic minority. Demonstrations by the Cambodian monks in Saigon and in some Delta towns have been irksome and have been accompanied by some minor violence, but they pose little real danger to political stability. The lower house has rejected decisively a bill which would have put Cambodian representatives back on the Ethnic Minorities Council.

There are some indications that the An Quang Buddhists may become more active. They are following up their recent conference by putting forth in various ways new demands that the matter treated in their communiqué be acted upon. In one mass meeting there was a call for an active "struggle for peace." The neutralist fringe leader, Tran Ngoc Lieng, has associated himself closely with this activity. So far it is only a potential danger. In a recent talk with Vice President Ky, however, he discounted the ability of the Buddhists to make serious trouble for the government.

Political parties are actively working in the countryside to establish the minimum requirements for recognition as legal entities under the Political Party Law. According to the law, parties already registered must have ten provincial chapters of at least 500 members, or five such chapters and ten members in the National Assembly by a deadline of December 19th. Parties which do not meet full requirements by that date will not be allowed to operate legally until the requirements are met. While this will undoubtedly bring about some reduction in the number of parties, the long-term effects will depend on how the law is applied and also on the electoral laws governing the forthcoming elections.

A mid-November public opinion survey in Saigon showed a substantial increase in belief that replacement of U.S. forces in 1970 by ARVN units would be beneficial to South Viet-Nam. The "beneficial" replies among the general public rose to 50 percent and among the college-educated group rose to 79 percent.

While such figures must always be taken with some caution, the factor of healthy nationalism seems to be important in the above, particularly since the same poll showed a substantial slump in the percentage of Saigon residents who consider the U.S. "a dependable ally" (27 percent in November, as compared to 52 percent in June after the Midway meeting, 38 percent in August and 39 percent in September). When asked to cite recent American actions they disapprove of, Saigon general public respondents most often name antiwar movements. This I expect to see reversed as it becomes clear that the demonstrations are not forcing us into a precipitate withdrawal.

The poll showed that confidence by the Saigon public in the ability of the present government of South Viet-Nam to meet the needs of the people in the future dropped in November to 40 percent, the lowest figure recorded in ten surveys since the question was first asked in April 1968. The main reasons named for this decline were the end-October GVN economic austerity measures and subsequent price rises. This illustrates the price that Thieu has had to pay for those measures, and the importance of stabilizing the price situation and if possible rolling back at least the price of rice.

Casualty statistics show the extent to which the RVNAF has already assumed the burden of the war. Of the 1,937 Allied forces killed in action in November, 410 were U.S. and 1,472 were RVNAF. Enemy losses were 12,532, not including died of wounds and over 4,000 ralliers.

General Abrams has told me that the RVNAF performance in the Bu Prang and Duc Lap actions, where we have provided only support forces, improved greatly as the battle progressed. He felt the 23rd ARVN Division, hitherto something of an unknown quantity, had turned in a professional performance. As I noted above, there are indications that enemy pressures there are reducing. To date the enemy has lost 1,460 men in the campaign while friendly losses have been 301.

The Delta campaign, in which we have only support forces committed, continues in line with the high priority placed on the area in COSVN Resolution 9. RVNAF forces have suffered a few reverses. In a battle in the U Minh Forest area early in November and again later in the month in a series of contacts in Dinh Tuong province, RVNAF forces took considerably heavier losses than they were able to inflict on the enemy. On the other hand, a number of significant successes were scored, including a month-long operation by the 9th ARVN Division south of its normal areas of operations, which was followed by a shift of that division into Dinh Tuong, again outside of the Division's area of operation. Another highly successful action is described below. In the month of November the enemy lost 2,603 killed and 2,244 ralliers in the Delta against 739 friendly forces, of which 25 were U.S.

General Vy, the Minister of Defense, is reported to have said recently that, should the ARVN meet with reverses, he hopes the Americans will not rush in to take their place. He feels that the Americans tend to underrate the ARVN, and hopes the ARVN will not be deprived of the chance to prove itself by hasty American intervention should such circumstances arise. General

### Eighty-third Message

Abrams related to me the encouraging action of the newly appointed Commander of the 5th ARVN Division in III Corps, Colonel Hieu. Hieu told the Commander of our First Cavalry Division he was sick and tired of being told how to deploy his troops and how to fight them. From now on he was going to decide where to put his troops and how to use them. General Abrams commented that this was the kind of talk he liked to hear from the ARVN. I think this shows the kind of spirit among the Vietnamese leaders that will contribute to making Vietnamization work.

If it does develop that the enemy plans to initiate new offensive activity, indications are that large scale attacks could not be launched effectively prior to the first of the year, and that his capability for sustained action would be limited if he launched such attacks prior to the end of January 1970. The enemy requires about two months to have his logistics and infiltration activity functioning smoothly to provide adequate stockpiles, to pre-position forward caches and move his major combat units.

President Thieu feels that the period from now through Tet (February 6) is when the enemy may make a major move, and General Abrams is inclined to agree. I note that General Weyand also expects the enemy to move around Tet. I agree that many factors, including the enemy's present dilemma of high losses with virtually nothing to show for it, point in that direction. However, the increase in the rate of enemy infiltration from late October to early November seems barely sufficient to make up his losses, which continue at a high rate.

The main thrust of the Pacification and Development Campaign during November and December, as directed by President Thieu, has been to tie up the loose ends for 1969 and launch the 1970 Plan. During trips to the four Corps last month, the President went to considerable lengths to publicize and explain the 1970 Plan as well as to review the accomplishments and shortcomings of 1969. In addition, Ministerial-led teams went to every province in separate delegations to explain the 1970 Plan to all officials down to and including village chiefs. Sessions of this kind are virtually unprecedented and certainly have never been done before on this scale in regard to pacification. These visits underscore the strong interest and leadership given to the Pacification Program by the President and the Prime Minister, and their appraisal of its political importance.

In each Corps, the President laid particular stress upon 1970 as the year of great moment. He said the three major goals were to end the war, build democracy, and achieve self-sufficiency. He stressed strengthening the People's Self-Defense Force as the foundation of national defense, based on the people, and put next emphasis on making the Popular Force fully effective, especially at night. He particularly pointed out the need for an effective Phung Hoang operation against the VCI political apparatus. To build democracy, he said, local leaders must be trained to provide effective administration. To highlight the goal of self-sufficiency, the President changed the Vietnamese name of the pacification program from its earlier Pacification

and Construction to Pacification and Development. Special attention is to be addressed to the urban areas, curfews lifted and main economic routes opened. The provinces are now developing their implementing plans for 1970, which will be reviewed and approved prior to the end of December.

November showed only a small gain registered by the HES. By the end of the month, 92.5 percent of the population was rated ABC, an increase of 0.5 percent. There was also a small increase in AB population to 56.7 percent. VC population declined slightly to an estimated 500,000, or just under three percent of the national total. Seven provinces showed some regression in ABC population but only four dropped by more than one percent (though less than two percent).

One of the substantial reasons for the present success of the pacification program continues to be the lack of a consistent, forceful, or effective enemy opposition. While there was some increase in enemy activity during November, and perhaps the beginnings of a winter offensive in parts of the Delta, the pacification program remained basically unaffected. This happy state may not, however, continue for long as the enemy, in accordance with COSVN Resolution 9, increasingly targets his forces against the pacification effort. We are already beginning to experience increased attacks on the PF and PSDF.

These forces, however, often acquit themselves with distinction. In December, for example, there was an encouraging demonstration of the effectiveness of territorial forces when they operate in tandem. A battalion of the 88th NVA Regiment attacked a district headquarters in Kien Tuong Province. An RF unit on night ambush gave the alert and all local units in the town—RF/PF, Police, RD Cadre, PRU and PSDF—quickly manned their defensive positions and effectively turned back three enemy assaults. Apart from the results of 226 NVA killed and large amounts of weapons and ammunition captured, the incident is a superb example of the potential effectiveness of combined resources and cooperation among Vietnamese local forces even when confronted with NVA troops. Of course, there is an occasional local disaster when a small unit is overrun, but the cases when they fight off the attack or even initiate it are far more numerous.

People's Self-Defense Forces made a significant contribution to territorial security. The 1969 goal of two million organized members was met, of course, by mid-September and grew to more than three million by the end of November. Of these the support forces, composed of elders, women, and youth, now total more than 1,750,000. However, there are now more than 1,316,000 men and women in the "combat" PSDF. Trained members increased to 1,800,000, almost 600,000 more than in October. In addition, more than 92,000 weapons have been issued. The GVN has directed each province and autonomous city to conduct a four-day training course in December for PSDF Combat Group leaders. The program of instruction emphasizes the coordinated employment of PSDF with PF in the defense of hamlets and the role of the PSDF in accomplishing its community development and political education responsibilities. There are an increasing number

of reports of regular ARVN units "adopting" PSDF groups and providing them with more intensive training than would normally be the case.

The Phung Hoang campaign against the VC infrastructure remains a soft spot in the GVN's pacification efforts although October was the third month in succession in which the monthly goal of 1,800 VCI neutralized was exceeded. Results on this program are always somewhat more delayed than others, as there is a confirmation procedure at the national level for the province figures. At the end of October more than 16,000 VCI had been neutralized since the beginning of the year. Although October results were slightly below September, the favorable trend of the last quarter continued, in which neutralizations exceeded monthly goals. The nationwide campaign to publicize the Phung Hoang plan has been surprisingly successful. The program was well-conceived and has had considerable initial impact. It has two aspects, education and operational. The educational side is aimed at bringing about public acceptance and support for this program of "protection of the people against terrorism" and to bring it out in the open.

The Phung Hoang program for next year was published as part of the 1970 Pacification and Development Plan. As in 1969, the monthly goal of 1,800 A & B VCI neutralizations was established. The test of neutralization will be determined by sentencing and interning rather than by capture, to avoid roundup of individuals on whom little evidence has been accumulated merely to meet neutralization goals. Emphasis has also been placed on the need for strict justice in the conduct of Phung Hoang operations and sentencing and internment procedures.

The National Police Force, though faced with a number of problems, continued to make its substantial contribution to internal security. In spite of the clear attempt of the Communists to raise the level of terrorist activity in Saigon and elsewhere, the Police have maintained their crucial role in reducing the number of terrorist incidents during the last four months by 25 percent. The year-end strength goal of 92,200 will not be met, but force strength did increase to 83,575 by the end of November. The increase in strength is attributable largely to the transfer of men from the military.

The Chieu Hoi program declined slightly from its October peak of 5,609 returnees to a November total of more than 4,000. The weekly average was over 1,000, maintaining the 800-1,000 weekly average of the last year. The year's total is now more than 45,000, two and a half times last year's total.

The GVN's refugee effort continued to take large strides in reducing the number of refugees and completing its obligations to those uprooted from their homes. The total refugee population is 416,514, or over one million less than the peak of 1,449,636 in February of this year. The present refugee figures include 174,786 temporary refugees, 144,388 in resettlement process and 97,340 out-of-camp refugees. The Social Welfare Services spent most of their time in paying refugee benefits in an attempt to meet pacification goals. The concerted GVN effort to cope with the refugee problem resulted in 112,465 refugees resettled and 73,255 returned to their original hamlets dur-

ing the month of November. Once again the extension of security and the availability of territorial forces has been a major factor in the ability of refugees to return to their original homes.

While more severe testing by the enemy may not be too far in the offing, events of the past month give grounds for encouragement that the testing, if it does come, can be weathered successfully.

Probably most vulnerable to at least a temporary setback due to enemy activity is pacification, but with each passing day the government should be in a stronger position on this front.

The RVNAF record will no doubt continue to be somewhat mixed. The reversal of what had been a falling desertion rate in ARVN is discouraging, but hopefully can be turned around again. New enemy offensive activity may further heighten targeting of RVNAF, although obviously he cannot give priority to everything. He is at least equally eager to inflict casualties on our forces and the present pattern therefore may not greatly change.

There is still far too much disarray on the political scene, and the government is not doing enough to improve its image. Recent actions against black marketeers helped, and Khiem has assured me that the government means to continue that campaign. But there is much more that needs to be done. However, the fact that the enemy has been unable successfully to exploit even so difficult an issue for the government as the austerity taxes to gain a foothold of support in the cities must have helped to convince him that the constitutional government has much more support than he has ever been willing to admit.

On balance, I conclude that we are on the right course here. The enemy position has steadily deteriorated during this year and he has been put on the defensive in almost every respect. He has been forced to review a strategy which has not produced hoped-for results. I believe that if we and our Vietnamese allies make the most of it, time is on our side.

### LXXXIV

# FOR THE PRESIDENT FROM BUNKER PARIS FOR AMBASSADOR HABIB

HEREWITH MY EIGHTY-FOURTH MESSAGE, FEBRUARY 10, 1970 In this message I propose to give you my assessment of the present situation both in terms of how it compares with a year ago and where it seems to be heading. This is not a matter of trying to summarize all that has happened or writing a "report card" on Thieu, detailing where he has succeeded and where he has failed during the last year, although there will be elements of this. My main purpose is to try to assess the present strengths and weaknesses, to sketch out the trends, and to give you my views on how we can and should influence them

I think it is fair to say that in the military and economic fields there has been considerable progress. The enemy was able to mount only one country-wide offensive last year, and it was relatively short and easily defeated, after which his initiatives took the form of "high points" which are offensives more in appearance than in reality. American and Vietnamese efforts kept him from concentrating his forces, and eventually he broke some of these forces down into smaller units with the purpose of disrupting the pacification program. In those efforts he failed conspicuously, and pacification made impressive advances which are detailed further below.

Statistics, which I will set down later in this report, do not properly describe the reaching-out of the government into the countryside. Let me just note at this point that many American and foreign observers, some of them quite skeptical or even hostile to the GVN and to our policies here, have come away impressed with the bustle on the country roads toward the markets, the refugees returned to their villages to plow their fields again, the confidence and drive of many local officials, the masses of defectors from the enemy's ranks, and the success of the government in arming the people themselves to help in the defense of their villages and hamlets. There are deficiencies, notably in the campaign against the VC infrastructure, but even this part of the GVN's efforts has made progress.

Politically, however, the picture is less bright, largely as a result of Thieu's decreeing the austerity taxes last October. He showed courage in imposing them, and economically they were absolutely necessary to head off greater trouble; but in the aftermath there is more disunity and jockeying for position in the political arena, heightened by the prospect of the 1970 Senate elections and the 1971 Presidential elections. As I shall try to show, in the longer view

the prospect of those elections could bring into play some constructive developments; but in the short run the internal situation is less satisfactory.

The most important political changes have occurred with respect to the issues of war and peace. These have been helpful. Whereas a year ago the idea of talking with the NLF was still anathema, the GVN now has a good position of being willing to talk with the domestic enemy and being flexible with regard to a political settlement. Thieu's July 11, 1969, speech with its challenge to the Communists to compete peacefully at the ballot box still provides a sound platform on which to stand, and the general acceptance of this position (after some mutterings from the right) has been heartening. It showed what I have highlighted in earlier reports, that a tough Vietnamese nationalist can more easily win acceptance of a liberal negotiating position than a soft-liner who would be unable to carry the army and other important nationalist elements with him. The GVN is in a sound public position now although some tactical adjustments might eventually be made, for instance in connection with cease fire.

With Vietnamization, too, we have a generally good situation here at this time. Thieu has succeeded in presenting the concept as something that the Vietnamese want, rather than as something being pressed upon them by us. This has elements of Churchill's "Give us the tools and we'll finish the job," which has boosted Vietnamese self-confidence, but it can only work if the pace is not forced by us to the point that the whole operation could look like an abandonment by their American ally. This is understood by concerned—the U.S., the GVN, and the communists who have to try to upset the program. Aware of the critical importance of the psychological factor, it was Thieu who first raised the idea of reducing and replacing American troops well over a year ago, and by October he was speaking of his government's "determination" that the bulk of U.S. combat forces should be replaced in 1970. Privately he has told us that he thought that the GVN might be able to replace as many as 150,000 combat troops this year. Up to that time we had no indication that he was that advanced in his thinking.

But there have been anxious moments. Just before your November 3 speech, which in many way stabilized the situation here, there was nervousness that American public pressure might force a precipitous withdrawal. This could reappear especially if Vietnamization seemed to be running into serious trouble. There are still doubts among some Vietnamese military officers that they can face the enemy alone although generally they are shouldering the additional responsibility well, and, I believe, are realistic about the fact that they may have some setbacks along the way. Since the rate of our withdrawal is a matter of life or death for them, the Vietnamese will always need to be assured that we are going about it rationally and with due regard for their requirements, as well as for our own.

The enemy had little success in 1969 in achieving his goals, set forth in COSVN Resolution No. 9, of increasing American casualties, discrediting the RVNAF to prove that Vietnamization could not work, and disrupting

pacification. I expect the enemy will continue to give priority to these objectives in 1970. Thus the year to come will be a time of testing of our Vietnamization policy and of the durability of the gains made in pacification.

Also during 1970, a decision may have to be made on the ultimate concept of a residual force. I hope we will continue to be less than categorical on this point, both with the GVN and with the enemy. In fact, I think a prudent ambiguity on this matter would be the best course. If the enemy can be left in doubt whether we will maintain a stiffening element here if necessary indefinitely, this more than anything else will impel him eventually to negotiate or to reduce his ambitions at least for the medium term.

A year ago, there was a vague but pervasive feeling among the people here that they were in the last year of the war, that there would be neither victory nor defeat, that somehow a political struggle would succeed the military fighting, and that there thus was an urgent need for national unity. I think this has changed in 1969 due to the intransigence of the enemy in Paris, Vietnamization, the success of pacification, and the renewed communist emphasis on "protracted war." While Vietnamization is accepted here, the Vietnamese do not look upon it as necessarily leading to a negotiated settlement of the war except perhaps in terms of eventually proving to the enemy that he cannot win, which may take a long time. Politically, this has had a number of important consequences. First, there has been some increase in warweariness. As a result there is a readier market for panaceas, for political quackery and opportunistic ideas on how to make peace. Second, and sometimes among the very same people, there is an increased feeling of nationalism and assertiveness, as if they were saying to us, "If you are going to be fighting less, as then [sic] you should also have less to say about how we conduct our affairs." Third, there has been some loss in the momentum toward greater political unity now that the political struggle with the Communists seems less imminent, whereas the electoral struggles among the non-Communists are looming larger. Under these circumstances the remarkable thing is that nobody aside from the Communists is complaining about Vietnamization.

I have said earlier that a number of political problems stemmed essentially from Thieu's imposition of the austerity taxes. As he became vulnerable to criticism, the critics became emboldened and the GVN has had trouble not only with the National Assembly but also with the An Quang Buddhists, the Cambodian minority and especially with Senator Don. But I think Thieu's position is still strong and he should remain in firm control through 1970. As an executive he has acted more decisively and effectively during the year.

But among the traditional political parties and leaders, there is more disunity. The experiment with the National Social Democratic Front which Thieu helped to launch in March has been less successful than hoped for as its elements showed themselves more interested in what they could get out of the government than in what they could contribute to it. Executive-legislative relations are not as good as they should be, though better than two months ago. There has been a disquieting tendency of Thieu to try to silence or intimidate

some of his non-communist opposition. The inspired demonstrations to force the Lower House to lift the immunity of three deputies accused of Communist or pro-Communist activities lost him some support in the Assembly. Yet vital legislation will continue to be passed, probably including—despite some deplorable delays and confusions in the Senate—the long-heralded land reform.

The GVN did show imagination, effectiveness and conviction in improving local government. Stimulated perhaps by the enemy's pretension of establishing elected revolutionary committees and, later, the provisional revolutionary government, the GVN conducted hamlet and village elections throughout the land. In addition, the GVN placed high priority on training and motivating its village and hamlet officials. Perhaps most important, it decentralized authority to these elected officials in an attempt to develop political experience in local communities through allowing them to share in decisions about their own future. Somewhat unobtrusively, therefore, the GVN has been building the elements of a new political base founded on active local communities, perhaps a more stable base in the long term than might be created through dealing with the traditional political leaders in Saigon. This development accords with the historical traditions of Viet-Nam.

While I am reluctant to press advice on President Thieu on internal matters when we have so many important issues pending with him that concern our relations more directly in the military and economic fields and on other political matters, I recently had a very frank talk with him on the subject of corruption, not only as a priority economic and internal political problem but also as one affecting Viet-Nam's image and foreign relations. I have similarly taken up with him the need for further improvement of military leadership and for a better effort to create greater political unity during this election year. His response to all these issues was encouraging and constructive.

As I look ahead in 1970, I see little prospect for really cohesive unity among political elements in South Vietnam, but I do see some possible good coming out of the quickening of political processes as we approach first the provincial elections in April, then the Senatorial elections in August or September, and eventually next year's Presidential elections. An opportunity will be provided pro-GVN and opposition forces to coalesce into identifiable groups, and it is possible that the NSDF could be given a new lease on life. I doubt that extremist appeals by the opposition will get them more votes, and therefore it is possible that as they look for wider support they will move toward the center. Should this happen, we may eventually have a coalescence of forces on the government side and among the opposition, and thus a smaller number of players on the checkerboard. This of course is what Thieu himself would like to see and is endeavoring to bring about.

Thieu has tended at times to show some impatience with constitutional restraints. He has nevertheless observed them in dealing with the accused deputies. He has arrested students, but had them released shortly afterwards.

He has refrained from strong-arm tactics against demonstrating Cambodian monks. He has dealt with some individuals within the rightist neo-Can Lao but has not supported revival of their political movement. He has been under much provocation from the Assembly and from people like Don, but has reacted only verbally. In short, while he has shown some impatience with constitutional restraints, there is no evidence that he intends to abandon them. It is, of course, very difficult for a traditional society without historical experience with democracy to build democratic institutions in the midst of civil war and invasion, but I think Thieu understands that he really has no choice.

As I noted above, the enemy was able to mount only one countrywide offensive in 1969 in late February. Otherwise his offensive activity took the form of "high points," brief surges of attacks by fire and limited ground attacks confined to specific regions.

I also noted the enemy's lack of success in achieving any of his objectives during 1969. However, his losses were only six percent below those of 1969, a year of major large scale offensive activity. Friendly killed declined 28 percent during the year, U.S. by 35 percent.

The fact that Vietnamization proceeded more rapidly than U.S. redeployments was shown in the comparison between statistics of ARVN combat power as a proportion of total Allied combat power, which increased only slightly—from 24 percent of the total at the beginning of 1969 to 26 percent at the end of the year—and of operational results, where the ARVN share increased sharply—from 18 to 31 percent over the same time period. Territorial forces increased from 39 percent to 41 percent of total combat power, and from five percent to 10 percent in share of operational results. By contrast, the U.S. share of combat power dropped from 31 percent to 26 percent, and of operational results from 70 percent to 44 percent of the total.

The enemy's deteriorating situation in the Delta led him to introduce five regiments composed primarily of VNA personnel in the IV Corps, the first appearance of sizeable NVA forces there. During the same period, our 9th Division was withdrawn from the Delta and the Vietnamese 7th Division took over its responsibility there. In I Corps, the first ARVN Division assumed much of the area formerly controlled by the 3rd U.S. Marine Division. In II Corps, the ARVN 23rd division and attached elements of the 22nd gave a good account of themselves in the fighting around Bu Prang and Duc Lap during October–December. The RVNAF assumed full responsibility for the capital military district, where there had previously been a considerable concentration of U.S. forces.

During 1969, the RVNAF activated, trained and deployed two infantry battalions, five armored cavalry squadrons, and 19 artillery battalions, plus many combat and combat service support units—such as engineer construction battalions, ordnance direct support companies, and truck companies. Over 100 river and coastal patrol boats were turned over to the Vietnamese Navy. Four squadrons of the Vietnamese Air Force were converted from H-

34 to UH-1 helicopters and three fighter squadrons were equipped with jet aircraft.

Force structure increases scheduled for 1970 include five artillery battalions, three Vietnamese Marine Corps infantry battalions and numerous combat service support units. In addition, by June 30, 1970, the transfer of ships and crafts to the Vietnamese Navy riverine and coastal forces will be complete. The Vietnamese Air Force will be concentrating on long lead time training for pilots, maintenance, and command and control in preparation for subsequent squadron increases.

President Thieu this year made several badly needed changes in the RVNAF command structure, most notably replacing the division commanders of the 5th and 18th Divisions in III Corps and the 7th Division in IV Corps, all of whom were generally regarded as below standard.

A continuing problem for RVNAF is desertion. The 1969 net rate (figures complete only through November) was 10.1 per 1,000, which is some improvement over the 12.8 figure of 1968. This shows some results from the increased command emphasis on desertion control and the strong encouragement and support of this given by our advisors, but the rate is still high and remains a matter of concern requiring continued close attention.

The enemy still has significant military capability which he will no doubt employ during the coming year in an effort to disrupt Vietnamization and the Pacification program. It will increasingly be a time of testing for the RVNAF as they assume an ever-heavier share of combat responsibility.

For the pacification program, 1969 was a successful year. While certain elements of the total program fell substantially short of their goals as well as their hopes, there is little doubt that the program developed momentum and produced a totally new atmosphere in much of the countryside. In statistical terms, our hamlet evaluation system showed that some 2,628 hamlets and 2,931,400 people were raised past the mid-point on the HES security scale to join the ABC category. While the real situation can by no means be measured as precisely as these numbers might indicate, the evidence on every hand, as I noted above, certainly confirms the trend the figures portray.

The reasons for this advance are several. The repulse of the enemy's offensives in 1968, the development of a comprehensive strategy for expansion, the activation of the Central Pacification and Development Council as a vehicle to impose goals and check performances, and vigorous leadership and supervision by the President, plus a serious error by the enemy—or his inability—in not challenging the program before it picked up speed and momentum, all combined substantially to reverse the previous balance of power in the rural areas of Vietnam.

Examining the components of the pacification program, it is clear that the key territorial security effort made perhaps the greatest contribution to the expansion of pacification during 1969. The increase of the RF from 220,865 in January to 257,581 in November, and of the PF from 174,466 to 210,380 or a total of 72,630 additional territorial forces, equipping them with M-16 rifles

and M-79 grenade launchers, and concentrating a high pressure advisory and supervisory effort on them made the forces perform better. The detailed planning and targeting of additional hamlets to be entered and to be brought up in the HES ratings gave a sense of priorities to the expansion effort and permitted the integration of a variety of programs in support. Whether the HES is fully accurate or not, it proved of inestimable value as a means of organizing and focussing this campaign.

Another favorable development during the year was the growth of the People's Self-Defense Force. While its contribution to security is at best spotty, there is little doubt that it stirred imaginations in the countryside and performed its political role of stimulating participation in the overall national effort. The government supplying almost 400,000 weapons to its citizens has certainly helped it to achieve greater legitimacy among these same citizens.

The Phung Hoang or Phoenix effort against the VC infrastructure is perhaps the least satisfying program. Against an apparatus with years of experience in covert operations, the government has labored to develop an awareness of this aspect of the enemy, press its intelligence services to collaborate, improve its legal and penal machinery, and stimulate all government services and even the population itself to participate in the effort. Perhaps the most difficult program in pacification, it suffered in competition with the more glamorous, practical and familiar programs of expanding territorial security, Chieu Hoi, PSDF, etc. Nonetheless, its importance is being recognized. Many of its initial obstacles were removed, and it can be said that the program has begun to hurt its opponent. One of the results of the pressure which has been devoted to this program has been to increase attention to improvement and strengthening the police force. More needs to be done here also, but a start has been made.

Statistically the Chieu Hoi program experienced its greatest success in its history, some 47,000 individuals leaving the enemy side and formally rejoining the national cause. The concentration of a high percentage of these ralliers in the Delta is a tribute to the expansion of pacification there and quite apparently caused enemy alarm over the reliability of this traditional population base of his revolution. The rate of ralliers has recently dropped off in part probably as a result of the slower expansion of security into the last areas of enemy strength and the new awareness by the enemy of the importance of arresting the expansion of the pacification program.

The refugee program made a substantial contribution to the overall pacification effort. Some 488,000 people were assisted in returning to the villages from which they had fled in fear of the enemy or military operations. Another 586,000 were paid their final benefits in place. The case load of refugees thus descended from 1.4 million in February to 268,000 at end-December. Many war victims still need further government assistance, but the fact is that the government did during the year identify and provide benefits to almost 1.2 million people, no slight achievement.

A key area of the 1969 pacification plan was the revival of the rural economy. An excellent crop of rice is forecast, IR-8 miracle rice planting has more than met its goals, the lines of communication have been opened in great part, and more land was distributed under the land reform program during 1969 than in the past seven years. The view from the farm and at the local market is one of revived activity to match the expansion of security.

As the principal strategist of the pacification program, President Thieu has focussed clearly on its requirements for 1970. By July 1969, he had seen the need to consolidate and solidify the thin government presence which had been established in the countryside under the 1969 plan. He thus called for consolidation of at least 50 percent of the population in the AB or more secure categories of HES. He called for increased attention to urban and suburban areas. He stressed the political nature of the program by urging his officials to conduct themselves "so that the population will vote for us, the Nationalists." More recently he has placed major emphasis on the need to toughen up the PSDF so that it may truly contribute to the security of the communities and successively free PF, RF and ARVN to fill the gaps which Americans will leave during the coming year. He has outlined an ambitious, perhaps even unrealistic, goal of 90 percent of the population in the AB categories. He has called for dramatic progress in economic and social development.

The GVN is fully organized to press forward with this program and the Prime Minister has organized a massive planning, orientation and indoctrination program of key officials throughout the country to explain the program in detail and to ensure their full participation. I think they can and will make continuing progress during the year, provided we give them continued support, on a scale substantial enough to give them the moral and material backing they need to keep up momentum.

Beyond any doubt, an important economic milestone was passed in October 1969 when the GVN decreed a sweeping program of sharp increases in import taxes, known as "austerity taxes." While prices had held steady in the first part of 1969, consumer prices began to rise steeply after April and the prospects for 1970, in the absence of corrective action, were for serious inflation. The draconian measures taken in October, however, have dramatically reduced this danger. They were designed both to increase drastically the import cost of selected luxury-type products (and thus reduce imports of such goods) and also to increase government revenues.

