Political Developments and Prospects in South Vietnam
Summary

Although the military establishment has a virtual monopoly on the levers of real power in South Vietnam, it has shown a steadily increasing degree of political wisdom and sophistication since assuming political control in May 1965. The military government has successfully coped with the kinds of crises that toppled its predecessors, and has taken South Vietnam a significant way down the road toward constitutional government. Though South Vietnamese politics are still marked by stress, fragmentation, and potential discord, the last two years have witnessed a notable improvement in political stability and the initiation of a process at the Saigon level which holds promise of leading to the evolution of the kind of national political institutions which are needed to make South Vietnam a viable modern state.

For over a year, the military establishment has been quietly exploring ways of creating a political apparatus capable of ensuring continued military domination within a constitutional and representative system (though no such apparatus has yet been built or is likely to be constructed before the elections). This effort has been carried on primarily by General Ky (and his immediate associates), who has made overtures to and developed some measure of support among a wide range of civilian groups.

Political thinking, within the military however, has been premised on the assumption that there would be only one military candidate in the forthcoming elections, a candidate to which the military establishment could give unified support. This assumption, in turn, has been based on the recognition that military unity and cohesion is essential to continued political progress and stability, for the generals are well aware that the prime contributor to the political achievements of the past two years has been the unity displayed (so far) by the military establishment. This unity
is now threatened — though not yet jeopardized — by the sharpening rivalry between Ky and General Thieu. Ky has formally announced himself a candidate for the presidency and Thieu has indicated that he also plans to run.

The civilian political opposition to the military establishment is fragmented and almost certainly could not develop the kind of organized effort that would be necessary to defeat a candidate with undivided military backing. If Ky were the only military candidate, his chances for winning a comfortable plurality would be considerably better than even. If Thieu actually runs, prognosis will be uncertain until we can see the actual effect of Thieu’s candidacy on unified military support of Ky.

The strongest of the civilian candidates is Tran Van Huong, who is almost certain to run. As a southerner and a staunch advocate of southern causes, Huong would draw heavy support from this area. While he gives lip service to the need for military-civilian cooperation, compromise with the military, would be difficult for Huong as president. The chairman of the Constituent Assembly, Phan Khac San, may also run, but is unlikely to gain significant support outside the southern area.

In casting about for issues, civilian candidates are certain to raise the themes of corruption, peace and foreign (i.e., US) domination. The militant (Tri Quang) Buddhists have already launched at least a trial run of an anti-war, anti-US campaign. The injection of such themes into the electoral campaign will receive wide play in the international press but we doubt if they will become (or that the GVN will let them become) burning, divisive issues in Vietnam. Though the US has some vocal and highly articulate critics among the Vietnamese intelligentsia, and though the sheer magnitude of the US presence in Vietnam makes some friction and resentment inevitable, by and large the US is well regarded by politically conscious Vietnamese, most of whom are grateful for American support.
and recognize that without it, South Vietnam could not survive as an independent political entity.

Similarly, though many Vietnamese are understandably tired of strife, there is widespread acceptance of the fact that the only alternative to continued struggle is the unacceptable one of Communist domination. The GVN is not likely to allow much discussion of reconciliation or rapprochement with the NLF during the forthcoming campaign, but here it will be running with, not against, the prevailing climate of non-Communist opinion since the NLF’s claims to potential independence of view and indigenous political roots are given much less credence within Vietnam than they are given abroad.

Over the past two years the trends in South Vietnamese political life have been favorable and encouraging, but the unity and stability achieved, though significant, is fragile. Over the weeks ahead there will be real and constant risks that electoral ambitions and stresses will inject divisive strains sufficient to destroy this stability and arrest the progress achieved to date, particularly if the Thieu-