It is estimated that these new measures will generate in 1970 an amount equal to almost 75 percent of the entire 1969 tax income. Such additional revenues of around 45 billion piasters will reduce significantly the 57 billion piaster budgetary deficit which had been in prospect; they thereby correspondingly reduce the threat of a serious inflation. The year 1969 ended with a bumper rice crop being harvested, conservatively estimated at 5.1 million tons—the best since 1964. This excellent rice harvest improves the prospect for self-sufficiency in rice production by the end of the 1970/71 rice season. Higher yields from improved varieties play an important role; good weather,

expanded security (meaning increased plantings), better irrigation and increasing use of fertilizer and pesticides are important too. Finally, during 1969 there were signs that government leaders were becoming increasingly aware of the need to improve their capacity to plan, organize and administer the economy. The President appointed special assistants, one for economic matters and finance and one for national planning; and he moved the focus of planning into his office. Working through the ministries of Finance and Economy, he initiated measures for increased revenues, improvements in organizations and revenue systems; tax reform legislation was submitted to the National Assembly early in January 1970. The Central Pacification and Development Council (CPDC) and the Office of the Prime Minister are aware of the need for improved planning, monitoring and evaluation of pacification and development programs. In 1969 the CPDC was effective in stirring diffident ministries and listless officials into action. It has started 1970 with an improved program for bringing home to provincial officials the importance of planning and evaluation.

In sum, taking advantage of increased security, the GVN made progress during 1969 in dealing with its most urgent economic problems. It remains for the government in 1970 to organize an economic staff to begin preparing plans for post hostilities.

This is not to say that the year just passed and the year in prospect are devoid of economic problems. The most serious, which is probably as much political as it is economic, is the problem of corruption and the black market. As mentioned earlier, I have already had one serious talk with Thieu about this, and plan to have more. This problem is in part a function of the high import taxes, which, with the great discrepancy between the legal and illegal rates of exchange, combine to make smuggling and illicit currency transactions extremely attractive. This disparity between the official rate of exchange (118 piasters to \$1) and the black market rate (as high as 360 in December, down to around 300 in mid-January) would be an outright devaluation which would eliminate the great disparity in domestic and foreign prices that has developed since the devaluation of 1966. For political as well as economic self-interest, President Thieu has steadfastly opposed such an action, while progressively taking steps which amount to partial devaluations that are resulting in a de facto multiple exchange rate system.

If one takes as a bench mark the situation at the beginning of 1969 and compares it to that at the beginning of 1970, it is apparent that progress has been made in many areas. It is equally true, of course, much yet remains to be done. Progress:

- —In Vietnamization, in the equipment and training of the Vietnamese armed forces, in improvement of leadership, and in their assumption of growing areas of responsibility. Vietnamese losses in recent months have been running four to five times our own.
- —In the courageous action of the GVN in the imposition of austerity taxes and in reducing the budget gap to a point which may produce much

less inflation in prices in 1970 than in recent years.

- —In the development of increasingly effective government while at the same time popular support for the NLF declined.
- —In the mature response to the reduction of the American presence.
- —In an increasingly flexible position regarding a political settlement.

Much, however, still remains to be done and there have been some adverse developments:

- —Improvement of Vietnamese forces is a matter of first priority. The major problem is the quality of leadership, which Thieu is moving to improve, but the pace has been slow.
- —Pervasive corruption threatens to undermine the stability of the piaster and has a depressing effect on morale of the military, government officials, and the people generally.
- —Rising prices brought about by the austerity taxes have reduced the standard of living of such major elements of the population as the military, the civil servants, and city dwellers.
- —There has been failure to find a formula for at least a minimum of political unity. Disunity among political parties, however, should not be confused with lack of support for the national cause. As Thieu has put it, "The political parties have big heads and weak bodies." There is, for example, much uninformed talk about political unity and a broad-based government. What this in reality means is an attempt at cohesion among a multitude of disparate political factions whose main interest is in what they can get out of government not what they can give to it. While Thieu does not deny the need for greater political unity and cohesion among the parties, I think that the priority he has given to the development of effective government is correct. I believe also his policy of beginning with the development of government at the village level and building up from the grass roots rather than attempting to impose unity at the top makes sense and can lead eventually to political organizations on a sounder basis.

I believe 1970 will be a year of testing. If we can make steady progress in providing equipment and training, and the GVN can improve the leadership of the Vietnamese armed forces, consolidate the gains of pacification, and attack the economic and corruption problems I have mentioned, I think there will be greater and faster progress toward our goal.

As seen from here, your policy of Vietnamization and the turning around of American opinion following your November 3 speech have created the framework within which progress can be made in 1970. This gives us encouragement for the year ahead.

#### LXXXV

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR HABIB

HEREWITH MY EIGHTY-FIFTH MESSAGE, MARCH 27, 1970 Although the period since my last report was not without significant events in South Viet-Nam itself, I think it was above all a time when it was more than ever important to look at the Southeast Asian region as a whole, not just at South Viet-Nam, in order to form valid judgments about the course of events.

Recent events in Cambodia are obviously of importance. Because of them, the enemy must surely find it more difficult to make long-range military plans, especially for the southern part of South Viet-Nam, which involve reliance on Cambodian cooperation or acquiescence. A lesser degree of such reliance had in fact been evident from recent actions of the enemy even before he came under major pressure in Phnom Penh. The apparent magnitude of the changes in process in Cambodia is so great that it is too early to judge their total effect on our own interests and those of the enemy.

The massive North Vietnamese logistics effort through the Laos panhandle, which is continuing, may itself be a reflection of lessened enemy reliance on the availability of arms and supplies through the Cambodian LOC; and the enemy's recent major effort in northern Laos is probably also related to the situation in Cambodia in the sense that it has become especially important for him to try to get the government of Laos to call off the costly American bombing in the panhandle. There is thus an inter-relationship between what has been happening in Laos and the diminishing fortunes of the enemy in South Viet-Nam and Cambodia.

Within South Viet-Nam itself the enemy has during this period maintained a lower military posture. The post-Tet "offensives" planned by the enemy in several regions failed to materialize, although there were slight increases in enemy activity—consisting mainly of an upsurge in attacks by fire—in III Corps and IV Corps in late February. Friendly casualties reflect the level of enemy activity. Weekly average KIA in February 1970 stood at 96 US and 207 RVNAF, or respectively 53 percent and 57 percent of the 1969 weekly averages.

Although the concentration of enemy forces in northern I Corps, the DMZ area, and in southern III Corps continues to pose a threat in those areas, the enemy maintained a higher degree of pressure in the Delta than elsewhere in the country. There the weekly average KIA suffered by RVNAF has actually been higher so far in 1970 than it was in 1969 (108 in 1970 compared to 102

in 1969). Over half of the RVNAF killed in action in February occurred in the Delta compared to a little over 28 percent during all of 1969. These statistics reflect the increased enemy effort in the Delta, an area he regards as of key importance and one where his formerly strong position has been seriously eroded.

Experimentation with various forms of enemy pressure on pacification is also going on, including extensive use of abductions in Phu Yen province of II Corps. But while there was some loss of momentum on the pacification front, it was attributable to factors other than enemy activity, primarily the planning process for a new year and resultant modifications in the pacification plan, the annual Tet holiday, and some diversion of the government's focus from pacification to political difficulties at the Saigon level.

Thus it must be difficult for the enemy to justify the major losses he is suffering (2,306 KIA per week during February, or 70 percent of the weekly average during 1969. To these confirmed enemy dead must of course be added other enemy losses). The statistics thus show that "protracted war" is not, so far, a relatively cheap way for the enemy to maintain all his options. If he continues on this course one would assume it is because he is relying on other elements in the situation, such as the possible impact of his offensive in Laos, and future political and military opportunities he may be counting on here in conjunction with continued U.S. withdrawals, to make his course of action seem in the long run more nearly worth the cost. While he continues to have the option of resuming large scale attacks some time in the future, that option may become costlier and riskier for him with the passage of time.

On the domestic political front, other developments were somewhat overshadowed by the affair of Tran Ngoc Chau. Although it is not yet entirely over, some of the excitement is abating and perhaps one can see it more in perspective now. While the press reporting on it has been biased, government ineptitude made it unnecessarily easy for the critics. A fuller assessment of this case is in the next following section.

In the longer run, passage by the Assembly of the land reform bill, which will affect the lives of millions of people for years to come, should be rated a much more important political event than the treatment of a politician who, whatever else may be said about him, did not come into court with clean hands. The much more important development of land reform is less apt to be appreciated abroad because it was immediately preceded by the spectacle of the Chau trial. However, by staging a celebration of Can Tho in the Delta on the occasion of the promulgation of the law on March 26, Thieu managed to focus more press attention on the achievement and try to heal some of the wounds by sharing credit with many Assemblymen whom he had invited to the event.

Also worthy of emphasis is the continuation of significant political problems created by the increases in the cost of living since the introduction last October of the government's austerity measures. Although since Tet price levels have declined slightly, high living costs still adversely affect morale of the civil service and the military and of course encourage the corrupt practices to which many resort in order to make ends meet. A critical situation is beginning to develop involving a further loss of confidence in the piaster. Emergency and radical measures are needed. There are signs that the government may grasp the nettle in the next few weeks.

An encouraging development in the black market situation has been the establishment of a GVN Irregular Practices Committee chaired by the Minister of Finance. Additional members include the Minister of Economy, Vice Minister of Interior, Director of Customs and a representative of the National Bank. During the past month there have been three joint meetings between this committee and representatives of the Mission Irregular Practices Committee. While it is too early to predict what will come out of this, it is already helping to focus attention on those areas and conditions that encourage and facilitate black marketing and other corrupt practices. We will use the new mechanism to press for corrective action.

As I noted above, the political scene for the past month has been dominated by the Tran Ngoc Chau trial. The case has evoked a vast amount of press attention and has raised strong apprehensions. I think these early reactions were exaggerated, but the government handled the case ineptly. I also noted the unfortunate fact that this unhappy episode tended to overshadow the government's success in getting the Land Reform Bill through the Assembly.

The new land reform bill contains almost all of the key provisions sought by Thieu, including the principles that land will be distributed free, that land-lords will not be allowed to keep land farmed by tenants, and that the current occupant of the land will have first priority to receive title. With the passage of a basically simple bill, the joint Planning Committee can now begin to prepare implementing decrees and circulars which have been under discussion for several months. One possible complication in the bill is a provision setting a very low limit on the size of the plot any recipient can receive, although the Land Reform Minister has indicated his intention to transfer land in accord with current cultivation patterns to the greatest extent possible.

Thieu promulgated the law on March 26, which he declared a national holiday, at an impressive ceremony in Can Tho in the heart of the Delta. Thieu invited the President of the Senate, the Chairman of the Lower House, and a large number of members of both Houses to participate with him to have them share in credit for the reform. The meeting, the largest and most enthusiastic I have yet attended in Viet-Nam, was held in the central square of Can Tho with the crowd spilling over into the main avenue of approach. Farmers from all 44 provinces attended. Representatives from each province received handsomely bound copies of the law and outstanding farmers received awards at the hands of the President, the Chairmen of both Houses, and the Prime Minister. At the end of the ceremony, Thieu proclaimed that March 26, Farmers' Day, would henceforth be a national holiday. The letters of thanks he had transmitted to the Chairmen of both Houses also give evidence of a shrewd realization by Thieu that he can use land reform to im-

prove relations between the Executive and the Legislature by picturing it as a cooperative effort of both branches of the government.

Preparatory field action will begin soon after the President signs the bill. Land valuation surveys will be conducted, owners will be asked to identify land in the categories exempted from transfer, village land reform officials will be recruited and trained, and a publicity campaign will be initiated. Work will continue on the design of a computerized registry and titling system capable of handling the volume of expected transfers. Barring unforeseen difficulties, the first new titles are expected to be issued by August or September, and a substantial flow should be achieved by the end of the year.

With respect to the Chau case, the basic facts were never in doubt. Even a number of politicians who have consistently taken a softer line on peace issues than the government considered that Chau's contacts with his brother, whom he knew to be a communist agent, deserved to be condemned. Moreover, the fact remains that 102 deputies, constituting three-fourths of the Lower House, signed a resolution authorizing the trial. But a vocal minority was able to capitalize on the dubious constitutionality of the process to arouse concern that parliamentary immunity, now hailed as a symbol of the legislature's independence of executive dictation, was being attacked. The government only attracted additional criticism when, practically at the last moment, it switched the legal basis for prosecuting Chau to the claim that he had been arrested "in flagrante delicto," despite the fact that his last contact with his brother had been months before.

To such questionable legal maneuvers were added an ineptness which marked the handling of the entire affair. The invasion of the Lower House by anti-Chau demonstrators, the manner in which the arrest was made, the mishandling of the press, the courtroom haggling, were so poorly conceived and carried out as to call into serious question the competence of the people advising Thieu and carrying out his directions in these matters.

Why did Thieu move against Chau? The President was, I believe, genuinely alarmed by irresponsible efforts late last year to exploit war weariness and popular concern about American intentions, and he feared that opportunistic demagoguery might dangerously sap national morale. offered him an opportunity to set an example and show that the government considers such activity dangerous and would not tolerate it. He probably achieved that objective. The cost was high, especially, I fear, in the harm he did to his public image in the United States. Here in Viet-Nam, despite the apprehensions he has aroused, reaction has been more in the word than in the deed. No legislator has resigned, no politician has fled into exile as a result; and no overt protest demonstrations have taken place. Other constitutional institutions can still react. The Supreme Court has acted quite independently by ruling that the procedure used in lifting Chau's immunity was unconstitutional. The National Assembly can—if it wishes—clip the wings of the court that tried Chau. The Supreme Court may even reverse the verdict. In short, the constitutional system, while strained, has absorbed the shock, at least for the time being. But the case has cast doubt about Thieu's intentions among some political elements and these, no doubt, will watch his future moves closely. On the other hand it has strengthened his position with the military, the only organized power base in the country.

Despite the prominence of the Chau affair, another government move gained critical and very widespread publicity. This was the clash with the Saigon press over the decision to raise import taxes on newsprint. From an economic viewpoint, the GVN's position was unexceptionable, but the case was initially handled with the same political ineptness which exacerbated the austerity tax controversy. The press was abruptly told that the price of newsprint would be nearly doubled. Publishers interpreted this move as an effort at political pressure to impose a greater measure of discipline, and reacted by bringing about a total press stoppage for three days, and then threatened further action. Perhaps an equal, if not more impelling, motive for opposition was the prospective elimination of the highly profitable market for cheap imported paper enjoyed by the publishers because of allocations to them substantially in excess of their requirements. Other volatile segments of the population, discontented for other reasons, including students and labor elements, began to ally themselves with the newspapers, and the danger of a major confrontation loomed. Despite their traditional reluctance to back down in the face of pressure, the government leaders in this instance read the signs wisely and reacted like practical politicians rather than mandarins. The Economy Minister was overruled, and a compromise solution proclaimed unilaterally. by which the newsprint tax would be rolled back, but only for that quantity of material actually used in newspapers.

While this demonstration of political skill by the GVN in avoiding an unnecessary crisis is heartening, there is another aspect to this matter that deserves to be underlined. That is, the very low political tolerance that now exists here for further unpopular actions on the economic front. Admittedly, the press is capable of mounting disproportionate political pressure. But the general lack of comprehension of the economic reasoning behind the tax increases, and the emotion generated in opposing them, throws into sharp relief the great political obstacles the GVN can expect to encounter in future moves of this sort. This applies specifically to the prickly question of an accommodation rate of exchange for U.S. personnel, which would have much to be said for it in terms of economic advantage to the GVN.

Elections of Provincial, Prefecture, and Municipal Councils will be held prior to June 30, 1970, the exact date to be established by decree of the Prime Minister. The Assembly rejected the Executive's proposal that all council members be elected from single-member constituencies. The constituencies for the new councils will be the districts, with the number elected to be in proportion to the population of the districts. While the Executive's proposal may have been somewhat preferable, the law will nonetheless assure that all parts of the province and municipality will be represented, rather than just province towns and one or two municipal districts, as was the case in the 1965 elections.

Another encouraging sign is the preparation being made for the Senate elections in August. Slates are being discussed and prestigious religious leaders are being courted for their presumed ability to deliver the votes of the faithful. Potential candidates are jockeying for position on the slates of likely winners. In sum, already at this early stage the elections are being taken seriously, auguring well for another step in the constitutional process. Despite what the press may have been implying at the time of the Chau trial, democracy is very much alive in South Viet-Nam.

I mentioned above the low level of activity prevailing during the period and the relative shift of the enemy's emphasis to the Delta, where the level of fighting remains at the 1969 level. For its part, the GVN during the period moved an additional Marine Corps Brigade and supporting artillery from the Capital Military District to IV Corps.

As the U.S. First Division disengaged and prepared to leave Viet-Nam, the 5th ARVN Division was required to assume a larger area of responsibility in III Corps. How well the 5th Division handles this will be an important test of Vietnamization.

The net desertion rate for ARVN in January of 1970 was 9.7 per thousand compared to the average monthly rate of 10.1 during 1969.

I have already mentioned the impact of the economic situation on ARVN morale. Low pay, poor housing and care for dependents, and corruption in many parts of the officer corps and widespread pilfering by ARVN forces were already part of the picture before the cost of living increases which had taken place since last October. These morale problems, while serious and requiring corrective action, are not yet critical and should not be dominant factors in our judgment of ARVN's effectiveness. Counter-balanced against them is the fact that in most areas the ARVN has become a better fighting force relative to the enemy than it was a year ago, and its officers and men know this. This increase in confidence is clearly a positive morale factor.

With respect to the Delta, when ARVN personnel first learned that NVA units had moved into the area last year there was apprehension among the troops and even unit commanders that they would not be able to hold their own against the NVA. The NVA has proved far from invincible, however, and ARVN morale in the Delta improved considerably as a result. Future morale will depend on continued success of the ARVN in engagements with the enemy, GVN efforts to improve pay and living conditions—and continuation of the present level of U.S. combat support activities. The latter is vitally necessary until such time as the Vietnamese can take over these support activities themselves.

Despite the slight loss of momentum noted above, the pacification successes of 1969 continued to carry many of the programs so that the net effect of the end of year pause was less than last year. By end-February the training camps were once again full, additional hamlets were being entered by new troops and province chiefs were circulating in their provinces to exhort local officials to join the national effort of Pacification and Development.

The Hamlet Evaluation System was changed at the end of January. The new system is believed to be more objective and will be more useful in pinpointing weak spots, although it is still not a precise measurement of pacification but rather a guide to show trends and comparisons. While the statistics dipped in the ABC category from the old HES 92.7 percent at end-December to the new HES 87.9 percent, the actual change was a rise of 0.7 percent from the new HES end-December rating of 87.2 percent. This was a fair reflection of the situation in the countryside as a whole. Despite a few trouble spots along the Cambodian border in the Delta and the central Viet-Nam provinces, the period was marked by a degree of calm in most of the country, and continued expansion in some areas. The threats of possible VC action during Tet proved groundless and the general atmosphere of very low enemy action continued during the month of February. As a result, at end-February the new HES ABC rating stood at 88.5 percent, an increase of 0.6 percent from the month before.

The Territorial Security Forces continued to increase and to provide their important contribution to pacification. Of some 670 additional PF platoons accelerated from July 1, 1969, to January 1, 1970, some 526 were recruited and 416 in training by March 7. These will move out into the countryside in the coming weeks in order to continue the thrust of the government's expansion into those areas of the countryside which are still inadequately protected with local forces. Discussions have also taken place with the Joint General Staff on the next steps after June and plans are being made for further increments of strength to the Territorial Forces. These will be marked by the formation of Regional Force battalions in a number of provinces, to give the Province Chief the kind of muscle for which he formerly had to look to ARVN. These are designed to permit the achievement of the President's goal of eliminating ARVN battalions entirely from a number of provinces, so that ARVN in turn can replace redeploying Americans.

The People's Self-Defense Force in later February took a major step towards its 1970 plan with the initiation of the first training course for 7,785 leaders of People's Self-Defense units throughout the country. The plan calls for some 60,000 of these leaders to be trained at Popular Force training centers for six weeks, to become squad and platoon leaders of key PSDF units in the villages and hamlets, which will be fully armed rather than sharing arms on a part-time basis. The important characteristic of People's Self-Defense, i.e., unpaid service, will be maintained, but these new and better trained units will thin out Popular Force units which now provide security in the safer hamlets. This is a further example of the government's program of strengthening pacification at the base for the long pull ahead.

The Phoenix program showed the statistical effect of an effort to tighten up its procedures. A total of 1,637 VCI were captured, rallied or killed during December 1969. During January, the total was 1,217, with the significant difference that the total includes only those sentenced, rallied or killed. Since only 64 newly captured VCI were actually sentenced during the month, the to-

tal dropped considerably from the prior month, although the number of captures was 691 higher and the total thus would have been 1,908, an increase from the previous month. Part of the increased effectiveness of this program comes from a new effort over the past several months to engage the village level more fully in it. Thus the village headquarters with its elected chief is beginning to participate in the identification of VCI in that area. As a result, since this level is closest to the people and to the real situation, the information has been much improved. The National Police are also taking more of the leading role in this program and discussions are now under way within the GVN to make the program an integral part of the National Police structure and responsibility.

The Chieu Hoi program shared in the end of year doldrums. Its weekly rates declined steadily during January until the Tet week when they hit a new low for recent months. They revived shortly thereafter, however, and have returned almost to earlier levels, so that by March 7 the total for the year, 5,544, is only 1,116 below the comparable figure for 1969, offering hope that the program will produce substantial results during the year, if not the high totals achieved during 1969.

Two elements of the 1970 Plan have been slow in getting off the ground in 1970. The first of these is the program of political mobilization, designed to activate all government officials and workers in a more vigorous effort to disseminate the government's program to all levels of the population. This program can make a major contribution to meeting several of the foreseeable critical points during the year, such as the reduction of U.S. forces, enemy attacks on pacification, efforts to exploit political targets of opportunity, and the Senate elections in August.

The second slow mover is the program for economic improvement, covering urban as well as rural areas. The former is still under some debate at the Presidential level in order to clearly draw the concept and to work out responsibilities. The latter also is in the process of articulation by an inter-Ministerial task force, to set the specific goals the program should impose upon province chiefs and other local responsible officials. With the economic pressure on the population from inflation and the government's counter-measures, an energetic economic and social improvement program for the mass of the population is becoming essential, not merely desirable.

Both of these programs are critical to the success of the consolidation strategy of 1970, as distinct from the expansion strategy of 1969. It is perhaps understandable that the government is devoting careful attention to them but it is equally regrettable that their initiation has been delayed.

The Mission is engaged in an intensive study of the economic implications of Vietnamization. Our recommendations as to the manner in which overall resource requirements should be brought into balance with overall resource availabilities will be forthcoming soon. It is already clear that there is a need to look much more closely at GVN expenditures, both military and non-military, and that we will have to take a strong line with the GVN regarding

monetary and fiscal reform. Overvaluation of the piaster has reached the point where the free market rate is three times the official rate. Recovery of exports is ruled out by this inequitable exchange rate, and the easy earnings available from the large American presence are being lost to a large extent. The Mission's stabilization rationale for AID imports becomes increasingly incongruous. Clearly something must be done. I have discussed this at some length with President Thieu and received assurances of his readiness in principle to take the necessary actions. There are indications that important remedial reforms may be taken early in April.

We and the GVN have had recurrent problems concerning rice during the past three months. Between late November 1969 and early March 1970, the GVN purchased a total of 100,000 metric tons of rice from Thailand and Taiwan. The rice was purchased to meet urgent and unforeseen supply requirements that could not be met in time with rice shipped from the U.S. Nonetheless, as you are aware, these off-shore purchases triggered a spate of criticism in the U.S. Congress and the U.S. rice trade. Viet-Nam's normal rice supply proved inadequate during this period because a sustained upsurge of speculative demand by merchants and consumers reduced security stocks to dangerously low levels, and rice from Delta stocks failed to arrive in Saigon in the quantity expected. Among the reasons for the disappointing level of Delta deliveries in the face of a bumper crop are improved security in the Delta, which has reduced the peasants' traditional incentive to liquidate stocks as soon as possible; with paddy prices 80 percent above their level of the previous year, the peasants have felt no immediate need for cash: and in the face of generally rising prices and persistent rumors of devaluation, the peasants have been holding onto their stocks as a hedge. Speculative demand in Central Viet-Nam has been fueled by an inordinately wide spread between the official price of imported U.S. rice and the prices of all rice varieties in the free market. There is some evidence of malpractices in the distribution system and diversion of rice to the military, who in turn sell rice on the market. The Prime Minister has personally looked into the situation and ordered changes. We believe a higher official price for U.S. rice is also necessary to reduce artificial demand for this variety at the expense of locally produced rice. The GVN has thus far avoided this step.

For the period ahead developments in Cambodia and Laos may well prove to have a greater impact here than events in Viet-Nam itself.

The situation in Cambodia will bear close watching. While the present situation has in it promising elements and a potential favorable to achieving our objectives, it could also develop in a way adverse to our interests. Either a reversion to a government less favorable than the present one appears to be or a descent into civil war in Cambodia itself would present us with major new problems there and here.

The situation in Laos with its potential impact on Thailand and its other neighbors, could, if it continues to deteriorate, erode the stabilizing effect that

our great investment in Viet-Nam has produced in Southeast Asia and beyond.

This has been a period of generally continuing progress in South Viet-Nam itself, but with a slow-down in some areas and some offsetting adverse elements:

- —Vietnamization of the war is proceeding with no major hitches encountered or looming on the horizon. Assuming that we provide the ARVN the kind of combat support—air, artillery, helicopters, logistics—that has been so critical to American success against the enemy, I continue to feel that the RVNAF can steadily assume a greater responsibility for the war regardless of enemy intentions.
- —Pacification has made progress more slowly due largely to the fact that we have been going through a period of reorientation and planning for a change in emphasis toward consolidation and development envisaged for the period ahead.
- —On the political front, relations between the Executive and the Legislature suffered a setback largely because of the government's inept handling of the Chau case. Thieu is taking steps to improve relationships with the Assembly; it remains to be seen how successful he will be.

Probably the most troublesome problems in the period ahead will be encountered in the economic area. Economic problems are likely to loom continuously larger as the impact of Vietnamization continues. One of the government's greatest challenges is the requirement to develop the degree of maneuverability on this front that will be required to permit it successfully to take the politically unpalatable actions that will at times be required. We should not underestimate the difficulty of achieving this. The reaction to the austerity taxes and to the government's action on newsprint are indicative of political sensitivities in this area. For our part, we must give high priority to assisting the Vietnamese in making this extremely difficult challenge a manageable one. They cannot do this without making major reforms supported by substantially increased assistance from us.

Other political problems will arise in the course of the upcoming elections—provincial council, senatorial, and, next year, presidential—but I foresee no insuperable problems on this front if the economic challenge is successfully met.

### LXXXVI

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR HABIB

HEREWITH MY EIGHTY-SIXTH MESSAGE, APRIL 24, 1970 Since my last message, three subjects have commanded major attention: Your April 20 address to the nation on troop redeployments, the situation in Cambodia, and the need for urgent action on the economic front. The period also witnessed another enemy "high point" following what has come to be pretty much a pattern—a large number of attacks by fire and a new classic pattern of attacks on Special Forces camps in the highland areas of II Corps. Despite enemy attacks on pacification, progress continued, the gains outweighing some losses. Protests of students and veterans continued, but Thieu and the GVN have moved to defuse these with at least partial success. Preparations for the provincial, municipal council, and Senate elections have continued apace. More serious than any of the problems currently facing the government are the growing economic strains and the urgent need for monetary, fiscal, and administrative reforms to cope with them.

President Thieu was greatly pleased with your [April 20] address, saying to me that he considered it "admirable." As you are aware, his own public statement referred to mutual consultation of our two governments, and an expression of gratitude for allied assistance which made possible the strengthening of the Vietnamese forces. While pointing out the need for more assistance in all fields from the allied nations in the forthcoming months, he emphasized the determination of the GVN to shoulder an increasingly larger share of the effort. He reiterated the government's determination to explore all avenues leading to a prompt restoration of peace through negotiations "at various levels and in various forms." While there have been some expressions of apprehension on the part of a few Assembly members, these have been principally directed toward fear of the economic consequences of our redeployment.

Much attention and concern has been directed at the developing situation in Cambodia. The initial hopeful and somewhat optimistic reactions within South Viet-Nam to the news of Sihanouk's overthrow, reflecting hope that the new Cambodian government could achieve a truly neutral stance with the obvious military and psychological advantages which would ensue, have been sobered by the rumors of massacres, apparently substantiated, of innocent Vietnamese residents of Cambodia and the increasing VC/NVA military activity against the Lon Nol government.

President Thieu has always accepted the need for caution in this delicate situation. He saw at once the need for the Lon Nol government to preserve its posture of neutrality if it is to survive, and the damage that could result to our mutual interests from overzealous efforts to associate the RKG with the anti-communist camp. He is, and will continue to be, under pressure to take advantage of opportunities to clean out enemy base areas in Cambodia, but has applied measures of strict restraint on his military commanders. He has argued for the need to reserve good relations with the Lon Nol government and has emphasized the great value to South Viet-Nam of a truly neutral Cambodia.

Thieu has lately come under pressure of a different sort, a demand for firm action to protect the Vietnamese minority from the Cambodian government's excesses. Thieu has said to me that he feared the Cambodian government's efforts to stimulate patriotic fervor against the VC/NVA have stirred up an emotional Cambodian reaction against Vietnamese in general and have led to an extremely dangerous situation. He added that it was his wish and that of the GVN to improve relations with Cambodia, but that these excesses of the RKG, if continued, would place him in an untenable position. He would have no alternative but to protest. The GVN in trying to defuse the situation has announced its willingness to accept Vietnamese who wish to be repatriated. It has quietly dispatched both political and military emissaries to Phnom Penh and has asked the Japanese, who represent South Viet-Nam's interests in Cambodia, and the Australians, who represent the RKG here, to do everything possible to protect the Vietnamese minority. It has used the good offices of the Apostolic Delegate here, Monsignor Lemaitre, and the Australian Embassy to intercede with the Cambodian government to obtain permission to send a delegation, including representatives of humanitarian organizations, to Phnom Penh to assist the Vietnamese community.

The situation in Cambodia will, of course, continue to be watched with the closest scrutiny, especially as it may affect the course of the war here and its implications for Southeast Asia as a whole; the staying power and the stability of the Lon Nol government; the intentions of the VC/NVA; the probability of the enemy's exploitation of Sihanouk and the Khmer Rouge to stimulate uprisings against the RKG; and what measures can be taken to strengthen the Lon Nol regime in its efforts to maintain independence, sovereignty, and neutrality.

While the enemy's "high point," beginning on March 31, when compared to those of last year, was among the most intensive in terms of the number of simultaneous attacks, the lower total casualties reflected the minor nature of most of these. No serious threat was posed to any major installation. The annual pattern of attacks on the Special Forces camps in the highland regions of II Corps was repeated, this time centered on Dak Pek and Dak Seang. These were the only incidents of sustained ground activity by the enemy. As in past high points, the main emphasis was on attacks by fire, sapper attacks, and terrorism. Saigon was rocketed for the first time since December 1969, but the

successful roll-up of another sapper net in March no doubt kept terrorism below the level intended by the enemy.

The objectives of the enemy's military activity continue to be political and psychological—to provide a reminder of VC/NVA capability to continue the war and to escalate the level of activity; to increase U.S. casualties; to attempt to inflict defeats on selected ARVN units or installations; and to disrupt pacification. The latter, especially, appears to be the object of increased enemy attention and no doubt will continue so in the future.

The enemy's concern over the progress of pacification and the GVN's moves to consolidate its gains is evident in the increased attention he is concentrating in this area.

The number of incidents of terrorism rose in March to 987 compared to 720 in February and even a higher level is indicated in April. The number of civilians killed in terrorist incidents increased in March to 417 from February's 303. In the period April 1 to 16, it reached 568. In the province of Phu Yen alone a total of 685 were abducted during February and March. Some 65 percent of these were later released after indoctrination had sought to impress on them the power of the VC. Reports indicate that for the most part, these abductions were targeted against families of GVN officials and military personnel. This case in Phu Yen is an interesting example of the importance of South Vietnamese leadership. Strong indications are that the situation which has developed there, i.e., lack of resistance to night incursions of VC into rural hamlets and the withdrawal of officials, civilian cadre and security force personnel from village hamlets to secure areas at nightfall is due primarily to the weakness and ineptness of the province chief. We are pressing the GVN to act promptly to correct the situation there and in a number of other areas where there are similar problems.

In addition to the step-up in terrorism, there has been increased enemy effort against the territorial forces and the People's Self-Defense Force. The performance of these forces has been somewhat mixed. There is good performance in many areas, but there also have been some failures. The GVN continues to train and strengthen the local forces and on the whole there has been gradual improvement.

The new HES showed a modest rise of 1.2 percent in March to a total of 89.7 percent of the population in ABC hamlets. This overall trend included fluctuations in various provinces. For example, a deterioration in Phu Yen was reflected in a decline from 93.9 percent to 80.3 percent while An Xuyen, a traditional communist stronghold, rose from 67.6 percent to 78.3 percent, reflecting the work of an extremely effective province chief and a vigorous pacification program. The new HES is very much more sensitive in identifying problem areas, and much more objective than the former in evaluating the situation in each hamlet. Hence it is more useful, although it, too, will remain, of course, only an indicator of trends.

Student unrest reflects a general malaise, which the activists seek to harness to specific grievances. Capitalizing on the turbulence in the wake of the

Chau case and the arrest of a number of student leaders on charges of operating for the VC, Saigon students began a protest which grew rapidly, caused the closure of Saigon University when the students boycotted classes, and spread to other university cities.

Although the police have a strong case against a number of the arrested students, the protests were fueled by another case of inept handling, a failure to start the trials promptly, and evidence of police mistreatment of the prisoners, which the government is now investigating.

Thieu, however, has moved with a degree of success to defuse the protest. He told me on April 18 that he had met the day before with a group of educators, including the rectors of both Saigon and Van Hanh universities, who had asked for clemency for the arrested students. Thieu told them that of the forty-three students arrested, twenty-two would be released, but the remaining twenty-one would have to stand trial. He said, however, that he could and would intervene after the trial to extend clemency. The situation has been further calmed by the action of the Military Court in submitting to the Supreme Court the question of its jurisdiction in the case. Thieu informed me on April 18 that had the matter not been referred to the Supreme Court. ten of the twenty-one students would have been released and of those tried only four would have been sentenced, toward whom he would have exercised clemency. Thieu informed the educators that he proposed to use them as a liaison link to the students. He urged them to explain to the students the realities facing the country and the problems with which the government must cope. He has urged the same responsibility on the Minister of Education, emphasizing the need for clearer explanations to the students on how the communists seek to exploit them.

The disabled veterans represent a totally different kind of problem. The veterans have borne heavy sacrifices for the country—as their mutilations starkly attest—and they have dropped to the social and economic bottom of the society they have been defending.

To dramatize their claim for housing and financial benefits, the veterans began building squatter shacks in Saigon and surrounding Gia Dinh Province. Although police were under orders to treat them with kid gloves, and did so for the most part, some incidents of violence occurred. Since every ARVN combat soldier knows himself to be a potential disabled veteran, the government recognized the need to deal urgently with the disabled veterans' demands. Accordingly, after the confrontation occurred, the GVN moved to take remedial steps. It presented to the National Assembly a veterans benefit bill which will provide for rather generous pensions, and it devised a plan for providing emergency housing to the disabled in distress. The promises were well received. The veterans ceased their demonstrations and construction of shacks stopped. The government has bought time with promises, but it must now make good on them.

While the problems posed by veterans and to some extent by students are genuine ones requiring some positive governmental response, they also pro-

vide opportunists with the chance to exploit governmental embarrassment. Communist agitation and penetration among the students seems almost certain. President Thieu told me he thought that recently-returned General Nguyen Ngoc Loan, who is close to Vice President Ky, had something to do with the veterans' protest. The President also thought that opposition Senators Don and Dinh, as well as some An Quang Buddhist leaders were involved, and that the communists were, of course, doing all they could to exploit the situation. It would be surprising if at least some elements hostile to the government were not involved.

More serious than any of the problems currently receiving press headlines, and, as I have said to President Thieu, probably more dangerous than the military threat are the growing economic strains and the crying need for monetary, fiscal and administrative reforms. I have tried to make it clear that while our help is available, the extent to which it will be available and whether it will be effective depends on the GVN taking actions to put their own economic house in order. There are now encouraging signs that the GVN is moving urgently and seriously in this direction.

On April 6, at the reopening of the National Assembly, the President sent a message to both houses saying his government would shortly be making proposals to deal with the economic and financial situation. Subsequently, the Prime Minister and members of the Cabinet and the government concerned with fiscal and economic matters have worked with the Finance Committees of both Houses looking toward the submission of a "Program Law" or *loi cadre* by means of which the government would seek enabling legislation to permit the Executive to act by decree on financial and economic matters within certain limitations and for a limited period. The task force appointed by the President has submitted to the Cabinet a draft "Program Law" which in general terms calls for authority to stabilize the economy, implement a true austerity policy and lay more groundwork for postwar economic development.

The Cabinet has given general approval to the submission of the task The first objective, stabilization, would include the creation of a "parallel" foreign exchange market to cover personal purchases, invisibles and exports; a significant increase in interest rates; changes in import policy; and greatly improved machinery for tax collection. The second, austerity measures, would relate to a lower level of imports, as well as to the reduction of government expenditures. The third, postwar development, would involve the creation of a number of institutions and agencies (stock exchange, mortgage bank, etc.). It is encouraging that this task force seems to be working with the leaders in the upper and lower houses in order to avoid the difficulties which arose when austerity taxes were imposed by decree last October. Thieu also is establishing closer working relationships with the Assembly leadership. There are indications that the Assembly may insist on the resignations of the Ministers of Finance and Economy as the price of their support of the loi cadre. This would be most unfortunate, since these two, and especially the Minister of Economy, are the architects of the economic reforms.

A serious complication could develop from the forthcoming Supreme Court decision on the validity of the austerity taxes imposed by decree last fall. Should the Court find these decrees invalid before the Assembly enacts the government's legislation validating them a major crisis could ensure. The government hopes, however, that the Court may be willing to defer a decision pending action by the Assembly.

An encouraging note on the economic front is the progress being made by the government's Irregular Practices Committee, which has continued to meet jointly with its counterpart committee within the Mission. They have brought about a tightening of customs checks at the airport with encouraging results, and the fraud repression service has stepped up its effort.

Preparations for the provincial and municipal council and Senate elections have continued apace. While no firm lists of Senatorial candidates are known to have been formed, more than twenty lists have been reported. Such reports themselves are a sign of the great interest the Senate elections have aroused. Thieu seems to be leaning toward backing three lists, using the National Social Democratic Front as a source of nominations, while also seeking nominees from other large interest groups and the moderate opposition. Since only three lists can win, by concentrating GVN support behind his own candidates Thieu presumably intends to block the way to those whom he considers the irresponsible or extremist opposition. If the lists he finally chooses are broad enough, this effort by the President may turn out to be a significant contribution to political mobilization. Thieu has also encouraged the Front to combine forces in the provincial and municipal council elections, but the outlook for that is not promising.

Tran Quoc Buu's nascent Farmer-Worker Party has cooperated with Thieu in rallying Hoa Hao support for the government. While Buu may not join the Front, his political alliance with Thieu is firming up and his new party bids fair to become one of the few mass-based organizations capable of delivering popular support to the President.

The Ethnic Minority Solidarity Movement (EMSM) in the highlands has done a surprisingly good job of rallying ex-Fulro and other Montagnard support for Thieu, who attended the EMSM convention in Banmethuot in mid-March and conferred privately with the EMSM candidates for the provincial council elections, in effect offering them his support. His success in mobilizing political support from the Montagnard minorities under ex-Fulro leadership, which only a few years ago was in violent opposition to the GVN, demonstrates the attention that Thieu is now paying to the political scene.

During March 383 village councils and 484 hamlet chiefs were elected to fill expiring terms. Elections generally showed a high degree of voter participation. Many of the campaigns included an active discussion of the incumbent's performance over the past year in the village self-development program and his responsible or irresponsible use of the authority and funds given him. An encouraging result was the replacement by the voters of many officials who had turned in unsatisfactory performances. There was little

question that the government's program of giving additional power, responsibility and resources to village governments has considerably stimulated interest in these local elections and brought about an improvement in the quality of the successful candidates. They will attend the Vung Tau training course to receive a thorough indoctrination in their new powers and responsibilities, as well as a clear description of the government's overall program for pacification and development.

Thieu readily accepted the new announcement of our troop redeployments to be made over the next year, and believes the RVNAF can successfully take over the responsibility implied by this. Our combat support, of course, will be a critical factor. While as I have often said some reverses must be expected, we must do all in our power to see that they do not come as a result of inadequate air, artillery, and logistics support on our part.

The U.S. position on Cambodia is, of course, of critical importance to South Viet-Nam. There is little doubt that the GVN would like to see us extend major military assistance to Cambodia, especially if the situation there becomes urgent. Thieu understands the limitations on our actions. He has expressed to me the need for a common approach to the problem. Should the Lon Nol government be seriously threatened, however, the Vietnamese may feel impelled to take bolder initiatives on their own. In such an event, the GVN would probably explain its actions as in keeping with the U.S. doctrine of encouraging Asians to help each other carry more of their own security burden.

I have indicated some areas of political unrest. Among these have been the protest of the students, the veterans, the Cambodian minority, and the aftermath of the Chau case which affected Thieu's relations with the Assembly. Thieu has moved, however, to defuse all of these problems and he has so far partially succeeded. His effort to work out the critical economic problems confronting the government cooperatively with the Assembly committees is a sign that he has learned from his experience last October.

Some government actions or lack of action have generated criticism, but this dissatisfaction shows no signs of be reaching the fabric of existing constitutional institutions. There is a responsible recognition by the Executive and by many in the Legislature that a cooperative effort is needed to put through vital economic reforms, else there may be precipitated both an economic and constitutional crisis in the near future. The issues, the malaise, and tensions in Saigon will continue to receive the attention of the press, and will be important in the elections of Senators and, next year, of the President as far as Saigon itself is concerned. However, the press generally ignores the government's success in building a base of political support—in the country-side through its Land-to-the-Tiller program and in the development of village governments with organized labor through its political link with the Farmer-Worker Party; and with the military and civil service. These will be, I believe, of the greatest importance in the coming elections.

There is little question that inflation has made living conditions difficult, especially for the military, civil servants, war victims and others living on fixed incomes. The morale of these groups has suffered, and the government's success in holding the public's confidence sufficiently to enable it to retain power will, in my view, depend in large part on its success or failure in coping with the economic problems which are at the root of these conditions.

#### LXXXVII

## FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR HABIB

HEREWITH MY EIGHTY-SEVENTH MESSAGE, JUNE 19, 1970 Allied operations in Cambodia have dominated the military situation and affected nearly every aspect of the political arena as well since I reported to you in person in May. Military action in Cambodia has raised nationalist morale and encouraged the strongly anti-communist elements in the population who believe that Hanoi will agree to a negotiated political settlement only when it is convinced it cannot achieve a military victory. There is some danger that the undoubted military successes of the sanctuary operations and the difficulties these have caused the enemy will lead to over-optimism and the temptation to see an easier and earlier solution to Viet-Nam problems than I believe is probable. To date, I believe, however, most of the pitfalls have been avoided. The Vietnamese have exploited the military and diplomatic opportunities with considerable skill. Leaders on both sides have sought to soften racial antipathy between the two nations. Most Vietnamese, I think, now understand the dangers, as well as the opportunities, posed by Cambodian events.

Other principal concerns during the past month have been growing manifestations of urban political discontent, challenging both the government's authority and its capacity to deal with them; growing economic strains of the war, on which this discontent is feeding, and the government's efforts to counter them; and some slowdown in the progress of the pacification program in comparison with 1969. All are discussed below in some detail. While there are some disquieting developments in the domestic political scene, President Thieu has involved himself directly with these problems during the last week. With Thieu's personal intervention, I believe solutions can be found more quickly. We should not, in any case, overreact ourselves.

Events in Cambodia since Sihanouk's fall in March, especially Allied and Vietnamese operations against North Vietnamese units on Cambodian territory since your April 30 speech, have made profound changes in the military map of Southeast Asia and in Vietnamese perceptions of the war. It is too early to predict the long-range effect of these operations on Hanoi's strategy, but the destruction of massive amounts of equipment and supplies in the sanctuaries, and destruction of the "sanctuary" concept as well, must force the enemy to reexamine many of his assumptions. It creates a new situation for us as well.

It is already evident that Hanoi has been forced to divert attention away from operations in South Viet-Nam toward attempting to repair the damage to its logistic and command structures. Enemy plans for increased rainy season activity in much of the country were apparently preempted, although low cost efforts to disrupt pacification continue. Confidence and morale of the Vietnamese military has risen, particularly on the part of those involved in the Cambodian venture, and ARVN's fine performance has produced a palpable lift in spirits here.

Vietnamese relations with the new Cambodian government have absorbed much effort already. President Thieu and his colleagues view the opportunities presented by Viet-Nam's newfound Cambodian friends to be crucially important for South Vietnamese security. They are convinced of the need to support the Lon Nol government to the extent of their capabilities and have exerted their best efforts toward overcoming the obstacles of establishing close cooperative relations. Vice President Ky's directness and informality were effective during his Phnom Penh visit in early June. His frank discussion of problems, including sensitive ones like ARVN misbehavior toward Khmer villagers, his pledges of support for the Lon Nol government and his assurances that Viet-Nam harbored no expansionist aims toward the Cambodians, were well received. Agreements on diplomatic relations have been reached, a number of channels of communications established, and military cooperation set in train.

Obstacles remain, however, the major one being the deep ethnic animosity between Cambodians and Vietnamese. It was crystallized for many by the mistreatment of Vietnamese residents in Cambodia and the consequent refugee problem. About 120,000 Vietnamese residents of Cambodia have returned. Their problems have been managed effectively by the government. But Ky told me he had visited a number of refugee camps and talked with remaining Vietnamese there, and he believes that nearly all of the remainder—which would amount to several hundred thousand—will ultimately wish to return. This migration would be second only to that following the French Indochina war in 1954 and would pose considerable problems of resettlement and security. The GVN is now considering a halfway stage for the refugees, placing them temporarily along Route 1 in Cambodia between the Neak Luong ferry landing and the border (an area where ARVN intends to keep some forces for a time).

While enemy forces were able to shift key personnel and the bulk of their units in time to avoid part of the impact of the cross border strikes, they have nevertheless suffered heavy casualties and an immense loss of materiel. As a result, there have been significant indications of a drop in their morale. Within South Viet-Nam enemy action has remained at a relatively low level of activity punctuated by a few spectacular incidents probably intended to counter the psychological effect of the loss of their Cambodian sanctuaries. As the June 30 deadline for American withdrawal approaches, we may well see sharpened resistance by NVA units in Cambodia, to demonstrate they still

have punch there, perhaps aimed at ARVN forces to counter morale gains and suggest to outside observers that ARVN—without American ground support—is overextended.

A serious NVA effort to take Phnom Penh and bring down the Lon Nol government before a regional, multi-national assistance effort can take hold would pose a dilemma for the GVN. It would create pressures on us as well, of course, but I believe the Vietnamese understand (if they do not welcome) the limit on our participation after June 30. Especially if it were preceded by a concerted Vietnamese military salvation effort, Lon Nol's fall could badly depress the Vietnamese. It is by no means evident, of course, that Hanoi would take such a step, which would require a major diversion of its attention and probably commit it to continuing military support of Lon Nol's successor. The disruption caused the enemy by the Cambodian operations has caused him serious problems in the supply of food and materiel. It seems clear that he will have to develop new supply routes, probably west of the Mekong.

I believe on balance the Vietnamese have made the most of the possibilities inherent in the Cambodian situation, both diplomatic and military. They are convinced that regional cooperation, in particular closer coordination with Thailand and Cambodia on security matters, offers a better prospect of achieving their goals than the Djakarta Conference and the resulting three-nation mission. They have welcomed the results of the Conference, however, and have made no move that would foreclose a diplomatic solution. A new sense of Vietnamese confidence arising from the success of the Cambodian operations will be evident, I think, at the Troop Contributing Countries meeting to be held in Saigon in early July.

The boost in Vietnamese spirits following the Cambodian venture unfortunately coincided with an increasingly disruptive display of opposition by Thieu's internal "opponents" and the government is now faced with irritating and potentially serious challenges to its authority. The disaffected range from veterans with legitimate grievances to irresponsible elements who have long lain in wait for a chance to attack the government. All find ammunition, in varying degrees, in the severe economic problems facing the country and the other accumulated strains of the war.

Protesting veterans and students, whose activities I described in my last message, were joined in May by militant Buddhists, and there were signs of unrest in labor unions as well. The disabled veterans continue to take over unused bits of land in the city and build flimsy squatter shacks. They are led by extremists who seem bent mainly on attracting attention to themselves, and even thwarting the GVN's efforts to help. Thieu has now entered the problem directly, meeting veterans' representatives himself on June 13 and holding a working session with them again on June 17 to try to come to a definite settlement of their problems.

Students, whose grievances draw less sympathy, have resisted GVN conciliation efforts and by mid-June had advanced to a level of sporadic open violence. Government restraint through early May had led to a decline in po-

lice morale and probably emboldened the minority of student extremists. The crackdown on student disruption, when it came May 5, resulted from a full Cabinet decision and included school closure through most of May for security reasons. The government subsequently tried to meet some legitimate student requests, recognizing their organization and providing it a building, but—as in the case of the veterans—the dissidents have not responded. On June 13, and again two days later, demonstrations involving several hundred students occurred. They began using Molotov cocktails against the police who have exercised moderation and have limited themselves to tear gas. Banners have appeared calling for the overthrow of the government; there is a strong anti-American theme. The GVN released another group of students June 13, including the student union leader whose arrest in March was the principal cause of the protest. This action mollified the moderate group within the student leadership who represent the great majority of students and who publicly advocated an end to the protest and return to classes. The militants, however, are urging continued struggle, and as this is written the issue between them is still in doubt.

I think it is clear that only a small number of students are actually "radicalized"; demonstrations have never exceeded a few hundred in number and we have indications most would like to return to class. The Prime Minister told me June 17 that he felt most of the problems had been resolved and that he expected schools and universities to open June 22.

In May there were was also the prospect of a movement by the militant Buddhists, with some potential for capitalizing on the grievances of the other disaffected groups. Thieu, in fact, has told me that some elements of the militant Buddhists have been stimulating the students' and veterans' protests. An internal struggle for political power erupted into open violence between the legal, pro-GVN faction of the Buddhist Association and the larger, antigovernment An Quang group. Monks who had grown restive at the lack of Buddhist political action since 1966 pressed for a full-fledged campaign against the government. Partly to keep the young militants from taking over, established An Quang leaders formulated demands on the GVN—including an end to the war and to oppression of Buddhism, legalization of their association, and steps to ease economic hardship—and held a brief hunger strike. Further actions are contemplated, and Buddhist protests promise to be a continuing problem for the government.

In handling this urban discontent the GVN is relying on combinations of lenience and coercion, leaning heavily toward the former. Thieu has commented to me that the government has tried to deal with both students and veterans in a spirit of moderation and tolerance. The police have been instructed to exercise restraint, but there is no question that both students and veterans are being stirred up by extraneous elements. The government is now coming under pressure from many quarters, he said, including membership of the Assembly to take firmer action. Complaints are increasing over the disruption and the inconveniences which the demonstrations have created. This

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may arise in part from the seemingly petty nature of many of the individual demands. But I believe that what may appear from the outside to be vacillation on the part of the government could actually represent the kind of instinctive reactions meant to avoid confrontation, giving the crises a chance to wind down.

A series of Supreme Court decisions in April and early May set restrictions on Executive authority in several areas, and have had the effect of requiring the President to rely more heavily on the Legislature. They have, I think, strengthened the constitutional system by reinforcing legal restraints and expanding the role of the Judicial branch of the government, although the immediate effects may cause Thieu some political difficulties. The austerity tax problem, as I mentioned, and the jurisdiction of the Military Field Court have now been solved by Assembly action. Thieu has acted with more finesse during the current Assembly session, meeting with legislators much more frequently and making his wishes known more clearly than in the past.

Increasing interest is centering on the Senate elections in August. Neither government nor opposition strategy has yet jelled, although Thieu is evidently leaning toward support for three ten-man slates—thus aiming for a clean sweep and the exclusion of his bitterest opponents. Jockeying between parties in his political Front is intense. Thieu has offered them only one ten-man list, and the Front could break up over the issue. Few would grieve over its demise. Its members have often complained at lack of presidential interest and favor, while Thieu has made no secret of his disdain for its inactivity.

Village and hamlet elections are continuing, with considerable local participation. Turnover in members was high in most areas during the March-May phase, signifying more than pro forma interest in the outcome. While political party involvement in the elections at this level is frequently covert and geared mainly toward jockeying for influence vis-à-vis other parties, it offers hope of eventually relating local issues to the national political structure. Provincial and municipal council elections, scheduled for June 28, appear to have generated more open party participation.

President Thieu has indicated to several political figures that he is developing plans to base his own campaign strategy next year on an alliance of pro-government members of elected bodies at all levels, from the Assembly down to the village and hamlet council. Success in fashioning a movement of these elements would be particularly significant in Viet-Nam, where a conspicuous failure of political development has been in not relating political parties to elective institutions and legislative politics. This is still in the formative stage, but Thieu has some potentially effective allies in the effort and it will bear watching.

As I have indicated in my previous reports and in our talks last month, the economic dislocations caused by the war constitute one of the most serious long-term problems now facing the Vietnamese. Pressures are rising: retail food prices, for instance, have increased about twenty-two percent so far this year. The black market dollar rate continues high, although it dropped

from the peak of 424 in Saigon April 21 to 378 in early June. (The drop in Hong Kong was even greater, and most likely is due to the GVN's tightened currency control efforts.) The direct relevance of economic problems to the war was underscored by [25 words excised].

Anti-inflationary measures can be costly in political terms, because their immediate impact on the population, especially on that section of it least able to bear them, often appears worse than the conditions they will cure. The GVN is proceeding with these, however, and has already made some progress. Most important so far was the regularization of the October 1969 Austerity Taxes on imports when the National Assembly approved them in slightly modified form June 10. The GVN has also taken steps to improve tax collection, applying meaningful sanctions on delinquent taxpayers who have in the past enjoyed virtual immunity. Results of the new measures during April suggest that the government will enter 1971 with substantially better tax receipts than had been projected.

The President has asked the Assembly for a five-month grant of special powers under a "program law" enabling him to take direct action in a number of areas, most importantly changing the exchange rate for certain purposes, raising interest rates, further improving domestic tax collection, and revising import/export policy. The Assembly will modify his bill, but probably pass it after some delay. Most of the measures which the law would authorize are already within the power of the Executive to implement. Nevertheless, it has the virtue of associating the Assembly with the government and thus sharing responsibility for measures which are essential though not popular. As the Prime Minister remarked to me, he thought the Cabinet had done a better job than its predecessor in "working and lobbying" with the National Assembly and that relations between the Legislative and Executive branches were improved.

I continue to believe it will be essential, as the GVN accomplishes the steps necessary to put is economic house in order, for us to provide some additional economic resources during 1971–72. It is not possible for the GVN to carry the increasing burdens of Vietnamization without additional assistance. The austerity taxes and the resultant increase in prices have been the cause of much of the domestic political discontent and we cannot afford to leave this element out of our economic calculations in coming months.

Enemy military activity, insofar as it was not related to Cambodia, was directed mainly at efforts to disrupt the government's pacification gains. The level of this kind of action was slightly higher during April and May than during previous months. Terrorism remains high and the pressure was most intense in II and IV Corps. The first regression in Hamlet Evaluation System percentages since Tet 1968 occurred in April, a drop of 0.8%. It was regained statistically in May, but some II Corps officers believe that the increased burden on ARVN resulting from American withdrawals may cause security to decline there. Enemy units in II Corps are apparently moving down to lowland

areas, partly because of supply problems. This movement doubtless affects HES figures.

In the Delta, 33 outposts fell to enemy action in April and May, in most cases because the occupants were asleep. The worse Communist atrocity since Tet 1968 occurred south of Danang June 11, when 74 persons were killed and 68 wounded in the destruction of a village by Viet Cong sappers. This massacre, and the May 30 attack on Dalat in II Corps during which enemy forces held parts of the town for part of a day, were doubtless meant to create the impression that VC/NVA capacities had not been impaired by the Cambodian operations. That they were, in fact, impaired seems clear from the low level of enemy activity generally, and especially in III Corps.

In I Corps, where the enemy does not depend on Cambodian border sanctuaries, Viet Cong and NVA forces concentrated on building up their logistic capabilities and generally increasing their threat to ARVN and local security units. Two North Vietnamese divisions suffered significant casualties in Quang Tri and Quang Ngai provinces. The overall effect of enemy losses during the period, combined with allied successes in Cambodia, will be to erode further VC/NVA ability to mount large-unit operations.

The Vietnamese continue to fill out the RVNAF force structure through training and equipment turnovers, with particularly rapid progress being made by the Navy. The boost to morale given by ARVN operations in Cambodia will, I hope, help overcome problems in improving ARVN leadership, one of the limiting factors in the Vietnamization process. We should also be able to see the morale effect on desertion rates, which rose slightly from February to April (although they are still below 1969 levels).

Communist attacks on territorial force outposts, combined with a decline in momentum by some officials at the province level and below, resulted in the April statistical drop in pacification progress I mentioned above. Government efforts were more successful in containing the enemy during May, and the various pacification programs continued steady, if not dramatic, growth. Accelerated training of new territorial force units is being completed, and preparations made for additional increases. People's Self-Defense Corps leaders were given special training. The Phoenix program was transferred to the National Police, which should better focus responsibility. A number of provinces are improving the sentencing of captured Viet Cong infrastructure. Chieu Hoi rates are down somewhat from 1969.

President Thieu has again given pacification his personal attention, and called for another special four-month effort beginning in July to recapture the vigor of 1969. Particular attention will be paid to improving territorial security, expanding information programs, and consulting entire village populations on both goals and resources during the coming year.

Actual implementation of the Land-to-the-Tiller Law was made possible by a decree June 5 inviting tenant farmers to apply for the land they are using, and spelling out procedures. While mobilizing the necessary manpower to execute the measure in the villages is necessarily slow, much of the political impact is being achieved by preventing further rent collections and providing for expropriation in effect beginning March 26, the date President Thieu promulgated the law. In an opinion survey of Saigon residents in May, land reform headed the list of GVN programs with most popular approval.

The GVN has had to grapple with problems on a good many fronts during the period since my last report. The unfolding Cambodian situation; protests by students, veterans and Buddhists; the problems of the economy; preparations for the provincial elections; planning for an accelerated pacification program; and continuing with the improvement and training of the Vietnamese forces—have provided a full plate. Some of these have posed difficult problems of judgment and style. Despite all the shortcomings and defects one has a feeling that a dynamic process is at work here, often taking constructive forms, and that the Constitution, which we insisted on in 1967, is providing a foundation for the development of stability and progress.

#### LXXXVIII

## FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR HABIB

HEREWITH MY EIGHTY-EIGHTH MESSAGE, AUGUST 26, 1970 The constructive forces which were becoming evident at the time of my June message continued to gain strength during the following two months. The Cambodian sanctuary operations have had widespread and advantageous consequences. ARVN morale remains high and its fighting performance continues to improve. Vietnamization proceeds encouragingly, the pace at present being about as fast as the Vietnamese are able to absorb it. The war in the southern part of the country has declined and pacification gains have been registered, especially in Military Regions III and IV. Terrorism remains high, though there is some sign it may be declining. Captured documents and prisoner and Chieu Hoi interrogations suggest the enemy's assessment of his prospects is increasingly pessimistic. In the key Delta province of Kien Hoa he has seen an erosion of his traditionally strong position.

The concentration of major effort in the Panhandle and in Cambodia is an inescapable part of the enemy's strategy at the moment since the pursuit of his basic objectives in South Viet-Nam is critically dependent on the maintenance of a position in those two countries. Meanwhile he has also turned his attention to the northern part of SVN, the only area to which his access was not impaired by the Cambodian operations. So far, his attacks there have been satisfactorily contained or repelled. President Thieu anticipates a further build-up of pressure in the north and plans to move more military units there. What he can do, however, depends on continuance of favorable developments in the South, on events in Cambodia, and on the rate and character of allied troop redeployments—especially the U.S., but also the Thais, the Australians and the New Zealanders. His concern over the political impact, inside and outside of Viet-Nam, of Allied troop withdrawals would be substantially increased should ARVN experience a pattern of military setbacks important enough to affect its present high morale and confidence.

President Thieu shares your convictions about the need to press for a negotiated solution to the war and has, I believe, taken effective action to prepare public opinion here. This has been done in a way which has, at least for the moment, silenced the loudly expressed hopes and fears of both the soft and hard-lining groups. He appreciates the war weariness of his country, but his mood at the moment is one of confidence abut the future, and neither he

nor any other significant leader seems predisposed to concede in Paris the advantages they feel have been gained here.

Progress in political development, though gradual and undramatic, has also been encouraging. Pacification gains, which have speeded the enlargement of a market economy, improvements in the election process from Saigon to the hamlets, slow but steady advances in the quality and the institutions of government, and increased national confidence have produced a greater interest of the average person in being a part of the society. These considerations have also dulled the appeal of the enemy. But there remain many inequities and imperfections, some of which could be crucial if not effectively dealt with. Most urgent is probably the need for economic reform; this problem is commanding highest priority at the present time and I am hopeful that decisions by mid-September will permit such a program to get underway. I am also concerned with the pattern of special privileges held by a few and sought by many at all levels of the social structure. These practices, and the corruption they spawn, not only result in inequalities in the distribution of sacrifices and benefits but they also constitute one of the major vulnerabilities to Communist exploitation. Some steps toward their correction are underway, but much more needs to be done.

Although there has been no movement forward on the negotiations front since my last report to you, I think several important steps have been taken to strengthen our own position. Ambassador Bruce's appointment has been generally well received here, and his visit to Saigon prior to taking up his post was reassuring to the GVN.

President Thieu, for his part, has improved the position of his government by promoting a better domestic understanding of the issues relating to war and peace. A coincidence of developments—termination of our Cambodian sanctuary operations, the appointment of Ambassador Bruce and a series of statements by high U.S. officials—served to heighten speculation here that some new and dramatic move was in the offing at Paris. Thieu himself fed fuel to the fire by talking to the press about settlement issues, notably ceasefire, which heretofore he had mentioned only briefly in prepared speeches. After a period of some confusion, the air was considerably cleared by your statements on July 30 and Thieu's television speech the following day. The fact that neither contained any dramatic surprises had an over-all calming effect here.

In his July 31 speech Thieu made clear that, contrary to speculation, his position on peace issues had not changed and that he was not making any new proposals. He once again rejected coalition government as a possible path toward peace. On ceasefire, he in effect made public the position he has taken with us in our consultation meetings: that our side could favor a stand-still ceasefire provided there is agreement on (1) no infiltration, (2) ban on terrorism, and (3) international supervision. He also made clear that any ceasefire agreement should be closely followed by negotiations of an over-all settlement including supervised elections. Moreover, he tried to distinguish between a

so-called "leopard spot" solution, which he rejected as leading to partition and a communist take-over, and a "stand-still" ceasefire, which he termed acceptable so long as it was a step leading to negotiations for a political settlement.

What is important, I think, is the fact that Thieu has brought the issue of ceasefire out in the open and has thereby laid the groundwork for greater public understanding and acceptance of any initiatives along this line which we may ultimately take in Paris. At the same time, he has demonstrated to all political elements that, while in no way altering his will to fight on, he remains flexible and open-minded concerning a negotiated settlement.

During July and August developments in Cambodia have continued to dominate Viet-Nam's foreign relations and have to a large degree determined the pattern of the internal military situation as well. The success of the cross-border operations served to damp down enemy main force combat activities in MRs III and IV and in southern MR II. However, as I will discuss more fully below, the enemy now seems to be shifting his attention to the northern areas and has begun to increase pressures in MR I and northern MR II.

Since the withdrawal of the last U.S. forces from Cambodia June 30, an average of 10,-15,000 ARVN troops have remained in Cambodia, mostly in the eastern regions. These forces have filled a critical need for combat personnel while the Cambodian government builds up its own army. However, from the very beginning President Thieu made clear that ARVN's role in Cambodia was to be narrowly defined as clearing the border areas, liberating nearby cities held by the enemy, and protecting Vietnamese refugees. Any other operations, such as strikes deeper inland, were to be conducted on an ad hoc basis and only when requested by the Cambodian Government.

In carefully spelling out these limited objectives, Thieu has shown an awareness of both the military and political factors involved. In his speeches, in his statements at the Troop Contributing Conference, and in his talks with Secretary Rogers here last month, Thieu has repeatedly stressed that the GVN cannot "go it alone" in Cambodia; that if Cambodia is to resist communist military pressures it must have the collective help of the states in this area backed up by the United States.

Thieu has made equally clear that such a collective effort need not and should not entail a formal military alliance, such as Vice President Ky at one point advocated last month. Thieu understands that this kind of arrangement would be neither feasible nor desirable, particularly from the standpoint of respecting the neutrality of both Cambodia and Laos. Instead he envisages close military coordination and cooperation among Cambodia's neighbors, with Thailand joining Viet-Nam in providing the bulk of whatever outside forces are needed. In this respect, the GVN has been disappointed in Thailand's failure to adopt a more urgent and forthcoming attitude toward Cambodia's needs. Thieu has also indicated that, while he is not overly concerned by Thailand's decision to start withdrawing its 12,000-man force from South Viet-Nam, their departure—coupled with the increasing enemy pressure

in northern SVN and continuing redeployment of U.S. troops under the Vietnamization program—will add to ARVN's burdens inside the country and force some curtailment of ARVN's operations in Cambodia. In other words, Thieu foresees that SVN's military resources will be stretched thinner in the months ahead, and he worries that overall outside military assistance to Cambodia may not be enough to keep the country secure should the communists increase their pressure throughout Indochina.

Thieu also has shown awareness of the limitations on strengthening Viet-Nam's bilateral relations with Cambodia in non-military areas. Considering the age-old suspicion and animosity between the two peoples, I think their relations have progressed surprisingly well in recent months. Most of the heat generated here by the emotional issue of mistreatment of the Vietnamese minority in Cambodia has now disappeared. Almost 200,000 Vietnamese refugees have been evacuated from Cambodia and are now being resettled in southern SVN; in view of the many problems involved, I think both governments have handled the whole operation in a commendable fashion. While we continue to receive reports of ARVN misbehavior in Cambodia, there is evidence that both sides increasingly recognized the importance of keeping this issue under control. I have discussed this situation with Thieu on several occasions, as has General Abrams with General Vien. A joint GOC/GVN mechanism has recently been established in Phnom Penh and we hope that in the future these problems can be handled with minimum involvement on our part. The leadership of both governments is aware of the difficulty of overcoming traditional antagonisms, but is also conscious of the need to cooperate in the face of a common enemy.

Behind Thieu's flexible attitude toward a ceasefire and negotiations is the belief that militarily the Allies are now stronger vis-à-vis the enemy than ever before. I think there is a solid basis for this conclusion. With the closing of Sihanoukville, the losses incurred as a result of the cross-border operations against the sanctuaries, and an inability to count on secure bases in Cambodia for operations against South Viet-Nam, the enemy faces severe problems. It would appear that, in the immediate future at least, he has little alternative but to persist in his "long haul, low cost" strategy of protracted warfare, as prescribed by COSVN resolutions 9 and 14.

Having redeployed to Cambodia at least eight regiments which previously operated in South Viet-Nam, the enemy in recent months has continued a relatively low level of combat activity throughout the country. Most action has been limited to small-scale ground probes against territorial forces and sporadic attacks by fire. Even these declined by 50 percent in July compared with June. Faced with a situation unfavorable to main force operations, the enemy has concentrated on reconstituting his logistics system disrupted by our cross-border operations, building up his forces in the more accessible northern regions of South Viet-Nam, and disrupting pacification to the extent possible. In attempting the latter, he has relied primarily on terrorism, which remains above the levels of last year.

Among the enemy's highest priorities must be the repair of his severely damaged supply system. This also involves the establishment of new lines of communication through southern Laos into Cambodia, which is reflected by the enemy's expanded military operations in the area. Moreover, we have noted that in contrast to the normally greatly reduced logistics activity during the monsoon season, movement of supplies through the Laos Panhandle has continued despite the current rains.

Compensating for their current difficulties in the southern regions, NVA forces seem to be concentrating on Military Region I in the north where there are fewer logistical problems. The enemy can presently marshal at least two divisions in this area, where Allied forces are widely dispersed. His specific objective appears to be to disrupt pacification in the lowland areas of the northern provinces of Thua Thien and Quang Tri, while at the same time distracting ARVN and Allied forces with attacks on scattered fire-support bases in the highlands. While enemy forces have on several occasions broken into hamlets on the coastal plains, they have been successfully ejected with heavy casualties.

Meanwhile, good progress has continued in the development of the ARVN force structure. Since my last report, several new support units have become operational, several others have begun training, and more than 300 naval craft have been transferred to the Vietnamese. On the other hand, desertion still runs slightly above last year's level, and a shortage of able infantry leaders continues to mar ARVN's program of expansion. However, positive action by the GVN against morale-sapping inflation and the provision of better housing and food supplements should help alleviate both of these problems.

I have mentioned the current enemy strategic focus on countering pacification gains through small-unit military actions, terrorism and proselyting. He is also concentrating on inciting disorder and other anti-government activity among such groups as veterans, students, Buddhists and workers in the cities. In neither of these pursuits has he achieved noteworthy progress to date.

There is no reason to believe the enemy has altered his fundamental objective of gaining control over the south. But as I mentioned earlier there are indications—derived from captured documents, interrogations and other sources—of his disappointment and discouragement in his own efforts to reach this goal. The upheaval in Cambodia has undoubtedly forced the enemy to reassess his long-range strategy and in particular to devise new ways of recovering his losses in the southern areas. That the establishment of new bases and infiltration channels in southern Laos and Cambodia is a critically important factor in this strategy is reflected in current enemy military activity in both these areas. In judging how far or how fast the enemy intends to push his influence and control in these neighboring countries, I am increasingly impressed by the severe problems he faces, particularly in Cambodia where no indigenous organized opposition exists which he can readily exploit. While it is to be hoped that the enemy's setbacks and the growing strength of SVN will

induce him to conclude that time may not be on his side and that he should therefore move toward some form of negotiated settlement, there is still little evidence that he has yet reached this point. Meanwhile it is obviously important that we keep pressure on him and take fullest advantage of the generally favorable position we currently enjoy.

Pacification more than ever emerges as the enemy's greatest concern and therefore his major target. COSVN Resolutions and their implementing directives place high priority on disrupting hamlet and village security, eliminating the GVN's expanding presence and infrastructure, and neutralizing local security forces. While the enemy's strategy for accomplishing these goals has been to rely heavily on small-unit action and terrorism, there are indications that these efforts may be losing momentum. Indicators of enemy activity of this type dropped slightly in May, further in June and further still in July. For example, in the Delta nineteen outposts were overrun in April, ten in May, six in June and none in July. In fact, in July not a single outpost was overrun anywhere in the country.

Moreover, the GVN's campaign against the Viet Cong infrastructure met its goals in June for the first time this year, and despite regression in some "soft" provinces where terrorism remains substantial, overall pacification ratings increased during July. According to the new and more stringent HES, 91 percent of the population in June resided in relatively secure hamlets rated as ABC. In July this figure rose to 92 percent.

On July 1, the GVN launched another special accelerated pacification program. This is designed to overcome a degree of lethargy which had begun to afflict the program earlier this year when the national leadership was preoccupied with political questions and developments in Cambodia.

The new campaign calls for a special effort in local security, particularly the People's Self-Defense Program, and in information. Thieu also has recently removed a number of weak province chiefs. These steps, together with the enthusiasm generated by the success of the Cambodian operations, have served to shake up the pacification program in most provinces, although in many areas the pace is still below that of last year.

Through a series of elections, political groups have had an opportunity to show their strength and involve the masses in political activity. Following the village and hamlet elections this spring, the voters on June 28 elected new Provincial and Municipal Councils. The results were encouraging. Numerous office-holders were defeated, and there were many signs that the electors were discriminating in their choice. New councilors were on the average much younger than their predecessors, and, in contrast with the 1965 election, more than half were identified with some political or religious organization.

On August 30 voters will elect one-half of the upper house, thus completing another phase of the constitutional cycle. Sixteen ten-man slates with a variety of political views have entered the race. Three slates will be elected. Most observers agree that among the top contenders are a pro-GVN list, an independent list, and the oppositionist slate of the An Quang Buddhists. I

view the involvement of this anti-GVN Buddhist group in the constitutional electoral process as a desirable development.

In the case of both the Senate and the Provincial Elections, interest by voters has been keener and competition among political groups stiffer than in previous similar elections. This was made possible by the greatly improved security in the countryside and it demonstrated the continuous growth of interest in the political process since the establishment of the 1967 Constitution. Political parties are still in their infancy, but several of them have begun to take on more coherent shape and to extend their organization to the local level. Political party competition does not count for much in village and hamlet elections, but the parties consider Provincial Councils and the Senate as meaningful institutions and membership in them as a significant means to further their partisan interests and prestige.

Two verbal attacks in July by Vice President Ky on the present government led to speculation that he was opening a campaign for the Presidency. I doubt that Ky has made a decision on 1971, but he may have been testing the waters. His attacks brought forth a strong rejoinder by Thieu and the flurry has subsided.

Unrest among veterans and students receded from its June high. While the problems continue to simmer and sporadic minor disturbances occur, most veterans are awaiting implementation of a law providing greatly expanded benefits promulgated by the President on July 9. University students ended their boycott of classes on June 22 and, since then, have been relatively quiescent. Most students are preoccupied with their examinations, but a militant minority is seeking to stir up trouble. Some have announced their determination to continue protests against the government, especially the GVN's program of military training for university students.

An Quang Buddhists have recently given signs of adopting a new approach to opposition politics. Having boycotted the elections of 1967, An Quang participated heavily in the Provincial elections in June of this year with good results. As I mentioned above, they have also entered a slate of moderate, respected laymen in the elections for the Senate scheduled for August 30. The decision to participate in national political life within the rules of the constitutional system could prove a basic one for the Buddhists. It may presage a moderation of their view on other issues, such as the terms of a peace settlement.

Until recently, Thieu's tactic with protest groups has been to meet their legitimate demands as much as possible in order to undermine the strength of the militant minority. He has concluded that the various opposition elements, having little in common, are unlikely to coalesce; that they are themselves internally sharply divided and are separated from the bulk of the population which continues its indifference to activist appeals. Recently he has spoken more of the importance of maintaining "law and order," warning that the government will not tolerate further street demonstrations. This firm line has had a sobering effect on the activist groups who have avoided direct major

confrontations with the authorities, although some minor demonstrations have continued. The immediate outlook is for continued small-scale probes against the government by militant students and a few disabled veterans. Under the circumstances he has confronted so far, Thieu's approach is probably correct. But, over the longer term, the problems presented by inflation remain to be mastered, and, unless the government proceeds with energy to tackle this situation, economic discontent could become a serious threat to political stability in the cities.

In recent weeks the government has taken steps to improve the quality of key personnel and to reform its own administrative machinery. In a national address on June 27, the President indicated he planned to reorganize the government from the district to the central level in order to rationalize administration, reduce corruption and give the people more self-government. In line with these comments, on July 1 the GVN decreed changes in the RVNAF and one week later followed with a further reorganization of the Joint General Staff. Then on August 21 he announced his long deferred decision to change two of his Military Region commanders. The changes should considerably strengthen the regional command structure, especially in MRZ.

The President has confided to me his displeasure with the performance of some of the ministries and said that he is contemplating changes in the composition of the Cabinet. The timing and names remain unspecified, but I expect the changes will be selective and will not extend to the Prime Minister.

In another reform measure, the government announced on July 21 that it would undertake a comprehensive national review of prison facilities and practices with the aim of eliminating sub-standard conditions. This step resulted from the unfortunate affair of the "Tiger Cages" of Con Son Island. The GVN reacted forthrightly to charges of overcrowding and mistreatment which resulted from a visit to the Island by Congressmen Augustus Hawkins and William Anderson. On July 21 it was announced that the "Tiger Cages" would be reconstructed and a subsequent visit by Congressman Crane confirmed that conditions were already much improved.

During the past two months, the government has taken a number of administrative steps to carry out the land reform law enacted in March. It has abolished rental payments for most tenanted land; it has made substantial progress in training the local officials needed to implement the law; and it has taken applications for land titles in 22 pilot villages. President Thieu intends to distribute the first land-to-the-tiller titles in these areas in early September.

The economic situation remains one of the most pressing problems confronting the government, although conditions have changed little in recent weeks. After rising steadily through the first six months of the year, retail prices in Saigon levelled off in mid-July but have once again begun to increase. Domestic tax returns have been showing substantial improvement with receipts for the first seven months of 1970 32 percent higher than the same period of 1969.

### Eighty-eighth Message

The basic economic problems, however, remain unresolved. Wages of soldiers and civil servants remain low, and morale and performance are adversely affected. Profiteering on imports continues, and hoarding of goods is still widespread. There is a marked lack of confidence in the currency and speculation persists.

A number of impending heavy charges on the government budget threaten the precarious monetary equilibrium that now exists. The most important of these are:

- —a major increase in GVN civil and military wages.
- —increased expenditures due under the new law benefitting war widows and orphans.
  - —payments to landlords under the land reform program.

In order to maintain monetary stability and to resolve accumulated problems relating to exchange rates, import licensing procedures, interest rates and taxes, we are working with the GVN to develop a major program of economic reforms. We expect soon to reach an agreement with the GVN on such a program and on the U.S. assistance to support it.

The main elements of the reform, as we now see it, would include: (a) a change in the accommodation rate for U.S. personnel from 118 to about 275 piasters per dollar; (b) a similar change for exports and services; (c) significant adjustments in import rates; (d) improvements in the marketing system for imported rice; (e) intensified domestic tax collection efforts; and (f) higher interest rates.

The quasi-devaluation package would be accompanied by a major increase in GVN wages by about 30 percent, either in one step or two.

We believe that this program, supported by an import level of \$750 million, makes a 15 percent inflation rate reasonable as a target for 1971.

Although convinced of the urgent need for reform, the GVN still does not have the full legislative power to act. This spring President Thieu sent to the Assembly a request for powers to rule by decree in economic matters for five months. He specifically included power over exchange rates in the request because the present rate structure was set by law in 1965. In fact, this is the most important provision. Most of the other elements of the reform can be managed without decree powers.

The lower house passed this "Program Law" in late June, but it has been stalled in the Senate. As you know, we have an acute timing problem on our side, stemming from pressure in the U.S. Congress for a change in the troop accommodation rate. On August 8 I saw President Thieu and put that to him very directly. He replied that he would take action in early September, if necessary without legislative authority. He has told me that he intends to call for a special session of the Senate immediately following the August 30 Senate election, and to make one last try at obtaining legislative approval of the necessary powers.

The dynamic process which was apparent here at the time of my last message has continued to be evident in a good many ways. By the end of this

month two countrywide elections will have been held. The accelerated campaign to consolidate pacification gains and to expand rural development is under way. Prosperity has come to the rural community, and the government is moving to implement the Land-to-the-Tiller Law. The RVNAF continues to improve and has successfully countered enemy pressures in the northern part of the country. The legitimate demands of veterans and students have been met, their demonstrations handled with moderation and firmness. Buddhists for the first time are participating in the election process.

The most serious problem facing the government and the country is economic. Thieu recognizes this and is resolved that the GVN shall do its part to meet the problem. He has worked patiently with the Assembly in an effort to avoid the political fallout which followed the imposition by decree of the austerity taxes last fall, but he recognizes there is a limit to the extent to which he can delay action.

Given the solution of the economic problem, the prospect should be for continued progress in the development of more effective government. Looking ahead to the time when the South Vietnamese will be on their own, I think the problem will be less a military one than that of the moral fiber of the country. The ability of the government to eliminate corruption, the special privileges held by the few, inequalities in the distribution of sacrifices and benefits, and to create a condition of reasonable social justice can well be the determining factor in the struggle with the communists.

#### LXXXIX

## FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR HABIB

HEREWITH MY EIGHTY-NINTH MESSAGE, OCTOBER 3, 1970 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 invisibles 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.

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.

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.

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.

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 lo-

cal officials have been specially trained to carry out the law and they are now going to work in the countryside.

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.

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 parallel 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.

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 weeks 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.

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.

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 servicemen 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.

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 com-

mitted will bring long term benefits. One encouraging sign is a decline in the price of rice after hitting a peak in late August.

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.

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 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.

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.

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.

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 1 and the central highlands of Military Region 2.

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 105mm 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 time (patrols against seaborne infiltration) inner barrier.

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.

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.

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.

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.

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 deterred from exerting further pressure in the northern military regions by conflicting demands in southern Laos and northeastern Cambodia. In these latter areas, he is making a major effort to construct 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.

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 pacifica-

tion effort, but except for two or three provinces the enemy has not been able to set back the program.

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.

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 ceasefire.

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 enjoyed 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 ill-conceived peace plans.

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 espouse vague schemes for instant peace that appeal to war weariness and could serve also to advance the political ambitions of the proposer.

Another perceptible strain is concern over the state of public understanding and support for South Viet-Nam's cause. As the possibility of a ceasefire 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 ceasefire. 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.

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 unity 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.

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.

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.

The steady improvement in the equipment, training, and performance of the South Vietnamese military forces is cause 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.

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR HABIB

HEREWITH MY NINETIETH MESSAGE, DECEMBER 21, 1970 A critical problem with which the GVN has had to contend in recent months, and one of the most difficult to resolve, has been the economic situation. As a result of close collaboration between the GVN and the Mission's economic team, the reforms which I mentioned in my last message were put into effect in early October. The results have been quite remarkable. Prices are only three percent above the level of late September, and have headed downward in the last three weeks. Blackmarket currency transactions have been reduced and the market rate for the dollar has declined. Liquidity has been reduced by the large absorption of piasters brought about by advance import deposits and by new savings and time deposits. As a consequence, despite large outlays by the government for its wage increase, money supply has not increased since September. The immediate economic outlook, therefore, appears more favorable than it has been for a long time. There are, however, problems ahead in coping with heavy outlays for government wages, and payments in connection with Land Reform and for veterans' benefits. We are now engaged with the Vietnamese in laying plans for meeting these demands.

On the political front, there has been considerable movement. Of greatest importance was Thieu's endorsement of your October peace proposals and his agreement to various steps related to the prisoner of war problem. Internally, political dynamics are beginning to respond to basic changes in the nature of the conflict and to the prospects of the national elections in 1971. As of now, Thieu and Big Minh seem likely to be the major political figures. Ky is reportedly taking soundings as to his own prospects.

Laos and Cambodia have been the scene of increasing military activity and this seems likely to continue in the near future. The enemy is devoting his main effort to reestablishing lines of communication to offset the losses he suffered in the Cambodian operations of last spring and summer. South Vietnamese cross-border operations have kept the enemy off balance and we have concentrated our air activity to interdict his movements in the Laos Panhandle. Within South Viet-Nam, military activity continued at a relatively low level, with the enemy maintaining pressure on pacification targets and attempting to build up his political infrastructure. Even with the diminished military activity, enemy losses range between 1,000 and 1,500 killed each week, and ARVN losses between 200 and 300, not counting those killed by

assassination and terror.

The GVN has succeeded in maintaining momentum in pacification. Elaborate plans have been prepared for a new program with changed emphasis in 1971. The stress will be on consolidating gains and stimulating economic forces and political development, especially self-development. The security situation on the whole benefited from the enemy's distractions in Cambodia, but terrorism and abductions aggravated existing problems in several provinces in MR II.

The land reform program is moving into high gear with general public acceptance. Some weaknesses remain to be corrected. The issuance of titles rose to 15,000 in November and the second phase was launched in early December with the first compensation payments to landlords.

The economic reform program which was just being put into effect at the time of my last message has been remarkably successful. Supplementing the high interest rates, liberalization of import financing, and high advance deposits for imports, instituted in September, the main phase of the reform was put into operation on October 5. It includes:

- (a) A new exchange rate of 275 piasters to the dollar (up from 118) for a wide range of transactions, including troop accommodations, exports and lux-ury imports:
  - (b) A rise in selected import taxes;
  - (c) An increase in the price of imported rice in Central Viet-Nam; and
- (d) A wage increase averaging 16 percent for servicemen and government workers.

All of the measures taken together were designed to curb inflation, restore confidence in the piaster, reduce a variety of abuses such as the currency blackmarket, and in a broad sense to start restructuring the economy away from wartime distortions to a more normal, peacetime situation. The program was worked out in coordination with this Mission, and in response to it the United States undertook to provide up to \$750 million in import financing during Fiscal Year 1971, an increase of \$60 million over the volume of import licensing in FY 70.

The hard decisions taken earlier have begun to pay off. Retail prices in Saigon have gone up only three percent since just before the reforms were instituted and have recently shown a downward tendency. The average price of imported goods has not gone up at all, despite an average rise of 20 percent in the cost to importers. There has been a sharp reduction in speculation and hoarding. Liquidity has been drastically curtailed and money supply has not increased since September, despite large outlays by the government for its wage increase.

The blackmarket rate of the dollar declined from about 430 piasters at the end of September to under 400 at present. The volume of blackmarket transactions apparently also has been reduced as evidence by a higher rate of legal dollar conversions—roughly \$5 million per month after reform compared to \$1.5 million a month before.

The only part of the reform that caused popular discontent in one area was the increase applied to the official wholesale price of imported rice in Central Viet-Nam. Inadequate rice stocks and destruction in the fields and warehouses caused by the floods in Central Viet-Nam caused retail prices to rise sharply. The GVN had been committed to make a further increase, countrywide, in the price of imported rice by December 15 in order to establish parity with local rice, but it has now asked for a delay. We are awaiting an explicit GVN plan before taking a position.

Other special efforts by the GVN in connection with economic reform deserve mentioning. A large scale nationwide tax census was begun in December by the Ministry of Finance. It is seeking by door-to-door questioning to identify citizens and businesses that have escaped taxes in recent years. Information produced by the survey will be used to collect more taxes and to improve tax administration. It is hoped thereby to reduce and eventually eliminate national subsidies to local government. Firmer measures are also being taken to collect taxes by making heavier initial assessments and auditing suspicious cases. Audit investigations have resulted in increasing tax assessments by more than 200 percent over 1969 and will amount to 1.4 billion piasters in 1970.

A second effort, mounted in the customs field with assistance from the U.S. Customs Advisory Team, is aimed at fraudulent declarations. Large scale abuse of the "personal effects" category is being drastically curtailed and there has been a considerable number of confiscations.

In the field of economic legislation, the National Assembly has passed a new Petroleum Law which will govern oil exploration and exploitation in offshore areas. While the law is vague on some points, we are hopeful the oil companies will be able to work out terms sufficiently attractive that actual drilling will be undertaken soon. A draft of revised legislation covering foreign investment generally in Viet-Nam has also been submitted to the National Assembly and should be enacted during the next several months. A British private consortium is seriously proposing a \$60 million investment in a fertilizer plant. The three oil companies distributing POL have given informal assurances they will be ready to sign a contract for a refinery in the summer of 1971.

The general economic outlook for the immediate future is encouraging. Based on the evidence of price trends, bank deposits, and import licensing, a considerable measure of confidence appears to have been restored. We are entering the holiday season with an adequate volume of imported goods in the pipeline, and the customary price increases due to pre-Tet demand should be held within normal bounds.

The prospect of an excellent rice harvest during the next two months reinforces the generally favorable outlook. The official forecast is for a 1970-71 crop of 5.6 million tons of paddy, an all-time record. This level will bring the country to the margin of self-sufficiency.

Looking further ahead, however, we can see problems for 1971. An additional increase in government wages will be necessary, and in view of the September election the GVN may well want this to be a substantial raise. Payments to landlords will be accelerated under the Land-to-the-Tiller program as will payments of higher benefits to disabled war veterans. There may be added election year expenditures of which we are not yet aware. Our current readings of the inflationary gap for 1971, without new counter-measures, shows only a small problem in the first half of the year, but some potential inflationary problems beginning some time next summer. They should be manageable.

It is with these somewhat longer term prospects in view that we have started a joint year-end review with the GVN. A main purpose is to pin down circumstances and criteria under which the GVN should make changes in exchange rates, taxes, and other variables both to keep inflation from reemerging and to preserve the improvements in structure and state of mind that we sought to introduce in the reform. We are trying to re-establish more normal economic behavior here—to encourage the flow of savings into banks, investment in new production and exports, and bring about a further decline in hoarding and blackmarket activity.

Aside from this review with the GVN, we have a series of concerns about the character of our own economic assistance programs. The most basic question revolves around the rate of exchange at which the U.S. Government buys piasters for official uses. The rate is still 118 to the dollar, clearly a subsidy rate, and a means by which import financing is made available to the GVN on favorable terms. No doubt this situation must and should be altered soon. The problem is to ensure continuity in the overall assistance level, after the change of rate.

In sum, the short term outlook is hopeful, and while there clearly are problems ahead, we are working actively with the Vietnamese to meet them.

President Thieu moved quickly to endorse and give positive support to your peace proposals of October 7. These evoked a remarkably widespread and favorably response in Viet-Nam, similar to the reaction at home and abroad. The feared side effects of a let-down among the soldiers and cadre in the field did not materialize, and observers here agreed that the initiative placed the enemy at a further psychological disadvantage.

Recent public attitude surveys show that people see continuation of the war as the dominant national problem, and the peace and war issue will undoubtedly receive special attention in the coming months before elections. Thieu has continued to draw a clear line on coalition and stands on his July 11, 1969, election proposal as a means for the enemy to participate in the political system. This needs to be spelled out, however, in terms that are more specific and more forthcoming. While almost any proposals the GVN might propose would almost surely be rejected by the other side, benefits could accrue to the GVN domestically since it would indicate a determination to continue to work for a peaceful solution and at the same time indicate confidence

in its own strength. An important further benefit would be favorable reaction both in the United States and in world opinion which such an initiative would generate. I shall be discussing this with Thieu in the days ahead.

After some hesitation, Thieu is also now moving forthrightly on the prisoner of war issue. He gave us notable cooperation on the December 10 exchange proposal and he has his people actively working on another unilateral release of sick and wounded enemy prisoners in the holiday period ahead.

Meanwhile, responding to criticisms from inspectors of the International Committee of the Red Cross, the GVN has instituted improvements in the main prisoner of war camp on Phu Quoc Island.

Changes in the basic character of the war in Viet-Nam are becoming clearer as military activity declines to the level of protracted warfare and as our redeployment continues. There is a growing confidence among Vietnamese in their Armed Forces and their ability to meet the military threat. There is also a growing awareness that as the military threat recedes the contest will become increasingly a political one. The enemy is stepping up his efforts on the political front, attempting to penetrate local protest groups to increase divisive pressures and to take advantage of what he calls the contradictions of Vietnamese society.

Thieu has laid his plans to cope with the developing political contest. They include step-by-step economic reform; strengthening and invigoration the administrative apparatus; direct appeal for popular support through local elected officials; acquisition of greater influence in the legislative and judicial branches of the government; and a firm and cautious rein on the military. He counts on a level of American assistance adequate to enable him to carry on the conflict and to enable the economy to move toward more normal circumstances.

Other political elements, notably those nationalists who have chosen not to support Thieu, are searching for the means to assert their influence. The challenges to political action inherent in the change and the 1971 elections should constitute incentives for some elements to coalesce. The main lacking ingredient is leadership and so far they have not devised a positive program which could present a constructive alternative to Thieu's administration. The potential exists, however, for a strong opposition movement, which could take advantage of weaknesses in the present administration, notably its failure to deal vigorously with corruption, to redress the inequalities of sacrifice, and to cope with economic stresses, especially in the urban areas.

I believe we may also see a rise in expressions of anti-American sentiment as Viet-Nam begins to stand more squarely on its feet, and restraints may loosen and pent-up resentments come to the surface. Close association with us may become a liability with some segments of public opinion. We are redoubling our efforts to reduce frictions in day-to-day relations with the Vietnamese, but I expect we will see deliberate attempts to inflame the issue for partisan, if not for outright subversive purposes, as the Saigon student element has sought to do in recent days over the regrettable incident at Qui Nhon.

The challenge of change is beginning to accelerate the internal political dynamics of Viet-Nam. It is in the context of a fundamental transition and with a quickening political pulse that the country is beginning to move toward the crucial test of renewal represented by the national elections of 1971.

Although the Presidential election is still almost ten months away, the campaign has already begun. Thieu clearly intends to run. General Duong Van (Big) Minh stated to friends that he also firmly intends to be a candidate. Vice President Ky has not yet made a decision, but is engaged in making contingency plans and taking soundings. It is difficult to see how a northerner, such as Ky, could be elected in the present circumstances, although his candidacy could prove a spoiling operation as far as Thieu is concerned.

Thieu is expecting to gain support from a fairly wide spectrum of the population—the military, the civil service, elected officials at the village and provincial levels; organized labor; religious elements, Catholics, and factions of the Hoa Hao and Cao Dai; ethnic groups, such as the Montagnards, Cambodians and Chinese; and some of the political parties, such as the Farmer-Worker Party, the Catholic parties and perhaps some others. His strategy also involves helping a few selected provincial councilmen and some other able men to win election to the lower house in 1971 in return for help in his election campaign.

Other recent steps including the military and civil service pay raise, and the promise of a sizeable salary for provincial council members, are also undoubtedly designed in part to increase support for Thieu among these groups. The economic reforms, the Land-to-the-Tiller program, and his relative success in handling dissident elements, such as the students and veterans, should help his cause. Finally, Thieu is carrying his case directly to the people. He now devotes a day or two each week to visiting the provinces and on these occasions he makes a point of explaining his position, mingling with the crowds, and becoming better known in the countryside.

Big Minh's widespread popularity is expected to draw support from some of the groups on which Thieu is also counting heavily for backing. Minh will probably receive the endorsement of the An Quang Buddhists, despite some indications from An Quang notables of second thoughts about support for the former general. The unresolved issue at this juncture is the extent to which Big Minh can translate popularity which stems from a father image into election organization and votes.

Vice President Ky's plans are up in the air at the moment. He would undoubtedly like to challenge Thieu, but his support is limited, and he will probably be able to do nothing more than to split Thieu's vote and throw the advantage to Minh. Unless Ky could strike a deal with Minh which he believed would enable him to control or at least strengthen an otherwise weak Minh government, it seems more likely that he would decide not to become a candidate. The handicap of his northern origin and the fact that the military, as in 1967, would oppose a division in their ranks would tend to confirm this view.

### Ninetieth Message

A series of recent elections in other branches of the government were conducted with an eye to the major contest in 1971. Pro-Thieu deputies were elected to twenty-two of twenty-five officer posts and standing committee chairmanship in the lower house. This maneuver was seen as a move to insure greater responsiveness to the executive's legislative program, specifically with respect to the drafting of the law which will govern conduct of the 1971 national elections. The internal election of officers in the Senate brought about a clash between the Independents headed by Senate President Nguyen Van Huyen, and a number of other Senators, mainly those recently elected on the Buddhist slate of Vu Van Mau. The tempest has now passed over, but the victory of the Independents has left some scars and somewhat lessened the prestige of the Senate. Finally, some political significance was attached to the election of Justice Tran Van Linh to be Chairman of the Supreme Court for its current annual term. The Chief Justice is also ex officio chairman of the Central Election Council, which will pass on the qualifications of candidates in the 1971 elections and have a role in considering allegations of irregularities. Linh won over former Chief Justice Tran Minh Tiet, who had shown marked independence in a series of important court decisions which went against the executive. Linh is a highly respected jurist and it is generally believed that the Court will function more effectively under his leadership. His election is seen as a victory for Thieu.

Overall military activity in Viet-Nam has been light over the past two months. The enemy has avoided large unit contacts when possible and preferred to exert military pressure with attacks by fire and occasional ground attacks. The major single military operation in Viet-Nam was an ARVN attack mounted with division size forces on December 1 in the U Minh forest area of MR IV, a long held enemy stronghold. In contrast to the relative battlefield calm in Viet-Nam, there was an increase in activity across the border in Cambodia and more seems clearly in the offing. The GVN has maintained a force of 12,000 to 15,000 in operations east of the Mekong. A multi-battalion operation, which has just been launched to relieve enemy pressure on the Kompong Cham area on Route 7, was carried out by General Do Cao Tri's forces with great precision.

Reduced enemy activity in South Viet-Nam has permitted continued concentration of U.S. airpower in Laos, although some air activity continues in support of Cambodia. B-52 Arc Light operations were directed almost entirely against enemy lines of communication in the Laotian Panhandle.

Domination of South Viet-Nam remains the enemy's prime goal, but his immediate concern appears to be the need to reestablish his logistical system in Southern Laos and northeastern Cambodia. This has become especially urgent for him since the loss of Sihanoukville and his Cambodian border base areas. At the same time, he is attempting to strengthen the VC political organization and maintain pressure against the pacification program through small scale attacks against outposts, terrorism, and efforts to procure money, food, and supplies from the populace.

The primary enemy main force threat in South Viet-Nam continues to be MR 1 where, however, heavy rains and extensive floods severely limited both friendly and enemy military operations. The outlook suggests that southern Laos and Cambodia will be the main arena of military activity in the near future.

At the extraordinary meeting of local and national civic and military leaders called at Vung Tau in late October, President Thieu reviewed the status of the pacification program and outlined the general thrust of the Supplementary Plan for the period November 1970 through February 1971, which is designed to prepare the ground for the next phase to be carried out under a new general policy beginning on March 1. In 1971 the term "pacification" will be dropped as outdated. The new program will be designated as the Community Defense and Local Development Plan. As the name suggests, it will seek to consolidate territorial security gains by coordinating community defense plans and stimulating local development. The new plan has three overall objectives: Self-Defense, Self-Government, and Self-Development, which explains why the Vietnamese refer to "Vietnamization" as "The Three Selfs."

Meanwhile pacification has continued to move forward. Effort was stepped up, especially in September and October. The territorial RF and PF were ordered out on operations, especially at night. They were replaced in guard duty on bridges, village offices, and other installations by the People's Self-Defense Force. The National Police began the difficult task of taking over the Phoenix program.

Despite exhortations from COSVN, enemy activity did not disrupt the process. The number of terrorist incidents has gradually declined for seven consecutive months since the peak in April. The November total of civilian terrorism casualties (killed, wounded, and abducted) hit a low for the year and the overall civilian terrorism casualties are now running slightly behind last year's figures despite the higher level of incidents.

Mention should be made in this context of the prompt and effective reaction to the recent floods in Central Viet-Nam. Vietnamese led the way with Americans far in the background providing mainly logistics support. Unfortunately, the floods may set back normal refugee operations from three to six months. But the GVN has again demonstrated the ability to organize and carry out a major effort.

The "new optimists" in Viet-Nam thus have a basis for optimism. But most of the optimists work either in MR 3 or 4, where the main roads are now open until midnight and where the last VC strongholds (Kien Hoa and An Xuyen provinces) have recently been the scene of successful pacification activity. Some optimists work in MR 1, which is experiencing a 1969-style expansion of pacification despite the late October-early November floods. In MR 2, however, there are some "new pessimists," Vietnamese as well as American. In several provinces there, such as Binh Dinh, Phu Yen, and Tuyen Duc, the VC have mounted campaigns of terrorism and abduction that

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have had real impact on the population. Such problem programs as Phoenix, People's Information, and Refugees are particularly troublesome in MR 2. The new MR Commander, Major General Dzu, is a great improvement over his predecessor and is working to correct deficiencies, but has many problems ahead.

The related all-important question of how many people actually will support the GVN is frequently debated, especially in MRs 1 and 2 where the Central Vietnamese have traditionally been dubious of promises from faraway Saigon. The HES shows only what percentage of the population is protected or significantly influenced by the GVN. For questions about support and confidence, the Pacification Attitude Analysis System (PAAS) offers an initial indicator. In it, several trends have been noticeable. A gradually increasing number of people rate the GVN as having "high quality and ability" (up from 44 percent in January to 61 percent in November) while a gradually decreasing number of people rate it "low quality and ability" (down from 20 percent in January to 14 percent in November). Another trend was that more Vietnamese believe the GVN will win the war (up from 36 percent in January to 45 percent in November) while fewer Vietnamese believe that the GVN will not win (down from 32 percent in January to 22 percent in November). A former VC in MR 4 recently said, "The people no longer believe the communists will be victorious." Similar reports from the other three regions state that more and more people will not cooperate with the VC and want to live in GVN areas. This could simply be a desire to live in the safest area. However, these trends suggest less willing support for the VC and perhaps more acceptance of the GVN.

The rate at which titles were issued in the Land-to-the-Tiller program rose from 5,000 in October to 15,000 in November and Vietnamese officials expect it to reach 30,000 in December and then level off. President Thieu continues to give the program strong support and has personally distributed over 2,000 titles to farmers.

Communist propaganda against the law has increased. It appears to have been ineffective and acceptance of the program is good. In a recent survey in MR 4, where 80 percent of the riceland subject to the law is located, almost 90 percent of the people indicated they believe the law benefits the tenant. The same survey showed that in the entire country only eight percent had heard of any attempts by landlords to evict tenants. In some areas, misunderstanding of the rent remission provision needs to be corrected, but on the whole confidence in the government's intent to implement the program fairly is clearly demonstrated in the Delta.

Compensation to landlords began in a widely publicized ceremony on December 5 in Go Cong Province (MR 4). The initiation of payments fulfills the last precondition for the release of United States funds through the Commercial Import Program for the support of Land Reform.

On November 9, the Prime Minister signed the Montagnard hamlet land decree which provides for defining the boundary of the principal living area of

each Montagnard hamlet, including areas of permanent or shifting cultivation. Work on the implementation plan has begun. The importance of this program in the Highlands, where cultivation of communal lands has been traditional, rivals that of Land-to-the-Tiller in the Delta in terms of building support and winning allegiance to the government.

Among the encouraging recent developments have been:

- (a) the increasing competence of the Vietnamese Armed Forces, the excellence of their performance, and their willingness to assume greater responsibility for operations in both South Viet-Nam and Cambodia;
- (b) the willingness of the GVN to face up to its economic problems and its courage in taking the action needed to cope with them; and
  - (c) acceleration of the Land-to-the-Tiller program.

Pacification has continued to make progress, although soft spots are still apparent in II Corps. The designation of the program as the Community Defense and Local Development Plan is welcome as more descriptive of the program; the term "pacification" is no longer applicable or desirable.

It is clear, I think, that as the military threat recedes, the content will become increasingly a political one. The need on the part of the government to adopt measures and take action which will unify national elements in its support will become increasingly urgent. This will come into more pronounced focus as preparations for the presidential campaign gain momentum in the post-Tet period of 1971. The effort also to bring some cohesion among the political parties will be an important factor; the ability, or lack of it, to do so in a close election could prove a critical factor in the outcome.

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR HABIB

HEREWITH MY NINETY-FIRST MESSAGE, JANUARY 30, 1971 The changes in Viet-Nam in the past year have been greater than we anticipated, principally because of the developments in Cambodia. At home your policies effectively raised the war as an issue, eliminating a key element in enemy strategy. The nature of the war changed as circumstances forced the enemy to shift to a strategy of protracted conflict. The overthrow of Sihanouk and our subsequent cross-border operations gave an exceptionally beneficial impetus to both Vietnamization and pacification in South Viet-Nam. Whether these advantages will persist through 1971 will depend in large measure on how well the Cambodians, with Vietnamese and American help, cope with the communist threat, especially during the current dry season.

In Viet-Nam the government responded well to the new situation. Its armed forces became increasingly effective. Its impressive performance in improving internal security made possible the consolidation of earlier pacification gains. Measures such as the Land-to-the-Tiller program and economic reforms demonstrated the government's commitment to improve and defend the people's standard of living. If the GVN succeeds in these and related efforts to bring prosperity to more of its people, it should increasingly be able to count on that loyalty and support so essential in the upcoming political struggle.

Each year in Viet-Nam is critical. This year is no exception. Negotiations prospects are not good, and the war 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.

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 the Constitution was adopted in 1967.

In this message, my first of 1971, I propose to discuss how we met the challenges of 1970, how certain watershed events last year radically altered the environment in which we now find ourselves, and, finally, what we may look forward to in the months ahead.

1970, the first full year of Vietnamization and implementation of the Nixon Doctrine in Southeast Asia, saw an increase in confidence on the part of the GVN, RVNAF, and the people of South Viet-Nam as the favorable effects of the Cambodian operations were felt, the tempo of war declined, U.S. troop redeployments continued, and pacification gains were consolidated and further extended.

The Vietnamese have seen that the relatively rapid withdrawal of our troops has brought no military defeats, but rather improved performance by their own forces. The early apprehension has now given place to a sense of satisfaction that 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.

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 units to Cambodia and Laos and the reduced effectiveness of those remaining within South Viet-Nam has made it possible to accelerate Vietnamization and pacification.

RVNAF performance surpassed all expectations during the Cambodian operations of May and June. Their continuing operations in Cambodia have demonstrated that they can mount sophisticated tactical campaigns without U.S. advisers or close support. At present RVNAF are not only effectively engaging communist forces inside South Viet-Nam, but have a significant capability to go after the enemy in Cambodia as well.

It seems probable that in 1971, the level of fighting in South Viet-Nam will remain at least as low as in the last half of 1970. It may scale down even further if the enemy force level continues to diminish and if the enemy retreats from areas cleaned out by planned ARVN sweep campaigns. In Laos and Cambodia, the enemy may be expected to continue 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.

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 of a stable, non-communist GVN base in the countryside.

1970 also saw notable economic developments. Production was at a high level throughout the economy with rice the outstanding example. At least 5.6 million tons, an all-time record, will be harvested. Industrial output and the volume of trade between the urban and rural areas also continued to rise. Security has been the decisive factor. Released from the many restrictions and inhibitions of war, economic activity picks up more or less of its own accord. Stabilization remained a preoccupying problem during all of 1970, but I believe we have reached a decisive turning point. What seems to have happened is that the economic measures taken during 1969—essentially the austerity measures of October-were inadequate to bring the situation under control and prices continued to rise steeply in 1970. This was because the Vietnamese public, having endured five years of continuous inflation, was behaving the way people always do when they 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.

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.

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

President Thieu continues to prove himself an able administrator and politician, prudent in decisions but bold enough to take necessary actions. He managed to achieve necessary economic reform measures without provoking a quarrel with the legislative branch or public outcry. His Cabinet, which lasted the year without change, functioned unevenly but on balance turned in the best performance of any GVN Cabinet since the 1967 Constitution.

The National Assembly ground out the legislation the country needed although the lower house continues to be much less impressive than the Senate. Half of the Senate were up for election in August. Most Vietnamese accepted the fact that the elections were fair, the most notable evidence being the first place standing of a moderate opposition slate supported by the An Quang Buddhists. The decision of An Quang to participate in the election was a hopeful sign that they may play a more constructive role.

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.

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.

Thieu 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 and elected provincial and municipal councilmen as among the main props in his election strategy. He reportedly will give his support to the lower house candidacy of elected council members in return for their support of his Presidential candidacy. He has instructed that funds be raised to being the organization of paid cadres in March. Thieu is counting on support from a fairly wide spectrum of the population—the military and civil servants, organized labor and its related Farmer-Worker Party, the Catholics and segments of the Hoa Hao and Cao Dai, and minority groups. Among the latter, the Montagnards will probably back him and could provide him with what might prove an important swing vote. He hopes for support from the Khmer and Chinese as well. He can probably count on the backing also of a few political parties—the Revolutionary Dai Viets, the two Catholic parties, and the VNQDD. Thieu will also have the support of Colonel Nguyen Be, Director of the National Training Center at Vung Tau, whose influence with the large number of cadre of all kinds trained at the Center could prove an important factor.

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 oppose him and this silence will be interpreted as implicit backing by

many of the Buddhist faithful who will support Minh if only because he opposes the present government.

Vice President Ky at present is an unknown quantity. He has little support and could do little more than engage in a spoiling operation against Thieu. I believe it is likely that he will decide to withdraw. If he does, he may run again with Thieu, although I believe Thieu's preference would be for a southern Buddhist civilian. Recently, there have been indications that Minh might want Ky on his ticket.

At the moment, Thieu is the front runner. Should Ky keep out of the race, Thieu's position will be strengthened. But any deterioration of the economy, especially a sharp rise in prices, prolonged outbursts of domestic unrest, or military reverses, would obviously be disadvantageous to Thieu. None of these appear likely at the moment. There is also nothing now on the horizon which leads us to believe the election 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.

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.

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.

An Quang's decision to engage its prestige in support of the Mau Senate list last year signalled a significant step toward its participation in government as a responsible opposition within the constitutional framework, but this political participation is not irreversible. Should it appear that the elections would be, or were, blatantly dishonest, An Quang would probably turn to more militant alternative strategies in hope of achieving power and influence.

The student dissent, which started in March 1970 with the arrest of 40 students, including the acting chairman of the Saigon Students' Union, generated an atmosphere of unrest in the country and exploited a variety of issues. Serious economic problems plaguing urban residents and veterans' demands for increased benefits helped fan the flames of student unrest. Naturally, the communists attempted to exploit this dissension.

The government has dealt with student unrest by using a 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.

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 only exceptions to this policy were a countrywide high-point of activity around April, a division-sized attack against Special Forces camps in the Central Highlands in April, and an unsuccessful effort in the northern provinces of MR 1 to drive into the populated lowlands. There he was driven back with heavy casualties. Enemy failure to get the popular support he expected or effective assistance from VC local forces is an indication of the progress of the pacification program. Most of the action since August has come as a result of ARVN initiative in conducting sweeps into enemy base areas largely in Military Regions 1 and 4. Enemy initiatives consisted largely of uncoordinated, small-scale attacks conducted mainly by local and guerilla forces. The Regional Forces bear the brunt of this kind of fighting and are steadily improving.

Since my December message, the enemy has been attempting to improve the combat readiness and logistical posture of his available forces. His strength in South Viet-Nam has been declining steadily as losses and diversions 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.

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.

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 captured to lost reached a new high of 24.4 to 1 for October and November. This ratio has also shown an upward trend for the past two years. Enemy losses (not including died of wounds) were 103,648 during 1970. In this same period, RVNAF lost approximately 19,057, almost five times our casualties, which were 4,225 or less than half our losses in 1969.

RVNAF continues to assume a greater share of the total war effort with the expansion of combat and combat support capabilities and a rounding out of administrative and logistical support. Leadership has shown improvement, but continues to be a problem, particularly among junior and noncommissioned officers. Specialized leadership courses at division training centers and

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the increased number of small unit operations are serving to correct this problem. Progress also continued in the development of the RVNAF force structure.

Naval activity continued to focus on interdiction of enemy infiltration into MR 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.

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.

The 1970 Pacification and Development Plan was an improved version of the 1969 plan. During the first few months of 1970, however, much of the GVN administration coasted. This was caused in part by a diversion of the national leadership's attention from the total 1969 effort to the problems of Cambodia, the economy, and student and veteran unrest in Saigon. The enemy generated some pressure, with March and April marked by a countrywide surge of terrorism. This was the high point of terrorism during the year. However, as the impact of the Cambodian operations began to be felt by the enemy, and the government's revived attention to pacification stirred the Vietnamese machinery into action, terrorism began to decline.

President Thieu called for a special pacification and development program from July through October. This coincided with the period of maximum impact of our cross-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.

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 effective Phoenix program, a continued program of political development at the community level and extensive efforts at local economic and social development throughout the country. Im-

plementation of this plan will begin on March 1 after the Lunar New Year lull. President Thieu is obviously resolved to press the plan as part of his program of demonstrating the increased security, stability and prosperity his administration has brought to Viet-Nam.

On the statistical side, HES ABC moved from 87.9 percent in January 1970 to a new high of 95.1 percent at end-December 1970. More significantly, the number of AB hamlets moved from 69.5 percent to 84.6 percent. Pacification, like golf, becomes more difficult to improve the better it gets, and consequently the rate of progress was less than that of 1969. By end-December, however, HES estimates conceded VC control of only 103 hamlets and a total of 37,800 population, or 0.2 percent of the national total. This makes a sharp contrast 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.

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 countrywide 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 enable 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 proselytizing activities or subversions.

Terrorism during 1970 started low, surged in March and April, and steadily declined thereafter. Despite the GVN goal of reducing the total number of terrorist incidents by 50 percent during the year, the total year showed an actual 10 percent increase in incidents, reflecting the directives contained in COSVN Resolutions 9 and 14. The Phoenix program produced a total of approximately 22,357 VCI sentenced, rallied or killed, slightly above its original goal of 21,600, and a substantial accomplishment in view of the more stringent standards set during 1970 for this effort. Weaknesses persist in some of the details of the Phoenix program and in the legal and prison procedures for those apprehended. Initial steps have been taken to improve them, but there is still more to do. Sir Robert Thompson and his colleagues should provide valuable assistance in this respect.

The 1970 Chieu Hoi total was 32,661 which is rather remarkable when one considers that there was little new territory to enter.

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.

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 capable of taking advantage of GVN shortcomings or exploiting targets of opportunity that may develop.
- b. The enemy buildup in southern Laos could result in the resumption of main force efforts in Cambodia or in South Viet-Nam. Pacification must be protected against such depredations by releasing main forces from local security responsibilities. This requires increasing the effectiveness of territorial forces and the PSDF. The latter must also be upgraded to the maximum in order to free regular ARVN troops to replace the U.S. forces redeploying.
- c. Political problems may affect the momentum of pacification. Some of these can be expected to arise during the national Presidential campaign, as leadership attention is diverted. The many real social and economic problems of Viet-Nam must be the subject of a continuing serious GVN effort failing which the problems and resulting unrest can disrupt growth in political, economic and security strength.

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.

By the end of 1970, we had a number of positive indications that confidence had been restored. These included relative price stability, rise in savings and time deposits, increase in advance deposits by importers for new licenses and decline in the black market rate of the green dollar. But there are still many economic problems to deal with. The military budget continues to rise. Land reform requires a substantial expenditure for landlord compensation. 1971 is an election years and this means we have to anticipate difficulty in holding budget limits in line for all these things. Vietnamese voters, like voters everywhere, want schools, hospitals, roads and the like. In 1971 the GVN will also have to do more for its soldiers and civil servants. This is so far unbudgeted but seems almost certain.

When I saw President Thieu on January 23, I said that the economic measures taken in the fall had worked remarkably well, but to maintain economic stability additional measures will be needed if sharp increases in prices next summer are to be 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 imports—particularly sugar; and
  - f. Higher fees for administrative services provided by the government.

In addition, I told him there was an urgent need to simplify the tariff schedule in order to improve customs collections, and to inaugurate a major savings bond campaign. These could be implemented in the spring if the government would make the decision to do so. I said that we hoped the rice price adjustment, which had been postponed, would be made in March. Finally, I pointed out, stability in the price structure was probably one of the best political moves the administration could make. It was especially important in the election year. Thieu agreed and I am hopeful he will be prompted to give the needed support to the new measures after Tet.

In addition to the various general reform measures adopted in 1970, the GVN also made notable progress in a number of vital economic areas. National tax revenue increased in 1970 by VN\$10 billion, representing a 37 percent increase over 1969 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.

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.

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 Telecommunications have allowed us to phase out most of our maintenance support.

Since 1967 most of our effort in crop development has been dominated by rice. At year's end the country had on hand sufficient rice in the surplus areas to supply its requirements, although some U.S. rice may still be needed in 1971 because of lack of transportation and marketing arrangements for moving rice from the surplus to the deficit areas. But some crop diversification is necessary. Production of feed grains will be the first major attempt; vegetable production is increasing; other crops such as fruits and sugar cane are good possibilities.

On the land reform front, training of officials and design of an automated ownership records system were completed in October and the rate of application filing and title issuance accelerated rapidly during the last two months of the year. By the end of 1970, almost 75,000 applications had been approved 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.

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 exploration 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 considering making concession offers for offshore drilling.

The first significant multilateral assistance loans to Viet-Nam will be made by the Asian Development Bank, which approved in 1970 a US\$2.5 million loan for investment in the fishing industry. Funds will be specifically earmarked for motorization of the country's fishing fleet and for providing ice-making and cold storage facilities. One of the most promising activities offering possibilities for extensive foreign exchange earning, the fishing industry is attracting much foreign and domestic interest.

Lumber production in 1970 increased ten percent over 1969. More than 500 sawmills were operating in Viet-Nam at the end of 1970, an average of eight new mills having been built each month as more timberlands were opened for logging. In 1967 the GVN collected approximately VN\$120 million from concession fees; for 1970 this figure is expected to reach over VN \$700 million.

Since the establishment of the parallel market exchange rate the rubber industry appears to be reviving, with several plantations planning increased production in 1971, and rubber should again become a primary source of foreign exchange earnings for the GVN.

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 Viet-

namese 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.

While decreased American presence appeals to the national pride of the GVN and the public, the reduction of U.S. military support probably will lead to increased public criticism of U.S. policies in Viet-Nam. The national election campaign this summer may see some rise in parochial anti-Americanism as the natural concomitant of increasing self-confidence and more overt manifestation of nationalism.

If trends from recent surveys continue, it can be expected that there will be continuing public concern in 1971 with economic issues. The continuing success of the economic reform measures and a visible move against corruption would be major factors in tempering this concern and improving confidence in the GVN.

At this juncture, I think it useful to comment briefly on how the trends and events I have discussed might appear to the enemy.

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.

In recent years, there has been a persistent tendency of Communist leaders to overestimate the military effectiveness of their units against either regular or territorial ARVN forces and to grossly underestimate losses they will suffer in the field. This rigidity probably results from their own doctrinaire convictions and also from past successes against the French and South Vietnamese in the 1950s and early 1960s. While this attitude accounts for their stubbornness, it also causes them to plan unrealistically whether they pursue main force tactics against large units or local force tactics against ARVN territorial forces.

Measured at an annual rate, enemy losses in 1970 were far higher than the level of replacements sent south. The infiltration level for 1970, a figure probably determined in Hanoi in late 1969 and presumably intended to cover

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most anticipated losses, was barely 50,000. The disparity between loss rates and replacements may mean that the enemy was 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.

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 and unrest, inflation, student dissatisfaction, war weariness and corruption. This last is perhaps the most pernicious problem. I take every opportunity, as do my colleagues, to urge the GVN to eliminate it wherever it is found for it is a cancer which will, unless checked, sap the strength of the society. While corruption is pervasive, even traditional in all the societies of Southeast Asia, it must be checked if Viet-Nam is to become a viable and healthy body politic.

In looking back over the perspective of a year, it is clear, I think, that 1970 has seen some notable achievements:

- —There has been a dramatic improvement in the performance and confidence of RVNAF, the result of the patient and intelligent work of General Abrams and his command.
- —There has been steady progress in expanding security in the countryside, with a consequent growth in economic 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.

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 their hamlets at night. The infrastructure still remains a formidable threat. Economic problems are the primary concern of many. The military, civil service and those on fixed incomes have not yet caught up with inflation. The longer the war lasts, the more people are concerned to see it ended. While constitutional government has been strengthened, the formation of po-

litical parties is fragmented and they lack effectiveness. Adequate planning is yet to be done to cope with the problems of our further redeployment, [and] economic development planning is weak.

In 1971, we shall see tested the soundness of our basic Viet-Nam strategy, the stability of the Vietnamese political system, and the durability of our gains in community defense and local development. The ultimate test, I think, will be whether a western-type democratic constitution grafted on a traditionally family-oriented, authoritarian heritage can meet 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.

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR BRUCE

HEREWITH MY NINETY-SECOND MESSAGE, MARCH 30, 1971 The South Vietnamese celebrated Tet this year in a notably more peaceful and hopeful atmosphere. Marks of a new spirit were perceptible in the dispatch and sense of purpose with which the country went back to work. Major attention then turned to the cross-border operations into Laos and Cambodia. Although aware of heavy casualties suffered by their forces, the Vietnamese generally view the Laos operation as having achieved its major objectives in the disruption and destruction of the enemy's supply system and in having inflicted far heavier casualties on the enemy than ARVN has sustained. They have viewed with pride the performance of their troops against a determined and tough enemy who outnumbered them.

As the second quarter of 1971 approaches, the Government of Viet-Nam is pressing its advantages rather than resting on its achievements. It has taken initiatives to reduce the enemy threat and place the economy on firmer ground. It has launched its new program of internal security with emphasis on economic and social development. It has undertaken these tasks with a new sense of confidence and determination.

The performance to date is the more notable in that it is taking place under the basically de-stabilizing effects of progressive allied redeployment, the uncertainties of enemy reaction to the operations in Laos and Cambodia and the approaching contest for political leadership in October. Of major importance under these circumstances were the reassurances of continued support which the Vietnamese were able to draw from your statements on foreign policy and your press conference early this month.

The thrust against the Ho Chi Minh Trail in the Panhandle of Southern Laos has been the focus of GVN efforts as well as of public attention since it was launched on February 8. From the beginning, there has been close cooperation between President Thieu and General Vien on the one hand and General Abrams and myself on the other. Ensuring close coordination between our air support and ARVN ground operations has been especially important; indeed I think our air support has been a decisive factor in achieving most of what we had hoped for. One must, at the same time, pay tribute to the performance of the ARVN troops against a determined and stubborn enemy. The enemy understood that we were after his jugular; the network represents his lifeline to the south. Without it he is finished. He was bound

to react. He threw in almost all his readily available reserves, heavy artillery and tanks. In what proved to be a bloody battle involving some of the hardest fighting of the war, ARVN inflicted far heavier casualties on the enemy than they themselves sustained. Of eleven regiments committed by the enemy, nine are estimated to have been badly hurt, sixteen out of thirty-three maneuver battalions to have been lost. Enemy casualties of 13,459 include 3,500 in his rear services.

The Lao incursion has had the effect of diverting attention from the large and important complementary offensive mounted from MR 3 into the enemy bases in the general area of the Chup Plantation in eastern Cambodia. Despite the untimely death of the operation's commander, Lt. Gen. Do Cao Tri, the offensive is being carried forward under Lt. Gen. Nguyen Van Minh's able command after a pause for re-fitting in the middle of March. As in the case of Lam Son 719, the enemy, again sensing the threat to his vital resources, reacted vigorously, putting up stiff resistance in an attempt to buy time for relocating and dispersing his supplies. The attempt here also was costly to him in terms of manpower, leading him recently to shift to economy of force tactics. I think these also have been forced by a shortage of his supplies caused by operations in Lam Son 719.

The full consequences of these cross-border campaigns will not become clearly evident for several months. However, some significant indicators can be cited at this early date.

- —Many of the enemy units which were formerly threatening MR1 or harassing MR3 have been engaged by RVNAF in Laos and Cambodia.
- —The enemy's crash effort to get men and materiel into position to support offensives in MR1 and 2 and Cambodia has been disrupted and his resources diverted to defensive operations to protect his supply corridor.
- —The loss of the enemy's rear service personnel will affect his capabilities to move supplies through the Laos Panhandle.
- —Lam Son 719 has relieved pressure on Cambodia and has caused the enemy to divert supplies intended for southern Indo-China to the defense of his LOC.
- —By seizing the initiative in Laos and Cambodia, RVNAF has preempted enemy plans for a winter/spring campaign.
- —Disruption of enemy logistical activities and erosion of his combat strength will affect his future capabilities to conduct offensive operations in Cambodia and Viet-Nam, give additional time for the development of FANK forces and permit continued U.S. deployment.

Meanwhile within South Viet-Nam, ARVN has continued successfully to press its campaign against the long-held enemy stronghold in the U Minh Forest of the western Delta. The enemy has suffered heavy losses (over 2,000 killed and 3,000 detained) and more than 2,000 Chieu Hoi have come over to the GVN. Elsewhere in South Viet-Nam, the enemy has been unwilling or unable to undertake notable diversionary actions. Vigorous preemptive action taken by the territorial forces (RF and PF) and the police further reduced the

enemy capability within the country. Indeed I think it is fair to say that without the great improvement in the territorial forces which has taken place within the last year and their growing effectiveness, the operations in Laos and Cambodia would not have been possible.

Although prices had been remarkably stable since early July (our Saigon price index showed only a one percent increase in the eight months ending March 1), the monetary outlook for mid and late-1971 was not altogether reassuring. Costs of the land reform program, payments to veterans, and the maintenance costs of the military establishment were bound to continue upward. Our estimates indicated that the money supply would begin to rise rapidly again during the summer unless some preventive action was taken.

We, therefore, began discussing further stabilization measures with the GVN as early as December. The package agreed to as a result of these discussions was put into effect on March 6 and should have a net stabilizing effect. Although some rise in prices can be expected (the Saigon index advanced about two percent the first few days after the announcement but has since declined with the result that there has been virtually no increase since July 1, 1970), we anticipate the measures will help to hold the increase in money supply to less than 10 percent in the remaining months of 1971.

The new measures, which were designed to complement the economic reforms of last October, consisted of: (a) monetary measures, including the sale of treasury bills at attractive interest rates to sop up savings and help finance the budget deficit; (b) increased taxes on imported sugar and wheat flour to produce revenue and which should also serve to stimulate local sugar production; (c) a rise in the price of imported rice to the level of the domestic product and removal of the elaborate rationing system in Central Viet-Nam setting the stage for a self-sufficient free market; (d) application of the 275 piaster-per-dollar exchange rate to freight and insurance on all imports except petroleum products and those financed by AID; and (e) termination of subsidized credit to state-owned companies which will now have to go to the commercial banks for their credit needs.

At the same time and as a step to offset the price-raising effects of the measures, cost of living allowances for military and government civil personnel were raised by about four percent. Earlier President Thieu had taken steps to exempt the same people from income taxes. However, neither of these relief measures is sufficient to have a significant impact on the persistent problem of lagging purchasing power in this sector of the population.

Of course, there was vocal adverse reaction to the measures, especially in oppositionist political and press quarters. Councilmen paraded in undershirts to protest the price rises; senators repeated their demand for the scalp of Economy Minister Ngoc. Again the pinch was felt acutely in Central Viet-Nam and much effort is now being devoted to find the means of alleviating the problem there, where political sensitivity has a special dimension. But on the whole and despite widespread misunderstanding or deliberate misrepresentation of the economic fine points involved, the people appear once

again to have taken the bitter medicine in stride.

I believe the measures just put into effect will be the last serious economic reform possible until after the fall elections. Therefore, we are turning our attention now to the post-election period. By early 1972, the Vietnamese economy should have behind it some 18 months of price stability, together with achievements such as restoration of self-sufficiency in rice. This, along with the hoped-for further improvement in the security situation, should set the stage for a general return to freedom in the economy marked by abolition of the great mass of controls which inhibit private sector investment, both domestic and foreign. A restructuring of tariff and exchange rates to encourage the right kind of investment is a critical element. At the same time, a major increase in certain types of domestic tax revenue can be achieved. allocating economic burdens more fairly and making possible a good-sized increase in GVN salaries. This in turn should make it possible for the government to take more rigorous steps to restore discipline to its services and begin to cut down on corruption. The outcome of all this we visualize as an economy in better condition to sustain sound and steady growth.

On his visit here Ambassador Kennedy gave us a welcome boost in this direction by serving notice very effectively on GVN officials that economic reform in Viet-Nam is essential if Congressional support is to be maintained for continued U.S. economic assistance.

The Land-to-the-Tiller program is well underway. In fact, despite the vast amount of organization and training necessary to begin the actual process of land distribution, the goals set for the first year were exceeded by March 26, the anniversary of the law's promulgation. At the ceremonies at Long Xuyen, it was reported that 162,341 farmers were granted 210,371 hectares compared to a goal of 200,000 hectares. This is really a remarkable achievement. The Ministry of Agriculture is confident that it will reach the goal of an additional 400,000 hectares in the second year of the program. Thus the goal of distributing 1,000,000 hectares within a three year period should be reachable.

The GVN administrative structure is coping well with the tremendous volume of tiller applications. Particularly impressive is performance at the village level where the main burden of land reform work is carried by newly hired Land Registrars or Rural Development cadre on special detail. Village Land Distribution committees, chaired by the village chiefs, are carrying out their duties with dispatch.

To mark the first anniversary of the Land-to-the-Tiller law, celebrations were held throughout the country on March 26. President Thieu, accompanied by all the members of the Cabinet, members of the Assembly, and the Diplomatic Corps, presided over an impressive ceremony held in Long Xuyen in An Giang Province. Some 20,000 people were in attendance. Land titles were presented to farmers, checks to land holders, awards for excellence went to outstanding farmers, and speeches were mercifully short. After the ceremonies, the President visited the agricultural exhibition and spent two hours visiting the exhibits. The exhibit was impressive in its arrangements

and the variety of its displays showing all aspects of cultivation and production of crops, the raising of livestock, and the development of fisheries in the Delta provinces.

Reaction to the news, and then to the broader consequences, of the Laos operation has been the dominant feature of the political scene since early February. Although the thrust into the Ho Chi Minh Trail complex had long been rumored, announcement of the campaign set off a flush of excitement and euphoria. People began asking themselves, if ARVN could attack the enemy in Cambodia and then in Laos, what was to prevent it from pushing on into North Viet-Nam proper and getting the war over with.

These heady visions were then chilled by fragmentary and incomplete reports from the front giving the impression that ARVN was suffering heavy casualties and that the operation was in trouble. Inevitably, questions were asked as to how adequately we were supporting the operation. Voices were raised in concern and criticism including those of former Prime Minister Tran Van Huong and Vice President Nguyen Cao Ky; both later in effect retracted their charges.

Early in March better briefings by GVN spokesmen and other evidence of progress brought the public concept of the operation into better perspective. While still soberly concerned, the Vietnamese people gave the campaign steady approval, derived deep satisfaction from seeing the fighting pushed beyond the country's borders and took pride in the feat of Vietnamese arms. The visit to Hanoi of Chou En-Lai and the threat of Chinese intervention caused much speculation but no flinching in the general support for the operation. Some extremists among the students and militant opposition circles protested the "widening of the war," but no criticism came from An Quang or other quarters of the more responsible opposition.

Your demonstration of firm U.S. support constituted an essential element in the steadiness of local reaction. Most Vietnamese sensed that the hour was critical and drew reassurance from your timely statements on foreign policy to the Congress and your remarks on Viet-Nam in your press conference. Vietnamese especially singled out your comments on the subject of attacking North Viet-Nam and related them to statements on the same theme by President Thieu. Even those who did not advocate a direct move against the North (many others do) warmly approved of the uncertainty and psychological pressure these statements represented for Hanoi.

The enemy's reactions in fact appeared to reflect genuine doubt and concern. Certainly one of the major reasons for Chou En-Lai's visit to Hanoi was to help deter the feared attack on the North. In invoking Chou's warning against further U.S.-backed "aggression," Hanoi also sought to provide reassurances to its own forces—particularly those hard-pressed in the South. Anxiety concerning the latter point seems reflected in North Viet-Nam's intensive efforts to paint a picture of enemy victory and allied defeat in the Panhandle, including its strident denials that Tchepone was overrun.

While recent developments have served to highlight China's role as the "great rear area" for the communists' struggle in Indo-China and probably have resulted in some increase in Peking's influence in Hanoi, South Vietnamese estimates agreed with our own that the North Vietnamese would not move in the Chicoms' direction any more than was clearly required by exigencies on the ground.

We have now approached another sensitive juncture in terms of public confidence as the South Vietnamese withdraw their forces from Laos. The enemy is doing everything within his power to make this look like a defeat for the RVNAF, and a combination of his propaganda, of news-seeking press coverage by the wire services and of any jumpy nerves on our side could produce a psychological setback. We propose to do all we can in cooperation with the GVN to help guard against this eventuality.

Internally, preoccupation with the cross-border military operations and the recent economic measures diverted attention from the coming lower house and Presidential elections. With respect to the latter, the Senate finally acted on the bill to govern the election, throwing out the controversial provision requiring presidential candidates to have the endorsement of 40 members of the National Assembly or 100 provincial councillors. That puts the ball back in the lower house, where it seems unlikely supporters will muster the two-thirds majority needed to override the Senate version of the bill.

The Senate's action probably reflects, among other considerations, a growing feeling in political circles that the problem is not a likely plethora of candidates as in 1967, but rather an embarrassing shortage. For one thing, the candidacy of Thieu's chief prospective challenger, Big Minh, has become less certain in recent weeks. Minh's determination seems to be wavering and he has recently made it clear that he does not consider himself committed to run.

Vice President Ky's status as a possible candidate, either for President or again as a running mate, also remains unclear. He has continued to make a number of moves in various directions—mostly tending to put distance between himself and Thieu; but he is carefully keeping open all conceivable options.

The last several months have seen some increase in manifestations of anti-American sentiment in the form of verbal assaults in the press, street demonstrations and physical attacks on American vehicles and installations, none, fortunately, so far involving any serious injuries to Americans. These outbursts have usually been an outgrowth of such provocations as shooting incidents in which Vietnamese civilians were killed or injured by Americans, or excessive criticism of the Vietnamese in the American press. Some are the product of opportunistic politicians and the work of hoodlums. But also perceptible is a sense of irritation that may find wider expression in the coming months. The more irresponsible opposition elements, including, of course, the communists, are attempting to capitalize on what anti-American sentiment exists and to incite further resentment.

The Vietnamese Government shares our concern over the danger of allowing these protests to spiral and agrees that every effort should be made to settle incidents promptly at the local level. To this end we are revitalizing our community relations program and more command emphasis has been given to preventive measures. We should not be surprised to see some rise in anti-Americanism as the election campaigns heat up and the enemy devotes greater attention to the political struggle, but I believe that with the support of the Vietnamese authorities we shall be able to keep the situation in hand.

A new atmosphere of getting on with the job was evident in the early termination of the usual Tet doldrums and energetic launching of the 1971 Community Defense and Local Development Plan on March 1. In meetings with Military Region Commanders and Province Chiefs, President Thieu committed his continuing personal leadership and command emphasis to the execution of the plan. He stressed particularly the importance of developing true security at the local level, with special attention to the Viet Cong infrastructure and to strengthening the People's Self-Defense Force. He again emphasized the importance of achieving effective and responsive local government by training officials and conducting elections in every community. He called for a major effort to improve the National Police, to carry out the Land-to-the-Tiller program, and to better the lives of the population through such programs as extending hamlet schools to all communities. It is on the solid local base produced by these programs in the villages and hamlets that he said the ARVN can drive the invader away from the country and produce long-term security without the assistance of the U.S.

As RVNAF operations got underway in Laos, [seven words excised] nationwide crackdown on the Viet Cong infrastructure in South Viet-Nam in an attempt to insure against any significant enemy diversionary activity. During the peak period of the campaign, February 8 to 26, over 2,200 VCI were rounded up, including a respectable number of senior cadre. As a consequence of this and other stringencies, the enemy's activities within the country were limited to a relatively moderate "high point" of terrorist and military incidents after Tet. This nevertheless resulted in a decline in the February Hamlet Evaluation System (HES). The February results showed decreases in both AB and ABC population (down 1.1 percent and 0.6 percent from January to 72.8 percent and 93.8 percent respectively). This is the first time in 10 months that the AB and ABC scores have declined. The new levels, of course, reflect the more severe HES standards adopted for 1971, giving more weight to VCI and terrorist activity. Dinh Linh Province, which has been struggling with an impacted VC presence for some time, was particularly hard hit. In MR4, the enemy commenced a program of attacking small outposts and People's Self-Defense Force units. So far he has succeeded in about 30 instances this year, compared to only eight at this time last year. In some cases he has been helped by VC previously inserted into local forces. The GVN is now giving greater attention to weeding out such penetrations, but few results are yet discernible.

At the same time, the GVN is developing throughout much of the country its own campaign of "high points." This stems from a successful experiment in one province in which all local security forces were given assignments for a concentrated two-or-three-day effort including simultaneous small unit attacks on a variety of local VC and VCI targets. The technique has now been adopted in MR3 and MR4 and in several of the individual provinces of MR2. The results have been spotty but it reflects the new offensive spirit manifested not only in Laos and Cambodia but also within the country itself.

Evidence of President Thieu's intention to continue the momentum of the domestic security program was his appointment of one of his best major generals as the Director-General of the National Police. The National Police continued to expand as the result of new provisions permitting local recruitment and now stands at 108,158. In addition, Sir Robert Thompson and a most impressive team of experienced British police officials are studying the overall force structure of the National Police and will soon be providing their recommendations. Their visit has been welcome and they have been given every facility by the Vietnamese authorities.

Despite the many other demands of the war, it is encouraging that progress is being made in the construction of housing for disabled veterans. Although the program was started by President Thieu only last fall, it is already underway in 36 provinces. A basic set of blueprints is being used throughout the country and I understand the design and quality of the construction are eminently suitable. A total of 9,755 units are to be built under the present program and this should help alleviate the political and social problem represented by discharged invalid soldiers.

The major focus of attention since early February has clearly been on the operations in Cambodia and Laos, more especially on Lam Son 719. At the same time, the GVN has moved ahead with energy in other areas:

- —It has inaugurated a new set of economic reforms which have provided firmer control over inflationary pressures.
- —It has accelerated distribution of titles and payments to landlords under the Land-to-the-Tiller program.
- —Thieu has given top priority to development and improvement of the National Police and the attack on the infrastructure. The appointment of Major General Phong as Director-General of the National Police is an indication of the importance he attaches to its improvement.

The most regrettable development during this period has been the nature of the reporting of the Lam Son 719 operation by the wire services. They have been reporting bits and pieces, interviews with helicopter pilots and men involved in heavy combat, and have failed to give any broad perspective of the operation. I am aware this has caused more difficult problems in the United States and abroad than in Viet-Nam. Although here there has been concern about the heavy casualties which ARVN has sustained, with some exceptions the feeling generally has been one of elation and pride at the achievements of the ARVN. The morale of the ARVN has been sustained despite the

## Ninety-second Message

heavy combat. As Lam Son 719 continues, hopefully it will be put into better perspective by the American and foreign press.

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR BRUCE

HEREWITH MY NINETY-THIRD MESSAGE, MAY 9, 1971 After a period of preoccupation with events beyond its borders, South Viet-Nam again turned its attention to domestic affairs. The three prospective candidates for the presidential race engaged in lively, if unacknowledged campaigning. In the countryside, the coming elections for the entire lower house of the National Assembly attracted even more interest. One welcome result has been a prospective improvement in the quality of candidates.

An attitude of self-confidence was evident in the calm reaction here to your April 7 announcement on future troop redeployments, to the speculation following the Communist Chinese invitation to the American ping pong team, and to the anti-war demonstrations in the United States. We have continued to receive prompt GVN cooperation in our negotiating initiatives in Paris, noticeably in our moves on the prisoner of war issue.

The military initiatives taken earlier against the base areas in Cambodia, Laos, and within Viet-Nam have disrupted enemy logistic operations during the current dry season. They have significantly reduced the strength and combat readiness of enemy main force units in nearly all of South Viet-Nam for this year. It is significant that units of the Airborne Division and the First ARVN Division, both engaged heavily in Lam Son 719, went into action again within days of their withdrawal from Laos; the Airborne at Fire Base 6 in the Central Highlands and the ARVN First Division in the A Shau Valley operation, Lam Son 720. This should effectively give the lie to statements in the American press of low ARVN morale as a result of Lam Son 719. The enemy's local force units have continued, however, to use their capability in some areas to mount hit and run attacks and terrorize the population.

General Abrams and I received an encouraging response from President Thieu when we set forth in detail our concern over the growing drug problem and recommendations on how to counter it.

Following up earlier discussions in which I had broached the questions of smuggling and traffic in narcotics, General Abrams and I discussed these twin problems with President Thieu on May 3 in depth. We laid out the dimensions of the problems, how they were interrelated and particularly stressed the humanitarian and political aspects of the drug traffic. We then set forth our detailed recommendations on measures to be taken to bring these abuses under control.

Thieu's response was forthcoming and positive. By the time we again raised these matters with him two days later on the occasion of Bureau of Narcotics and Dangerous Drugs Director Ingersoll's visit, the GVN had moved to take action. On May 4, Thieu had called a meeting of the Prime Minister and other senior GVN civil, police and military officials to consider the problems. He gave suppression of smuggling and narcotics the highest priority and charged one of his closest advisers in the Presidency with preparing a report within six days proposing concrete plans of attack.

Thieu has made it clear to us and to his ministers that he intends to take personal charge of this program as he did of the pacification program. Acting on his orders his adviser already has been in consultation with the local representative of the Bureau of Narcotics and Dangerous Drugs. Finally, Prime Minister Khiem has separately confirmed to us the seriousness with which the GVN intends to apply itself to these problems.

The strident electioneering by Vice President Ky, signs of renewed determination in the Big Minh camp, and steady adherence to a firm anti-communist position by President Thieu were the major features of the presidential election campaign, which has now assumed a central position on the political stage. It now appears more likely than it did a month ago that Duong Van Minh will actually enter the race, and Ky has all but declared his candidacy.

Both Minh and Ky have been making concerted efforts to alter the public impression of their respective stands on the peace issue. The result is that they now seem quite close together and in marked distinction to Thieu. Minh and his staff have been at pains to emphasize that while Minh does not believe the war can end in a military victory, he thinks that eventual peaceful coexistence with the North is feasible, but definitely rejects a coalition government containing communists. He seems thereby to be courting support on the right, particularly among elements in the military who have been concerned by his lack of a strong stand on the issue of war and peace. At the same time, his position is not so strong as to disillusion his soft lining supporters.

Ky has been taking a noticeably softer line, emphasizing the need for a political solution to the war, opposing—in a sharp reversal of earlier statements—an invasion of North Viet-Nam, and, according to one American individual, advocating a fixed date for American withdrawal. At the same time, he has lashed out in direct criticism of Thieu with harsh charges of corruption and poor leadership. He appears deliberately to be divorcing himself from Thieu and the present government's policies and appealing to a wide spectrum of elements opposing Thieu who might otherwise back Minh. Ky probably reasons that his base among strong anti-communist groups such as northern military officers and northern Catholics is firm enough to make the gamble of seeking support leftward on the political spectrum worth taking.

President Thieu also has dealt frequently with the war issue, but has continued to hew close to a firm peace-through-strength line. He currently formulates this policy as the "four no's": No coalition; no neutrality; no land ces-

sion; no open communist activities in the South. I believe that he is preoccupied with the risk which he sees to national morale and resolve posed by premature peace campaigns. At the same time, he is sensitive to public reaction and war weariness here and to opinion abroad and I think it probable that he will at some point decide to take a further initiative, possibly in terms of amplifying and making more specific his basic policy statement of July 11, 1969.

Both Minh and Ky have called directly or indirectly for fair elections and for the United States to keep hands off. In the process they have prepared the options of charging Thieu with fraud and the United States with interference (in support of Thieu). We shall choose appropriate opportunities to emphasize our policy of non-intervention and that we want to see a fair and honest election. But the opinion will still be generally held here in Viet-Nam that we want to see Thieu re-elected. Despite the problem posed by the competition of both Ky and Minh as candidates, I think Thieu at this stage is clearly the front runner.

Thieu has now publicly issued a welcome to observers from abroad both to see how the campaign is conducted and to view the electoral process itself. He has expressed the hope that the Vietnamese National Assembly may wish to invite delegations from friendly countries as observers.

While the presidential race has been getting the headlines in the Saigon press, interest in the lower house elections has been mounting. This is no doubt partly due to the fact that lower house Deputies are the only branch of the national government to have fixed territorial constituencies (Senators are elected at large). It is encouraging that the notably poor reputation of the present lower house and the recent scandals implicating individual members have not completely discredited this key element of representative government in Viet-Nam. In fact, a number of prominent individuals, such as former Senator Tran Van Don and able Vietnamese lawyer Tran Van Tuyen, are planning to become candidates.

General attitudes toward the war and recent developments abroad remain steady. While there was some criticism of Lam Son 719, stimulated by foreign commentators, there is a perceptible rise in self-confidence due in part to the return to battle of units only recently engaged in Laos. This mood is further reflected in the way both the leadership and public opinion have reacted to such varied developments as the rise in anti-war demonstrations in America and the recent contacts with mainland China. Although developments in Washington, especially the pressures to fix a date for total American withdrawal, have been followed with close attention, there has been no visible evidence of nervousness here.

As in the past, the renewed assurance of your own firm purpose conveyed in your April 7 speech and in your television news conference of April 29 have contributed to the steadiness of spirit here. President Thieu made his contribution by his quick endorsement of your April 7 announcement of troop redeployments, which was taken in stride by the public generally.

Thieu is aware of the deep American concern for our prisoners of war and its political implications. He has been cooperative and forthcoming in authorizing his delegation at Paris to put forward or support us in several new initiatives dealing with unilateral releases of prisoners to the North or to a neutral third country, and with selection of a third party to conduct inspections of prison camps. The GVN's interests in this issue do not always coincide with our own. There is some concern that our continued insistence on the issue may make Hanoi even more determined to use the prisoners as a negotiating gambit. Lately we have seen indications of Vietnamese concern over the possible political consequences of linking prisoner releases to U.S. military withdrawal. The fear is that Hanoi will attempt to capitalize on that connection and the increase in American public opinion favoring a fixed withdrawal date to pressure the United States into a precipitate pull out. Thieu, however, understands the importance we place on the prisoner issue and will, I am confident, continue to cooperate with us.

The Vietnamese are currently engaged in talks with the Thais and South Koreans on schedules for redeployment. In the case of the Thais, it has been generally understood that one brigade will be withdrawn in July 1971 and the balance of the troops in early 1972. Thieu has expressed to me, however, and has made known to the Koreans, that he believes it important that the Korean troops remain until 1973. He feels quite strongly that the Vietnamese will not have the capability nor the man power to fill the gap left by the departure of the Koreans earlier.

There has been relative calm on the economic front, at least on the surface. The past month has been a period in which the last round of economic reforms, taken March 5, was absorbed and digested. No new measures of any moment were taken. Business activity continued to be quiet and even somewhat stagnant, but there were some signs of reviving demand, and prices rose moderately.

Renewal of inflationary pressures at this time would fit the historical money-supply-to-price-increase relationship, whereby price increases have tended to follow money supply increases with a lag of three to six months. In fact the money supply rose substantially during the period October 1-January 31, reflecting exceptionally large government expenditures during that period. In part this was seasonal, because the Tet bonus and prepayment of a month's pay concentrates GVN wage expense, around the end of the year. Forestalling further major increases was, of course, one of the principal aims of the March 6 reforms, and we still hope that the monetary stability that has prevailed since the end of January can be maintained. There is, however, a real danger of further large increases stemming in part, paradoxically, from the very success of recent GVN policies. For one thing, the reduced import demand of recent months, a result of the cooling of the speculative climate, will mean a correspondingly lower level of import payments—and piaster absorption—in the months just ahead. For another, while the 275 rate for accommodation purchases has been a phenomenal success in diverting sales of dollars away

from the black market and into legal channels, it has stimulated spending-per capita spending by the troops was at a monthly rate of \$19 in March compared with about \$4.50 before the October devaluation—and has added to short-term inflationary pressures.

With the GVN authorities we are watching the trends closely. Between now and the elections next fall, it is generally accepted that the GVN is constrained from taking additional major steps, and that any new measures must neither require legislative action of any complexity nor cause politically damaging results such as a sharp increase in the cost of living. Because of the signs of renewed inflationary pressure noted earlier, we are putting a lot of thought on the actions open to us within those limits. Several appear feasible:

- (1) Some of the goods still prohibited from importation can be opened for import licensing.
- (2) The interest rate structure can be shifted upward and credit restraints tightened.
- (3) Tax rates on some import items, where demand is strong, can probably be increased.
- (4) Administrative actions can be taken to limit smuggling and tighten up customs enforcement in order to raise more revenue. We are hopeful that this will be done.
- (5) We expect agreement with the GVN shortly on a program of special local procurement and contracting by the US military agencies, with piasters purchased at 275. While this will have some unfavorable short-run effects on inflationary balance, we believe it is a desirable means of counteracting localized unemployment which may appear as US troop withdrawal progresses, and that it will also help to generate certain industrial and contractor capabilities necessary in Vietnamization.
- (6) The GVN will take several measures of special benefit to Central Viet-Nam. Potentially the most significant of these is the appointment of an official of ministerial rank whose principal responsibility will be to represent Central Viet-Nam in top-level GVN councils and to coordinate the civilian functions of government in that area.

Final data just released on Viet-Nam's 1970-71 rice crops confirm the record harvest predicted by preliminary estimates. The revised official GVN estimate is 5.7 million metric tons of paddy, about 60,000 tons higher than the preliminary estimate. With proper distribution, this should be adequate for all of Viet-Nam's needs during the remainder of 1971, and no more imports are scheduled. However, moving the Delta surplus to Saigon and Central Viet-Nam presents a number of managerial and logistic problems, and the possibility of shortages in Central Viet-Nam still exists. Therefore, we are not yet ready to declare formally that Viet-Nam is self-sufficient in rice.

The enemy stepped up his military and terrorist activity especially in the two northern Military Regions to counter the psychological effect of the GVN's offensive and to probe for weak spots created by the deployment of forces westward in the Lam Son 719 and 720 operations.

### Ninety-third Message

Terrorism in MR1 during March was at the highest level since the enemy's Tet offensive of 1968, and nationwide was the highest in nine months. The enemy was not successful, however, in his attempt to force the GVN to divert troops from Laos, although he did maul two district capitals in Central Viet-Nam (Duc Duc in Quang Nam Province and Phu Nhon in Pleiku Province). All five American Province Senior Advisers in MR1 report gratification over the generally excellent response of the Territorial Forces to the challenge of covering for the Army (ARVN) during Lam Son 719. In MR2 General Ngo Dzu continues to take hold, but heavy combat activity at Fire Base Six plus relocation of a considerable number of Montagnards from insecure areas has slowed the pacification effort.

In MR's 3 and 4 the situation is quite different. The Community Defense and Local Development effort got off to a good start in many provinces, and enemy forces continue to face severe problems in recruiting, supply and increased isolation from the people because of the GVN's successful territorial expansion over the past two years. These problems have forced the enemy to continue economy-of-force tactics despite orders to do everything possible to create trouble in order to divert ARVN forces from Laos and Cambodia.

Nevertheless, enemy activity has been quite high in MR4, especially in continued attacks against outposts. The total of posts overrun so far this year has now reached 61, compared with 30 at the same time last year. (The 61 outposts overrun, however, are less than one and a half percent of the total number of outposts in MR4). In 18 cases the outpost loss was apparently a result of turncoats inside. These "inside jobs" are of grave concern to the GVN, which has issued detailed directives for preventive action to be taken by commanders at all levels. The problem stems from vigorous efforts by the VC to develop "legal cadres" plus the GVN's territorial expansion, as a result of which the GVN is recruiting from what was the enemy's manpower base for many years.

Sir Robert Thompson's report on the Vietnamese National Police has been submitted and has already served to focus renewed attention on the specifics of internal security. It should prove an excellent catalyst in encouraging the GVN to continue the needed priority support to its civil police organization.

Implementation is underway on a great many of the 157 recommendations; additional steps will follow when the GVN response to the report becomes more apparent. At the same time, judgment on several of his recommendations for reorganizing the Special Police is being withheld and we are giving his proposals in this area further study. There is specific disagreement with Sir Robert's recommendations to provide several million dollars in police uniforms and additional vehicles and to reduce the current emergency police force level to 100,000. Although the goal of 122,000 men is still considered valid, and force level has not reached 114,000, recruitment, nevertheless, was held in abeyance as recommended April 22 while overall personnel needs are reassessed with a view toward improving the quality of recruits.

The attitude of the South Vietnamese Government toward the report is not yet entirely clear, but the Prime Minister's reaction appears generally favorable. The authorities are presently engaged in a thorough assessment. There are some indications of changes in organization to conform with some aspects of the report. The recommendations on the revised Police Decree and proposed Police Statute appear generally acceptable at the working levels.

A review of military operational results for the first quarter of the year show mixed achievements, reflecting the high level and unusual nature of combat operations. Some of the main statistics are as follows:

	First Quarter 1971	Last Quarter 1970
Enemy eliminated per		
ARVN/VNMC battalion	119.7	49.4
Weapons captured per		
ARVN/VNMC battalion	36.4	11.5
Friendly casualties per battalion	19.0	5.4
Total weapons finds (in caches)	3,144	814
Ammunition and rice captured	604	397

On the negative side, while heavy combat saw 23,790 enemy eliminated (as against 9,910 in the previous quarter), ARVN/VNMC losses also were high bringing the enemy-to-friendly casualty ration down to 6.3:1 as against the annual rate for 1970 of 9.3:1. The same circumstances cut the weapons exchange ratio very sharply from 34.7 captured to one lost in 1970 to 2.8:1 for the first quarter. The gross desertion rate also increased to 14.0 per thousand in February, the highest level since July of last year.

These are sobering figures representing the cost to South Viet-Nam of the heavy fighting in recent months. However, the price does not appear excessive in terms of the damage inflicted on the enemy with which you already are familiar.

In the past month, the tempo of cross-border operations declined with the termination of Lam Son 719 and a generally low level of activity in Cambodia, punctuated, however, by short periods of intensive engagements in the Snoul area and along Route 7 leading to Kompong Cham. Although a new operation, Lam Son 720, was begun by a fairly large force of American and South Vietnamese troops in the A Shau Valley on April 19, there have been few contacts so far. Near the end of April, enemy forces launched a "high point" in scattered areas of South Viet-Nam but the GVN was forewarned and managed to avoid taking serious casualties. Enemy strength within South Viet-Nam continued to decline as personnel losses and diversion of some forces to Cambodia have not been fully offset by infiltration and recruiting.

The emphasis of enemy military effort has shifted from MR1, with the termination of Lam Son 719, to the western highlands of MR2 where he began the traditional spring campaign at the end of March. The offensive centered initially on an attempt to neutralize ARVN Fire Support Base Six south of the

Ben Het ARVN Ranger Camp. Sharp fighting resulted, but with the help of ARVN reinforcements the base held. Cumulative results in this action were 3,436 enemy killed and 373 friendly troops killed or missing in action.

The little-publicized GVN military operations in the U Minh Forest of MR4 continued to progress. This year, for the first time, the GVN has entered the U Minh Forest and stayed to establish permanent bases. As a result of this operation 3,192 VC personnel have returned to the government side under the Chieu Hoi Program. The campaign is also generating refugees in large numbers (38,000); however, in the U Minh area, many of the refugees continue to farm their own land. They have simply moved out of the line of fire for the time being and will return to their homes when the campaign is over. In the meantime, they are being helped by the GVN with welfare benefits.

It seems clear that the principal enemy effort from now until October will be devoted to trying to (a) disrupt pacification, (b) demonstrate that the GVN is unable to provide adequate security in the countryside, (c) exploit areas of unrest in the cities, and (d) stimulate disorders among the economically underprivileged. To date they have had little success in MR's 3 and 4, but have had some success in several provinces in MR's 1 and 2. This illustrates the need to concentrate on the whole security problem—improvement of the territorial forces, the National Police, People's Self-Defense Force, elimination of the infrastructure, and intelligence.

A welcome development is the decision of President Thieu to give the attack on smuggling and narcotics the highest priority. For the attack on drugs to succeed, there must be an effective attack on smuggling—the two are bound up together. Thieu recognizes this and is setting up machinery in his own office to direct and coordinate the attack on these twin problems. The fact that the principle of joint operations has been established should increase the effectiveness of our mutual efforts.

As the campaigns for the lower house and Presidential elections begin to attain momentum, more and more is being said here about the importance of fair and honest elections. I pointed out to Thieu that if he or anyone else is to govern effectively, if the critical problems of war, of the economy, and of political stability are to be addressed, then there must be no question of the public acceptance of the honesty of the elections. A dishonest election will only produce dangerous instability. Thieu's invitation for observers to witness the campaign and the electoral process is evidence that he recognizes that in South Viet-Nam itself and in the United States and abroad it is important that observers should be able to form independent judgments concerning the way in which elections are carried out.

While it is still too early to make a final appraisal of Lam Son 719, some interesting information as a result of prisoner debriefing has come to light. Morale among NVA troops, especially those newly arrived from the North, declined as a result of the heavy fighting. Fear of the B-52 bombers, the M-79 rocket launchers, and ARVN artillery was widespread. The NVA buried their

dead on the battlefield so that they could not be seen by the other troops. Shortages of food and ammunition were reported in Kontum Province, including the area around Ben Het and Fire Base Six where attacks by NVA troops were beaten back with heavy losses. The declining effectiveness of VC guerilla units due to lack of food and ammunition is reported from the Delta. Supply throughout to South Viet-Nam and Cambodia in 1970 was about 36 percent of input; so far this year, it has been estimated at about 11.5 percent. There are indications that the enemy intends to make a major supply effort even during the wet season. These are a few indicators, I think, of the effects of the disruption and successful interdiction of the supply routes through Laos to which Lam Son 719 contributed. Also valuable lessons were learned from that operation which will be useful in the future training and equipment of the Vietnamese forces.

While there has been relative calm on the economic front, potential inflationary pressures exist and we shall need to keep close watch on the situation in order to forestall them.

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR BRUCE

HEREWITH MY NINETY-FOURTH MESSAGE, JUNE 9, 1971 President Thieu and his Ministers have responded speedily and energetically to our request for a concerted attack on the critical narcotics problem. The GVN is aware of the danger that narcotics use will spread to its own people and forces, and the grave situation it presents to us. It is moving with a sense of greater urgency on this problem than it has on any since I have been here. We shall do all in our power to see that it continues to do so.

Passage by the National Assembly of the controversial presidential election bill requiring candidates to have specified endorsements clears the way for formal announcements by candidates. Meanwhile, President Thieu has continued to campaign seriously, Vice President Ky has become more critical of the government and seems more determined to become a candidate. Big Minh continues to make plans, but increasingly I have a feeling that if he believes he cannot win he will withdraw rather than suffer loss of face and prestige. No other potential candidate with serious prospects has entered the picture.

The small number of North Vietnamese sick and wounded prisoners of war who indicated to the International Red Cross their desire to accept repatriation was disappointing. While we did not expect most of them to accept, based on past experience, we felt at least 100 or 200 would agree to go. Several hypotheses can be advanced for the refusal of so many. One is that the prisoners had been instructed not to accept repatriation based on Hanoi's contention that there are no North Vietnamese prisoners of war, only "patriots" unjustly imprisoned. Another is that the return of any substantial number would put pressure on Hanoi to reciprocate. Still another is that, as in Korea, the prisoners simply did not want to return to the North. We had meticulously carried out our part of the operation and I believe our good faith was evident.

Agreement was reached on another series of economic reform measures to be put into effect in June with the objective of maintaining a reasonable degree of stability in advance of more far-reaching steps to be taken after the fall elections. Prices so far have behaved remarkably well. A much needed pay raise for civil servants and servicemen could be a threat to the price structure. [About 25 lines missing due to transmission error.]

Under Secretary of State Irwin's visit from May 19-22 was most welcome. He was accompanied by Deputy Assistant Secretary [William] Sullivan and

joined later by Assistant Secretary [Marshal] Green. The Under Secretary's meetings with President Thieu and other senior officials of the government and with members of the Mission afforded a valuable exchange of views. His visit to the Delta enabled him to have a first-hand look at pacification and rural economic development.

Since the Under Secretary has undoubtedly reported fully on his trip, I shall not attempt to cover his visit here in detail. President Thieu took the occasion of their meeting to expand on his views about future enemy intentions. He believes Lam Son 719 has prevented any seriously dangerous attacks in South Viet-Nam for the balance of this year. He expects the enemy, however, to make a major logistical effort beginning in December in order to support spring and fall offensives in 1972. These operations will be designed to influence the American presidential election and to exploit any weak spots that may develop as our troops withdraw. Another major effort can be expected in 1973. If this is turned back, as he expects it will be, the South Vietnamese will have passed the most critical point and Thieu thinks the enemy may then be willing to negotiate.

Thieu referred also to the need for continued economic assistance and the importance of formulating a long range plan for economic development. The Secretary impressed on Thieu our concern over the problem of drugs, smuggling, and corruption, how adversely these affect public and Congressional opinion, and hence our ability to maintain our assistance to Viet-Nam.

After General Abrams and I gave our detailed recommendations on the subject of narcotics and smuggling on May 3, Thieu moved rapidly to set up machinery to deal with the problem and to coordinate the GVN's efforts with our own. The following measures have been taken.

- (a) Designation of a team of five senior officials, headed by General Dang Van Quang, Special Assistant to the President for Military and Security Affairs, to develop and carry out an effective program of action.
- (b) Establishment of inter-ministerial committees at the national and province levels.
- (c) Institution of new customs and security measures at Tan Son Nhut Airport. The customs area has been reorganized physically to facilitate security and thorough inspections and access has been denied to unauthorized persons, many of whom had conducted their illegal activities with impunity.
- (d) A complete turnover of customs, police and military security service personnel at the airport has been carried out. The three top officials in the customs and fraud repression service have been removed from their posts.
- (e) The number of American customs advisers has been increased to assist in training new Vietnamese personnel and enforcing new procedures. Similar tightened customs controls will shortly be put into effect in the Saigon port and extended to other ports of entry, military airfields, and border crossing points.
  - (f) The narcotics section of the National Police has been reorganized and

expanded. Its personnel will be given additional training in the detection and suppression of drugs.

- (g) Pharmacies have been forbidden to sell drugs to anyone without prescription, and have been put off limits to U.S. forces. Bars and restaurants where narcotics are peddled are also being put off limits to our military.
- (h) The GVN has undertaken a nationwide publicity campaign to educate its citizens to the harmful effects of drug addiction and to encourage them to assist in its eradication.

The above measures have resulted in intensified enforcement activities resulting in more than 350 narcotics arrests and the seizure of considerable amounts of heroin, opium, and other drugs during the month of May. Large quantities of contraband have been seized and there has been a considerable, but still insufficient, increase in customs revenues.

On our side, I have designated Ambassador Berger to head up efforts in this field and to serve as the principal contact with Quang. In the past month, our customs and police officers, BNDD representative, and military police have developed closer working relations with our Vietnamese counterparts and are beginning to get from them the kind of tactical information necessary for concerted action.

The much disputed law to govern the 1971 presidential election finally cleared the National Assembly on June 4 after an especially sharp controversy over the reintroduction of the provision requiring candidates to have the endorsement of 40 members of the national legislature or 100 provincial or municipal councillors. Thieu and Minh will have no difficulty in obtaining the necessary endorsements, and Ky told me he would have no difficulty.

The three major potential candidates have been following courses set in earlier months. The President continued actively to campaign with weekly, or more frequent, trips to the provinces. He has repeatedly stressed the "four no's" formula (no coalition; no neutralism; no territorial concessions; no permission for the Viet Cong to operate as a political party). But on a trip to MR3 late in May he took pains also to point to his six-point peace proposal of July 11, 1969, as a reasonable basis for political settlement and has since repeated this statement.

Vice President Ky kept on picturing himself as the man of the middle, calling for peace and social justice, passing up no opportunity to criticize the government as a whole and the President in particular.

General Minh's campaign is slow moving, but it is moving nonetheless. He apparently still intends to run, but both he and his staff insist he may change his mind if it appears that the election will not be fair. I think this will undoubtedly be an excuse he offers if he decides that he cannot win. Minh suffered two small setbacks at the end of May. One possible supporter, retired Senator Tran Van Don, publicly indicated his preference for Ky; and the de facto leader of An Quang, Thich Tri Quang, issued a communiqué saying in effect that he personally would not work for the election of any of the candidates.

Preparations for the Lower House elections in August advanced with the approval by the National Assembly on June 1 of the law to govern that contest. The campaign will soon pick up momentum with every evidence of keen interest on the part of political parties, multitudes of aspiring candidates, and of the public in general.

Both election laws provide the legal and administrative framework for fair and honest contests and recent experience provides grounds for expecting that they will be observed. Nevertheless, there are indications that both campaigns could be rough. Vice President Ky's camp already charges that he is being harassed by the police, and there are reports that some military officers supporting Big Minh have been placed under surveillance. Three incidents involving Ky, Minh and a notoriously extreme opposition Deputy led critics to accuse the Executive of employing repressive measures against the opposition.

I have issued explicit instructions, previously approved in Washington, for all official Americans to avoid any action that could be interpreted as interference in the elections and I have shown these instructions to President Thieu.

While the Viet Cong have thus far not involved themselves in the election campaign, a captured document, apparently issued in February 1971, reveals tactics the communists may seek to employ as the elections draw nearer. It is an instruction to subordinate sections to obtain intelligence on the presidential and lower house elections, to run communist or pro-communist candidates in the lower house contest, to organize determined reconnaissance teams to attack campaign workers of Thieu and Ky and, if possible, to assassinate Thieu and Ky themselves. (Because of this last instruction, the GVN is holding this document particularly closely).

In the light of previous Buddhist struggles against the government, it was encouraging to see the moderation with which the An Quang leadership conducted the Buddhist birthday celebrations, previously an occasion for harsh attacks on the government. There were two immolations of young clerics in Hue on May 9, however, and another on May 24 as extreme elements within An Quang tried to provoke disturbances. So far the younger militants have been frustrated by the hierarchy which has spoken out against the immolations and demonstrations. The senior An Quang leaders now appear intent on pursuing a course of moderation, at least through the elections.

In North Viet-Nam, speeches marking the late Ho Chi Minh's birthday contained little to distinguish them from other North Vietnamese policy statements this year. Foreign Minister Nguyen Duy Trinh delivered the principal address of the day. Speaking from "somewhere in South Viet-Nam" President Huynh Tan Phat of the Communist Provisional Revolutionary Government broadcast his own tribute which was widely quoted in the North Vietnamese press.

The speakers reaffirmed North Viet-Nam commitment to pursuing victory in the south while building socialism at home. Foreign Minister Trinh, for instance, recalled in strongest possible terms "Ho's last treatment," suggesting that it pointed to a "protracted war" leading to a "total victory." In his

broadcast remarks, PRG President Phat called for a concerted "urban struggle" throughout South Viet-Nam. As President Thang indicated with unusual candor in his remarks on Ho's birthday, the "Saigon life style"—a euphemism for the improved living standards of many who live in the GVN urban areas—has begun to sap the "revolutionary spirit of the Vietnamese people."

Concern over the need to hold the economy stable through the election period led to an agreement with the GVN that further economic reform measures should be put into effect in June. The main features of these new steps are:

- (a) Tighter credit: Application of existing loan deposit ratios to deposits previously exempt (new time deposits following the September interest rate reform). The banks will have 60 days to comply. A reduction in credit outstanding of about VN\$5 billion is expected to result.
- (b) Prohibition against granting of credit by the Customs Service to importers. Outstanding credit, about VN\$2 billion, will be called in.
- (c) Introduction of a new import licensing procedure, mandatory for parallel market goods (mostly luxuries) and optional for all others. General licenses, rather than licenses for particular commodities, will be issued by the commercial banks against payment of 275 piasters to the dollar plus a flat per-equation tax of 135 piasters. Initially this measure is modest in scope but its implications for the future are sweeping. It opens the way for abolition of the present licensing system, which invites corrupt practices, and also sets the stage for an eventual shift to a much freer foreign exchange system, at a new exchange rate. In the short run its effect should be deflationary, although to what extent is uncertain. It will also strengthen confidence in the economy and the piaster.
- (d) USAID has agreed to seek Washington approval for a shift of petroleum products financing from GVN to the U.S. Commercial Import Program, with a waiver so that any source may be used. The annual rate of petroleum imports is now about \$70 million. Extension of CIP financing over the coming fiscal year will enable the GVN to implement the new reform measures without risk of a further serious loss in foreign exchange reserves, which, as noted below, have been suffering a decline.

Although the degree of deflationary effect that this package may have cannot be predicted at this time, we feel reasonably confident that the stabilization problem is under control. The black market rate has fallen, and market conditions generally are soft rather than speculative.

Money supply has remained stable at around VN \$180 billion, at the cost of a gradual decline in foreign exchange reserves. The total gold and dollar reserve figure for May 22 was \$194 million, down about \$25 million since the first of the year. This decline is unlikely to continue.

Prices have risen a little over one percent during the past month, and about three percent so far in 1971. Compared to one year ago, prices are up only nine percent—remarkable in light of previous rates of inflation.

From the standpoint of the stabilization program, one hurdle remains to be overcome. The GVN may decide to grant a wage increase to its civil and military services sometime during the summer. The figure being considered is an average 18 percent increase, costing about VN\$25 billion annually. The need for this is unquestioned, because the GVN wage level in real terms is still substantially—30-40 percent—below that of early 1969, despite an increase in late 1970 of about 17 percent. The problem is to time any increase in such a way as to avoid a serious inflationary impact.

A particularly bright note in the economic picture is the fact that domestic tax collections for the four months January-April 1971 showed a year-to-year increase over 1970 of 31.9 percent. Since the year-to-year change in prices during this period was much less, a significant increase in real terms has occurred.

Reserve stocks of rice in deficit areas are now at their highest level since April, 1969. There are still too many uncertainties to make a final decision on fourth quarter needs, but prospects are favorable for meeting remaining CY 1971 requirements in deficit areas entirely from surplus production in the Delta. In the meantime, reversing a trend that persisted throughout the latter half of last year, both paddy and rice prices have risen 12 to 15 percent since the beginning of 1971. We view this as a healthy adjustment, stimulating increased production and more effective marketing.

Over the past several weeks, the GVN has been concentrating its efforts in land reform on distribution of titles for previously approved applications. The village government land administrators continued vigorous work on the initial steps of land distribution, application taking and identification of the land. As of May 25, 1971, 260,459 applications have been received for 328,581 hectares. In general terms farmers have now submitted applications for approximately one-third of all land to be distributed under the provisions of the law.

Perhaps another measure of success is the level and tone of VC propaganda directed against the program. This has increased markedly in recent weeks and become more strident in nature. In three separate Liberation Radio broadcasts (clandestine), attacks against the program only barely disguised the admission that Land-to-the-Tiller is hurting communist efforts in the countryside. The Land-to-the-Tiller law was described as contributing to disarray in thought, politics, and in combat spirit among the peasants.

Enemy activity was fairly light during most of May 1971. Inside South Viet-Nam, there were upsurges of fighting in the last days of April, and again the last days of May, concentrated mainly in GVN Military Regions 1 and 2. The activity consisted for the most part of shellings and ground probes of towns, resettlement villages, and Allied installations.

The most dramatic action reported during the month was a battalion-sized attack south of Danang on May 30 and 31 designed mainly to disrupt important Catholic celebrations. The enemy managed to kill 24 South Vietnamese and destroy 170 houses, but at a cost of 215 enemy soldiers killed. A near

victim was MR1 Commander Lt. Gen. Lam, whose helicopter was hit and crash-landed while enroute to the celebration.

In GVN MR2, late May attacks on Fire Support Base five near the triborder area and actions south of Pleiku City in the central highlands indicated that the enemy intends to continue exerting pressure on roads and ARVN forces in that area during the summer monsoons.

Significant action took place in southern Laos along the northern edge of the Bolovens Plateau, where North Vietnamese forces, equivalent in size to three regiments, overran almost all remaining friendly positions on the Bolovens. The major town in the area, Paksong, fell to the enemy on May 16. A little to the north, North Vietnamese forces have also pushed west on Route 9 from Muong Phalane and captured the town of Dong Hene. If the enemy holds these gains he will have substantially improved the security of his supply routes through southern Laos. Royal Lao army units and irregulars have begun counter-probes against the communist advances, but if the enemy is determined to hold the ground he has just won, friendly forces presently in the area will be unable to push him back.

The military situation remained generally static in Cambodia during May, with Cambodian Army (FANK) units holding their own in most areas. Toward the end of the month, as water levels rose in the plain northeast of Phnom Penh, enemy units began withdrawing west and north to higher ground. Simultaneously, the South Vietnamese withdrew nearly half their 15,000-man task force in the area north of GVN MR3 back into South Vietnam. Enemy attempts to disrupt the withdrawal led to sharp engagements south of Snoul on Route 7 and as reported above resulted in heavy casualties on both sides.

As was the case last year, the level of terrorism and local attacks dropped somewhat during April and May from the high rates registered in the two previous months, but the level of terrorism continues to be high.

In MR2, Major General Ngo Dzu's impetuousness in relocating the remaining unprotected Montagnard population has been tempered by expressed American concern, and by the action of the Prime Minister's Central Pacification and Development Council in gradually asserting its authority to inspect and approve or disapprove each such movement. The attention given to Gen. Dzu's unfortunate action adversely affected movement on the other programs of equal or even greater importance to the 1971 Plan. Furthermore, the enemy continued to show energy and imagination in his attacks on the pacification program in the provinces of Pleiku, Binh Dinh, and Phu Yen. As a result, MR2 presents a mixed picture with considerable security in the southern half of the region, but a stalemate and regression in the northern half.

In MRs 3 and 4, the momentum of GVN security and development programs continues, profiting from the elimination of the Cambodian sanctuaries in 1970. The GVN again mounted monthly operational high points, called Dong Khoi operations, although their intensity has lessened noticeably with

repetition. The enemy is endeavoring to maintain his network by dispersing his forces, legalizing as many of his personnel as possible, and by sending in additional North Vietnamese to maintain at least some force in being. Increasingly, however, the major danger to security is coming from complacency or lack of alertness on the GVN side which permits the enemy to mount surprise attacks and employ traitors to achieve local victories. Sixty-eight outposts have been overrun this year, mostly in MR4, compared to 41 at this time in 1970. On the other hand, the GVN continues to press into the last remaining centers of enemy strength, building new outposts, slowly eliminating local base areas and hiding places, and organizing new communities in previously abandoned areas.

One good feature of the 1971 Plan is the way some of its programs are being carried forward without the degree of American prodding or participation that characterized prior years. An example is the new program for village rural credit, an element of the Village Self-Development program. This calls for the formation of credit committees in the villages and the propagation of this program and its potential to the population. The credit committees have been formed in many areas at Vietnamese initiative and have engaged themselves in studying requests for loans.

Problems persist in a number of programs. The Phung Hoang program is a first priority in this year's plan. It continues to present a mixed picture of a slowly growing public appreciation of the nature of the Viet Cong Infrastructure (VCI), but weak case work and targeting, overdependence on military action rather than police techniques, and continued shortcomings in its legal procedures. A step in the right direction was the recent dispatch of additional GVN prosecutors to provinces to bring more legal expertise to bear on the program.

The overall Chieu Hoi returnee rate has shown a substantial decline compared with recent years, although the military operations in the U Minh Forest produced a spurt of ralliers in southern MR4. The fact that the enemy has lost many of his marginal supporters and is down to the harder and more disciplined guerrilla and political cadres may account for the decline in Chieu Hoi totals.

The dominant feature of the landscape in coming months will be the elections for the Lower House and the Presidency. The programs of the 1971 Plan will clearly be approached by Vietnamese officials in the context of how they affect the elections. Some matters will be pushed more vigorously, some neglected. However, the elections themselves are among the most important factors in building the national community that is the objective of the 1971 Plan

I believe that areas which will need particular attention in the next few months are:

(1) Military: there are shortages in personnel present for operations in the majority of infantry battalions. There is an urgent requirement to bring these up to strength. There are deficiencies also in the quality and motivation

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of leadership. This was pointed up by the events at Snoul. On the other hand there are many able younger colonels equipped to take over divisional or other leadership assignments. General Abrams and I have impressed on President Thieu the crucial importance of weeding out the incompetents and of appointing the most competent men to positions of command.

- (2) Elections: the fact that elections are being held in the midst of war reflects great credit upon the institutions and people of Viet-Nam, but it is of the greatest importance that these elections be conducted honestly and fairly, and that they be so considered by impartial observers and by the people of Viet-Nam. If any candidate wins by methods which are not so considered, he will find it difficult to govern the country or to command the external military and economic support necessary for national survival. I have impressed on Thieu that it is his administration which must assume the responsibility for this.
- (3) Economic stability: we and the GVN will need to see to it that inflationary pressures are kept under control and price stability maintained in the months ahead. This will have an important influence on the outcome of both the lower house and Presidential elections. It will be essential also in maintaining political stability after the elections.
- (4) Smuggling and narcotics: a stepped-up, widespread attack on smuggling and narcotics must be pressed if the GVN is to retain our Congressional and public support so essential to its survival. It is necessary also to prevent its own people becoming addicted to narcotics. Thieu is aware of this, but it will have to be a persistent and sustained mutual effort by us and the GVN.

# FOR THE PRESIDENT FROM BUNKER USDEL FRANCE FOR AMBASSADOR FORTER

HEREWITH MY NINETY-FIFTH MESSAGE, JANUARY 26, 1972 The turn of the year being the traditional time for reviewing our circumstances, I believe it would be useful to take stock of our position in Viet-Nam, beginning with a brief glance at the results of the past year.

Unquestionably of greatest import of 1971 development was the accelerated pace of the Vietnamization program, the withdrawal of 180,000 servicemen, and the virtual termination of the American ground combat role in Viet-Nam. Our allies followed suit; the Australians and New Zealanders are down to small training teams; the Thai will be gone in a few weeks; and the Koreans are pulling out 10,000 men.

Despite these sharp drawdowns, the military situation on the whole remained stable and the Vietnamese took on the strain willingly. The overall level of hostilities continued its gradual downward trend begun in 1969. Improvements in most of the South Vietnamese military units proceeded at an encouraging rate. ARVN operations in Southern Laos and in Eastern Cambodia kept major concentrations of enemy forces outside Viet-Nam, and in general most of the military action during the year was at South Vietnamese initiative. Aside from limited attacks south of the DMZ, in the western highlands of Military Region II and in Tay Ninh Province, which were successfully thrown back by ARVN with strong US and Vietnamese air support, enemy initiatives were limited to terrorist activity sabotage by sapper units and scattered indirect fire attacks, with an occasional light rocketing of major cities.

The pacification program, despite the distractions of the election campaigns, continued to grind away at the VC/VCI strength. The cumulative setbacks constrained the North Vietnamese and the Viet Cong to conducting a holding operation within South Viet-Nam by preserving their key people and consolidating their diminished strength. They converted many of their cadres to legal status for future action and made renewal attempts to arrest the erosion of morale in VC ranks. Meanwhile, they were exerting major efforts to preserve and enlarge their military position in vital areas of Cambodia and Laos and to build an infrastructure in Cambodia.

The election campaign was marked by three months of turbulence, but since the inauguration on October 31 the political scene has been characterized by quiet and stability. The elections for the Lower House were successfully conducted with opposition elements again participating actively and

making some gains. The Presidential election went sour when all challengers withdrew, but President Thieu persisted in carrying it out according to the book. The protests against that course of action proved notably ineffectual and Vietnamese opinion on the whole accepted the outcome. Thieu emerged better than expected and fully in control of the government.

Yet more encouraging was the improvement in the economic situation. 1971 was the least inflationary year Viet-Nam has seen since 1964. Its major economic reforms begun in September-October 1970 and carried forward in 1971 have radically altered the economic picture. At the heart of the program was the step-by-step move to a more realistic and flexible exchange rate system, and the dismantling of a large number of controls. A complementary move upward of interest rates helped generate savings and quell speculation. Major reforms in the tariff system have now been initiated with more to come. The various measures, despite some substantial individual price increases toward the end of the year, were accepted by the public with a minimum of disruption. They serve to prepare the ground for stabilization in 1972, and for some additional investment, production and exports. In short, the essential policies and institutional foundations are being developed for the long run.

In contrast to internal conditions, the international environment in 1971 was marked by change and uncertainty. By year end, the cumulative impact of your projected trip to Peking, the ejection of Taiwan from the United Nations, the ASEAN neutralization proposal and especially the Senate rejection of the foreign aid bill had forced the Vietnamese to look about; what they saw induced some apprehension. At Paris the other side sought in every conceivable manner to propagandize its 7-point proposal, not hesitating even to misrepresent it in hopes of short-term political advantage. By the end of the year it had become clear the Communists had again hardened their negotiating stance and were in fact not offering a settlement but demanding capitulation. Saigon, however, expected little from the talks.

Substantial advances were again made in 1971 which the enemy cannot allow to go unchallenged. All recent indications point to a decision taken some months ago to amount a major military offensive during the current day season, all with a sharp eye on the political impact to be achieved abroad, especially in the United States.

The enemy must soon try to prove his public claims that Vietnamization and pacification are failures. Therefore, he will redouble his efforts to undermine them. On the ground, he will try by military attacks to show that ARVN cannot fill the gap left by departing Allied troops and he will also seek to demoralize the South by stepped-up terror and subversion. I believe that his primary objective will remain political and international: (a) to keep the Indochina war on the American political plate this election year in the hopes of provoking even greater domestic opposition to your policy, especially to continued air, logistics and economic support for Viet-Nam, Laos and Cambodia; and (b) to deter the Peoples Republic of China from any inclination to

use its influence to settle the war on any but Hanoi's terms.

The stage is set for a test of the policies we have been following with the Vietnamese government for the past three years. The test already has begun with the unusually intensive North Vietnamese offensive in Laos, designed, in Southern Laos to achieve more elbow room on the Ho Chi Minh Trail, and in Northern Laos to put pressure on the Souvanna government to ask us to call off our bombing. It, and enemy activity in Cambodia, may have the even more ominous purpose of causing the collapse this year of the present Lao and Khmer governments.

A host of indicators suggest the main military offensive will start toward the end of January or before Tet (February 15) just prior to your visit to China. It will be concentrated on the B-3 front in the central highlands, combined with attacks on the enemy's MR-5 front (the central coastal area including Binh Dinh Province) and in Military Region I. We expect a heavy and sustained set of ground attacks in this area over a period of several weeks, accompanied by stepped-up activity in MR III and MR IV which will consist mainly of indirect fire attacks and reliance on sappers and terror. His problem is that VC strength is greatly reduced compared with 1968, and the South Vietnamese forces are much stronger. We think most of the South Vietnamese forces will give a good account of themselves, and with our air support the military drive will be contained. The enemy's objectives, however, are not military, but political and psychological. He is preparing the ground to mount a campaign that he hopes will discredit our claims of pacification and Vietnamization successes, and that will further the drastically eroded American support for Viet-Nam as was done in Tet 1968. He hopes to do this by putting the Indochina War in the headlines this winter and spring and possibly later in the year nearer to the US elections.

Unless he achieves a major breakthrough that he can exploit in the US and here he will probably thereafter economize in his application of military force, and revert to protracted warfare while examining his strategy and practice for 1973.

Coincident with the prospective military initiatives, the Communists will no doubt also employ their reduced but still substantial subversive apparatus in South Viet-Nam to probe aggressively for soft spots in rural areas and to push the "urban struggle" in the cities. They will stand ready to seize any opportunity to sap public confidence in the GVN and exploit any gap in security that might be created in military action.

The political structure arrayed in South Viet-Nam against the Communists is in working order but still suffers from weakness. The constitutional institutions are functioning and many key organs of the government—provincial councils, Senate, lower house and presidency—have survived the test of renewal by election under wartime conditions in particular. Thieu has the reins of power firmly in his hands and now perhaps will be less constrained than before in doing what he believes should be done. He has an analytic mind and a sense of priorities. He has demonstrated self-confidence, ability

and determination in running the country and the general feeling is that he is the best leader available to the Vietnamese. But despite these qualities he has not won the kind of positive support or affection in the country so desirable in a leader, especially in wartime. Corruption remains pervasive and is a constant source of popular disaffection with the administration. Thieu's recent moves in giving Vice President Huong a mandate to attack corruption and the changes in military commands and province chiefs may be indications of more vigorous efforts to get at corruption.

Lack of stirring leadership and abuse of power are no doubt major contributors to South Viet-Nam's persisting inability to develop a viable political consensus. The body politic, although clearly non-Communist, remains split and divided along religious, regional, personal and philosophical lines.

Thieu seems now to be moving to form a government political organization based on recruiting individuals from the bureaucracy and among elected officials, especially in rural areas, rather than on another attempt at unifying the factionalized nationalist parties. Theoretically, the An Quang Buddhist faction could form the core of a respectable opposition. But the prospects for a western-style political party system to support the constitutional structure remain clouded and a viable Vietnamese substitute has yet to emerge. Thieu himself envisions this as a fairly long process.

Meanwhile, despite these handicaps, the nation nevertheless is gradually gaining strength. Efforts we have expanded in many areas are paying off. Strength is coming from greater security in the countryside and cities; greater economic stability; from land reform and more economic opportunity; the relatively free interplay of political forces that dissipates protest; government programs to correct gross inequities, as with the war refugees; and also from the ever surprising industry of the Vietnamese people themselves. Still of crucial importance, of course, to the free society of South Viet-Nam is our continuing support.

Hanoi will certainly not restrict its political efforts to South Viet-Nam or Indochina. In the immediate future the World Peace Council Conference on Viet-Nam at Versailles, which the French government finally has seen fit to oppose, will seek to develop international support for total cessation of all bombing in Indochina and complete US pullout. Meanwhile, the Soviets are seeking avidly to gain influence in Southeast Asia by exploiting Peking's muted stance on Indochina, in the process again offering Hanoi additional coverage on the Chinese.

The Indo-Pakistani war did not directly affect Indochina. But it no doubt influenced India subsequently to raise its diplomatic representation in Hanoi. Moreover, it tended to underline shifts in the pattern of big-power relations in Asia.

Despite the progress made in the recent past, 1972 is likely to be another year in which the economy will be a major worry, chiefly because the US troop withdrawal will have its maximum impact in terms of reduced dollar earnings. Income from the US presence is forecast at \$150 million, less than

half the total for 1971. Because of the uncertainty of this writing of the US aid level, the prospects for 1972 import financing are a source of serious concern. Should the import financing under the new foreign aid legislation fall below \$450 million, we are clearly in trouble. At that level we can probably pull through in FY 1972 by drawing down our supplies in the pipeline which, however, will only accentuate our problems in 1973. In that case, we would have to have very substantial additional assistance in FY 1973 or face the prospect of an economic and consequent political crisis.

If, by one means or another, financing of imports can be sustained at around \$700 million, we can look for further progress: a start on a program for stimulating productive investment in the private sector; revision of the tax system; higher exports; and a move toward adjustment of the manpower resources to a more normal, enduring situation.

The consequences of our endeavors for many years in Viet-Nam will be on trial this year and next. We shall be navigating a narrow and dangerous strait between the enemy's still formidable capabilities and the political pressures in the United States. As we approach the transit I believe we can draw encouragement from the advances made in 1971 ranging from improvements is the Vietnamese armed forces through sound economic reforms to maintenance of political stability, all achieved while we were rapidly withdrawing our own forces. The evidence continues to show that your policy is getting results.

The Vietnamese have willingly shouldered the burden, and the weight of responsibility may well induce them to the exertions and accomplishments that no amount of foreign advice could produce. In one sense our smaller presence may serve to clarify the issues of this struggle which for many Vietnamese have been obscured and distorted by our large presence here, however essential it once was. It will in any event give the Vietnamese greater opportunity and incentive to devise solutions for problems which probably can be resolved only by the Vietnamese themselves. We shall need to keep an open mind as we enter a new set of relationships in which the initiative passes increasingly to the Vietnamese.

Our major task, of course, will be to retain the determination to stay the course and continue providing the essential support that will enable the Vietnamese to survive the coming tests. I know I need not belabor this point to you.

### FOR THE PRESIDENT FROM BUNKER:

HEREWITH MY NINETY-SIXTH (FINAL) MESSAGE, MAY 5, 1973 Three months after the ceasefire went into effect there is still no ceasefire and no visible movement toward a political settlement. The hope many Vietnamese expressed last January that perhaps at last the long war was coming to an end has given way to resigned acceptance of a situation which is neither war nor peace.

I believe it important for us to bear in mind that the GVN as well as the DRV/PRG has violated the Paris Agreement. It is true that communist violations have enabled them to strengthen and resupply their forces and to consolidate their position in the areas they control. However, it may well be that the communists were seeking to compensate for the advantage the RVNAF enjoys as a result of our Enhance and Enhance Plus. What we may be seeing, I believe, is the slow working out of a balance of forces which, once achieved, could lead to a stable ceasefire. In this connection it is noteworthy that during the past week the level of fighting has continued to decline, as shown by the downward course of casualties and artillery expenditures. We can hope that this decline will continue until each side accepts the balance of forces as the best of a bad bargain. If events do take this course, there will also be hope that the two sides will commence to negotiate a political settlement in earnest.

Nonetheless, we must be alert to the possibility that continuing blatant violations of the ceasefire, together with a deterioration in ICCS morale and commitment, could lead to a general loss of faith in, even contempt for, the Paris Agreement. Some recent communist violations threaten the integrity of the Agreement itself. DRV/PRG open disregard of the Agreement's provisions concerning Cambodia and Laos, the DMZ, infiltration of personnel, introduction into South Viet-Nam of weapons and equipment, and support of the Joint Military Commissions and the ICCS in fact poses the question whether the communists really intend to honor the Paris Agreement.

Moreover, communist harassment of the ICCS has reached a new high. By refusing to guarantee security in areas the ICCS seeks to visit and by restricting movement in and over their territory, the PRG/NVA has succeeded in seriously hamstringing the ICCS. The April 7 shooting down of an ICCS helicopter in Quang Tri Province with the loss of nine lives so shocked the ICCS that it drastically reduced helicopter use.

The PRG has never fully deployed its personnel in the Joint Military Commissions. Today it has only 220 persons in its delegation to the Two-Party Joint Military Commission (TPJMC), all in Saigon, while full staffing calls for from 1,300 to 1,500 persons. Lt. General Tran Van Tra, the PRG's able chief of delegation, has been absent since March 30. Without him the PRG delegation lacks the authority to negotiate, and little can be accomplished in the TPJMC until he returns or is replaced by an official of equal standing. Meanwhile, the Two-Party Joint Military Commission has not yet carried out many of its most important tasks, including determining the areas controlled by each party and the "modalities of stationing" as required by Article 3(c) and supervision of replacement of armaments as called for by Article 7.

Despite the communists' military build up in South Viet-Nam, I doubt that Hanoi will mount a major offensive in the next few months. Infiltration of troops down the Trail has recently tapered off, some NVA troops have withdrawn from Military Region I into North Viet-Nam, and there are not now sufficient troops in the South to support a major offensive. While this is reassuring for the immediate future, the implications of Hanoi's continuing military preparations, in the absence of progress on the political front, are ominous.

In sum, I think the ceasefire is at a critical point. What happens in the coming months may determine whether or not there will be peace in Indochina. If a determined and effective effort is not made soon to establish a true ceasefire, the present no war, no peace situation could gradually deteriorate into large-scale fighting. Furthermore, if improvements in the situation are not visible in the next few weeks, the Canadians will likely drop out of the ICCS, which could well end that body's helpful restraining influence on the situation. I, therefore, believe we must take steps now to maintain momentum in the search for a stable ceasefire.

Paris negotiations: The first plenary session of the bipartite political talks between the GVN and the PRG was held near Paris on March 19. After a succession of sterile meetings attempting to agree on an agenda, the GVN on April 25 proposed an agreement in ten articles providing for general elections for a body empowered to decide the future of South Viet-Nam. This proposal in effect met the PRG's demand for elections for a "constitutional assembly," but it retained the GVN demand that the NVA withdraw from South Viet-Nam before the election is held, thus guaranteeing its rejection.

At this same meeting, the PRG also proposed general elections, but only after the release of civilian prisoners and the establishment of democratic freedoms. However, the PRG presentation was more laden with propaganda and less precise than the GVN proposal, and this, I think, gave the GVN a clear edge.

The GVN's approach to political negotiations with the PRG shows a new buoyance following President Thieu's return from his visit to the United States. I think he brought back a new awareness of the importance of public opinion outside Viet-Nam and a new confidence in the GVN's ability to best the communists in that arena. Convinced that the communists do not want elections in the near future, Thieu seems determined to persuade the PRG to agree to elections or suffer the political consequences of refusing. I think this is a sound course for him to follow, but I think GVN insistence on withdrawal of the NVA from South Viet-Nam before an election is held is unrealistic and should be dropped.

It is clear that a political settlement in South Viet-Nam can come only after long and painful negotiations. However, I am encouraged that the two sides are continuing to talk and that their main points of difference at Paris seem to have narrowed. It is also a good sign that, despite their disappointments with the ceasefire, some GVN leaders still feel that the PRG may ultimately decide to negotiate in earnest. The GVN could make some concessions, particularly regarding privileges and immunities for the PRG, which would cost them nothing but would greatly improve the negotiating atmosphere. Along this line, I have urged Thieu to permit the PRG delegation to move from Davis Station to a more convenient and comfortable location in Saigon.

The Two-Party Joint Military Commission (TPJMC), one month after its inauguration, has made some small steps forward but has yet to accomplish most of the purposes for which it was formed. In the bi-weekly meetings of the Chiefs of Delegations, and more frequent meetings of the four commissions, the two delegations are regularly addressing a range of procedural matters and some substantive ones. Although agreements have been rare, there is slow progress in some areas—privileges and immunities and liaison flights. Thus far, however, the only substantive progress has been in the release of small numbers of civilian detainees. Through April 30 the PRG released 385 to the other side, the GVN 100.

On three crucial issues—effective enforcement of the ceasefire, return of the last military POWs, and deployment of PRG elements to the field—negotiations are at a standstill. In each instance, the PRG has either forestalled discussion on procedural grounds, or has put forward demands which the GVN will not accept. The PRG continues to call for meetings of local commanders, at whatever level, to arrange local ceasefires, and has rejected a compromise GVN proposal for such meetings under the aegis of equal-ranking TPJMC officers. Also, the PRG has tried to make the release of the 410 ARVN POWs it still admits holding conditional on the return of 210 former communist soldiers who "rallied" to the GVN. The GVN has offered to let the TPJMC and ICCS interview these men to verify their desire not to return.

An important reason for this lack of progress in the TPJMC is the absence of Lt. General Tran Van Tra, the chief of the PRG delegation. I doubt that negotiations in the TPJAMC can accomplish much until Tra or another representative with full powers is sent to Saigon.

The ICCS has not been able to fill the role envisaged for it in the Paris Agreement. One reason for this is that the TPJMC is not functioning as envisioned in the Agreement. Another is that the Commission's two communist members by various devices have prevented the ICCS from reporting adversely on the PRG/NVA. So far they are persisting in this attitude despite our forceful representations to the Polish and Hungarian governments.

Communist attacks on ICCS helicopters, especially the downing of an ICCS helicopter in Quang Tri in early April with the loss of all aboard, has caused the ICCS to limit its movements. Also, PRG refusals to guarantee the safety of ICCS teams have aborted ICCS investigations in a number of cases. Failure of the PRG to provide the ICCS cooperation and support has prevented the ICCS from moving to three team sites in PRG areas. (GVN support for the ICCS is now adequate.)

The Canadians by their vigorous leadership and forthright attitude have kept the ICCS functioning within the limits imposed by these conditions. Largely as a result of the Canadians' efforts the ICCS has been a useful influence in restraining both sides and in contributing toward the gradual dampening down of hostilities.

During the first 60 days of the ceasefire, the GVN returned to the other side 26,508 NVA and VC prisoners of war. Another 238 EPW refused repatriation. In the same period, the PRG returned 4,956 NVN PW and stated that another 62 RVN PW refused repatriation. Since March 28, the PRG has released a total of 90 RVN PW in small groups without prior notification. As of April 20, there were 586 enemy POWs in RVN camps, including over 200 captured since the ceasefire. Of these 586,103 were captured by the U.S.

Further exchange of POWs is stalled over conflicting claims. The GVN believes the communists are still holding back thousands of POWs and it insists that the PRG release 410 GVN POWs it is holding in the Pleiku area before further exchanges can take place. The PRG refuses to release these 410 until the GVN turns over 210 of the 238 communist POWs who have refused repatriation. However, I expect this impasse will eventually yield to negotiation in the TPJMC.

The Four-Party Joint Military Team (FPJMT) on dead and missing persons did little more than agree on procedural matters during its first month of existence. However, the team is now taking up substantive matters, and the DRV delegation has invited a FPJMT element to visit North Vietnam in May to visit the graves of the 23 U.S. servicemen who died in captivity and work out arrangements for the repatriation of their remains.

The U.S. Delegation has submitted to the Communist side the names of 105 MIA and BNR (bodies not recovered) personnel requesting whatever information can be provided on these cases. The Delegation will soon table the complete list of all 1,300 MIA and 1,100 SNR personnel. It is also making arrangements with the GVN to investigate several crash sites in GVN-controlled territory. These first investigations will help to establish procedures for later crash site investigations in PRG and contested territory.

There was a small breakthrough in the negotiations on civilian detainees immediately before X plus 90 when agreement was reached on the exchange of 750 GVN-held detainees for 637 PRG prisoners. However, procedural snarls over ICCS participation in the releases has, so far, allowed the exchange of only 100 GVN detainees for 385 PRG detainees. The GVN has also offered to return any of the 21,007 "common criminals" it claims to hold if the PRG proves to its satisfaction that they are Communist cadre. This is in addition to the 4,337 (5,081 minus the 750 in the first release) "communist criminals" the GVN admits to.

The GVN has compiled and submitted to the PRG a "white book" containing the names and curriculum vitae of 67,501 civilians "missing" since the 1954 ceasefire. The PRG has, so far, not admitted the existence of any more than the 637 prisoners they have agreed to release.

The names of former Assemblyman Tran Ngoc Chau and well-known pacifist activist Madam Ngo Ba Thanh have figured in recent reports. Chau is reportedly on the list of 750 detainees the GVN has agreed to release to the Communists. Madame Thanh has gone on a hunger strike and has been hospitalized.

During his United States trip Thieu publicly offered to let "anyone" inspect the places where civilians are being detained. Members of the foreign press have asked to do this and I have urged Thieu to make good on his promise. I have also urged him to release a substantial number of the non-Communist oppositionists who are now detained in the interest of removing one of the most serious criticisms of his government.

The 1973 Community Reconstruction and Local Development campaign began in March. Nine programs are singled out for special attention:

- 1. Local Administration
- 2. Local Revenue Improvement
- 3. People's Information
- 4. Agriculture, Fisheries, Forestry, Animal Husbandry Development
- 5. Rural Credit
- 6. Public Health
- 7. Education
- 8. Social Welfare
- 9. Public Works

The implementation of CRLD programs was slowed in the weeks immediately preceding the ceasefire and in the post-ceasefire months of February and March. Following a national television address by President Thieu, Corps Commanders and Province Chiefs having been placing more emphasis on the non-military aspects of their functions, and this had a noticeable effect of stimulating greater developmental activity at the village and hamlet level. However, more could be accomplished in the civil sector if the attention of GVN officials were not distracted by the current effort to organize the Democracy Party.

In reconstruction, all provinces and cities were requested to list each damaged facility, indicate the percent of damage, and provide an estimate of funds required for repairs. The requests currently are being reviewed jointly by GVN and U.S. representatives.

In the meantime, some reconstruction projects are underway and have been for several months. These include such projects as secondary roads and bridges; elementary and secondary school classrooms; maternity/dispensaries; and government offices. This has brought the allocation for recovery/ reconstruction projects since the NVA invasion of April, 1972, to a new total of about 923 million piasters.

With our financial assistance, the GVN has done a good job of handling the urgent needs of the over one million war victims and refugees generated by the 1972 NVA offensive. Emergency housing, food and medical care have been generally adequate. In mid-March the Interministerial Committee in charge of Return-to-Village and Resettlement was established. However, it is doubtful that substantial numbers of the nearly 600,000 refugees still in camps will move back to their villages until security improves and they can be assured of an opportunity to rebuild their homes and communities in an atmosphere of relative security. When this is achieved, relief emphasis will again concentrate on assistance of a more permanent nature.

Although there have been a number of reports predicting a renewal of main-force warfare by the VC/NVA in the near future, our estimate is that the enemy's objectives for the near future are local and limited. The continuing Communist military buildup in South Vietnam is in our view primarily an effort to strengthen their political leverage. Should the Communists fail to gain their political goals, as I am sure they will, they may at some point in the future consider returning to large-scale warfare. However, the strength of RVNAF is already such that the GVN could successfully meet this threat.

The actual level of violence again dropped in April. From March 28 through April 27, 3,111 enemy troops and 1,242 friendly were killed in combat as against 8,479 enemy and 1,520 friendly during the first month of the ceasefire. (This compares with the 1971 monthly average of 8,170 enemy killed and 1,940 friendly.) Similarly, use of artillery is greatly reduced and air action is at a low point. Nearly all the main lines of communications are open and there is near peace in many parts of the country.

Among the Communists' more blatant violations of the ceasefire are continuation of the two-month old siege of Tong Le Chan in Tay Ninh; attacks on Hong Ngu and on Mekong convoys resupplying Phnom Penh; continuing attacks on outposts in Chuong Thien Province; and the capture of two small but important GVN positions northwest of Hue. The PRG/NVA has been rehabilitating a number of disused airfields in territory it controls in apparent preparation for North Vietnamese air operations in the South. Rang Rang, about 42 miles northeast of Saigon, is one of these. Other military construction is being pushed, especially road construction in western Military Region I. Recent photography also shows pipeline construction from Laos into

western Military Region I at two points. The military infrastructure being built in this way would, of course, give the NVA important advantages in the event the war is resumed, a fact which is very worrisome to South Vietnamese leaders.

For its part the GVN has been conducting a "pacification offensive" in the Delta reminiscent of the accelerated pacification campaign of 1969. Around Hong Ngu in Kien Phong Province it has been conducting a military offensive designed to clear the Communist forces from the east bank of the Mekong and to throw back PRG/NVA threats to Hong Ngu. In Military Region I the ARVN in March conducted operations to consolidate control of the "Arizona Territory" southwest of Danang and is now conducting a similar operation in northern Binh Dinh—all in obvious disregard of the ceasefire.

There have been no major changes in the rural security situation since the ceasefire and no significant shifts in population or territorial control have occurred. The GVN has clearly held its own in Military Region III and in most areas of Military Region II; however, the situation has deteriorated somewhat in Kontum and in Northern and Central Binh Dinh. In Binh Dinh, declining security has forced postponement of the "back to village" program. In Military Region I, the GVN has moved some refugees back into southern Quang Tri, thus improving its presence and control in that area. However, enemy pressure north and west of Hue has resulted in a local decline in rural security.

In the Delta, there has been a general decline in rural security since January 28, but no major losses have occurred. The GVN has lost some portions of Chuong Thien, but may have strengthened its position in Kien Hoa. In Chau Doc and Kien Phong, along the Cambodian border, the major NVA/VC campaign still in progress has markedly worsened security in that area.

RVNAF combat effectiveness has improved as a result of combat experience, improved training, logistical support, and manpower accessions. Through the addition of field and air defense artillery, armor, anti-tank weapons, aircraft, and ships provided by Projects Enhance and Enhance Plus its effectiveness has been further improved. RVNAF is capable of controlling the major population centers, major LOCs, and those areas which they physically occupy and of defending RVN from all but a massive attack supported by a major power.

There are a number of weaknesses, however, which still require solution. One is the threat posed by the North Vietnamese use of the 130mm guns. Although RVNAF has artillery detection equipment roughly equivalent to U.S. units, it has proved ineffective in the current environment. More effective equipment and improved RVNAF techniques are needed.

Vietnamization has succeeded. With continued economic and military aid, we will have done everything that can be reasonably expected of us to ensure the South Vietnamese their political and military independence. A measure of the success of Vietnamization is the fact that Hanoi's leadership has been forced to reassess its reliance on force as a primary means to political ends.

Whether RVNAF will continue to improve in the period ahead will depend on several factors. One is the degree to which the JGS is able to establish a strong, disciplined chain of command, improve logistics and the maintenance of discipline; develop the country's leadership potential; and heighten troop motivation. Another is the degree of GVN success in attacking the pervasive corruption which erodes military and governmental efficiency and saps public confidence. A third is the manner and style in which the South Vietnamese leaders face up to the ceasefire and thereby maintain the confidence of their own people as well as gain international support.

In Cambodia, the recent elevation of GVN/RVNAF concern for Mekong convoy security has brought improved direction and coordination of convoy support operations. This was evident in the most recent, wholly successful, convoy voyage. In general, I believe South Vietnam is capable of defending itself against any foreseeable enemy threat from Cambodia, unless Hanoi were to regain the use of Kompong Som as a supply port to support a major offensive against the vital southern part of South Vietnam.

President Thieu's present political position is in some respects stronger than ever. He has entered the ceasefire period with his administrative-security apparatus controlling most of the country's territory and population, and the Communists have made no headway since January 28 in reversing this situation. Furthermore, Thieu's non-Communist opposition has been unable to find a formula for discrediting his leadership without exposing the country to a Communist takeover. They are stymied also by Thieu's recent decree-laws concerning the press and the political parties, which have restricted opposition political activity. But the weakness of the opposition is the absence of another leader capable of replacing Thieu at the helm.

Some observers see signs of danger in the present Vietnamese political scene despite its surface calm. No cure has been found for factionalism among non-Communist political groups. Nor has corruption been effectively attacked. The Communists will do their utmost to exploit these deep-seated flaws, using a combination of military pressure and political agitation.

Above all, the Communists will probably seek to attract to their cause the amorphous opposition to Thieu that exists in many quarters, a task that will be made easier to the extent that Thieu continues to promote the Democracy Party through heavy-handed recruitment methods at the expense of other groups. A looming danger in this connection is the reaction of these groups should the Democracy Party sweep the upcoming village council and upper house elections by heavy-handed exclusion of the opposition. Even though the opposition may do no more than sulk, its estrangement from the President would deepen, and the psychological unity of the nationalist cause would suffer.

Among the various independent groups, the Catholic-oriented Freedom Party and the new federation of political parties known as the Social Democratic Alliance currently have the best chance of finding a viable place alongside the Democracy Party. Opinions vary on the likelihood of their staking

out a lasting role, but, despite some skepticism even within their ranks, both are hard at work organizing under the terms of the new decree-law governing political parties. Their success will depend to a considerable extent on the degree to which the Administration gives them scope to operate.

Thieu is planning important changes to revitalize the administration of government. He told me not long ago that he plans to create a new economic position whose function will be to coordinate administration of economic assistance. His aim in doing this is better coordination, simplification of procedures, and elimination of competition for foreign aid among the ministries. Thieu is also planning to appoint a new Minister of Interior, relieving Prime Minister Khiem of concurrent responsibility for that office. Also Cultural Affairs is to be combined with the Ministry of Education and functions of the Ministry for Land Clearance and Hamlet Establishment will be coordinated with plans for resettlement and reconstruction.

Thieu also plans to decentralize the administration by shifting the greater part of normal administrative functions to province and district levels—a long overdue reform. When accomplished, this should enhance the efficiency of administration and at the same time meet the natural desire of local communities for greater control over their own affairs. Thieu hopes that by this reform he will be able to reduce the size of the bureaucracy.

The Vietnamese economy was hard hit by the 1972 invasion, in the wake of which domestic output fell by about 10 percent from 1971 levels. By late last year, however, a gradual recovery was underway. Uncertainty about the consequences of the Paris Agreement caused some hesitancy, but as of early May the recovery appears to be moving ahead again. GVN economic policy continues to be well-managed and effective. The financial situation is stable and black market activity insignificant. Price inflation in the past year has been about 25 percent—too high by far—but not unexpectedly so considering the invasion and higher costs in world markets. Unfortunately, the burden has fallen on GVN employees whose salaries have not risen since mid-1972.

Tax collections have been remarkable. Exports, although still small, nearly doubled in the past year and appear to be on a solid growth track. Reconstruction of villages, roads and bridges is getting underway, but continuing insecurity and budget limitations continue to slow progress. One highly successful and important program in a sensitive political area has been land reform, which is proceeding on schedule and has done much to convince rural Vietnamese that the GVN is committed to social justice.

For the remainder of this year, the GVN's dollar earnings will continue to fall as a result of reduced U.S. involvement. This, combined with the failure of Congress to appropriate increased assistance funds for FY 73 has produced a net decline in resources, which is of considerable concern. The San Clemente decisions should stem the drain on exchange reserves through the rest of the year, but much depends on the FY 74 AID appropriation.

In general, San Clemente relieved GVN officials of many of their anxieties and their attention has shifted to more affirmative policy actions to get the

economy moving on development by the second half of this year. They plan measures to ease farm and industrial development credit, enlarged expenditures on refugees and public works in depressed areas, and strong efforts to get a breakthrough on foreign investment by concluding negotiations for a few key projects. The GVN has begun to divest itself of a dozen government-owned business enterprises. Reform of the wage structure and an attempt to cut fat out of both civil and military staffing is also planned.

President Thieu understands that unduly defensive economic policies could perpetuate the current stagnation and that an aggressive approach, involving more credit and expenditures, while riskier on the surface, offers a chance to accelerate foreign investment, third country assistance, and loans from international institutions. To make present sacrifices tolerable, what is needed is a climate of bustling activity, construction, and change. The GVN is sensitive to this need and is seeking to respond to it.

The Defense Attache Office (DAO) is now fully functioning, with 50 DOD military and 1,200 civilians. To complete the process of Vietnamization of the logistic and administrative elements of RVNAF, DAO has assigned civilian technicians and contract employees to assist in equipment maintenance, parts resupply, the development of automated logistic management systems, and training RVNAF personnel. The program is progressing well and should bring substantial savings in manpower, transportation and stockage. Over 30 auditors are employed to ensure that the Vietnamese are employing resources in accordance with security assistance rules.

Major upgrading of the VNAF fleet has created special difficulties in achieving early logistic self-sufficiency. DAO is providing technical assistance by contract to train RVNAF pilots and maintenance personnel. Because of the complexity of the new equipment and the substantial increases in the fleet brought about by Enhance Plus, self-sufficiency for VNAF will take longer than in the other services.

On March 1, Consulates General were established at Danang, Nha Trang, Bien Hoa and Can Tho. Simultaneously, CORDS was dissolved and CORDS field staffs subordinated to the Consuls General.

The Consulates General do political and economic reporting and provide assistance to the GVN in the full range of U.S.-supported civil programs, particularly in the areas of resettlement, reconstruction and social welfare. To ensure a continuation of the wide geographic coverage that existed under CORDS, inter-province teams have been set up in key provinces.

By the end of March, all offices had completed their shakedown period and were accomplishing their assigned tasks. These new institutions have preserved continuity in the U.S.-Vietnamese counterpart relationships and have greatly facilitated the Mission's task in accomplishing the ceasefire reporting to which Washington has assigned high priority.

Like most observers at the time the Paris Agreement was signed, I had hoped that by X plus 90 we would be closer to a stable peace in Indochina than we now are. Certainly we have had many disappointments in the past

## Ninety-sixth (Final) Message

three months and the road ahead looks long and difficult. Violations of the ceasefire by both sides have continued. There has been little evidence on either side of the spirit of reconciliation envisaged by Article 11 of the Agreement. Nonetheless, important gains have been made since January 27. Imperfect though it is, the situation today is far better than before the signing of the Paris Agreement. While Hanoi is obviously maintaining its options, the weight of the evidence indicates that they will continue attempting to exploit the political phase for an indefinite period. If, in the meantime, we can persuade both sides to take practical steps leading to observance of the ceasefire and toward a political solution, I believe the situation will gradually improve. This may require continuing pressure in some form on both the DRV and the GVN. 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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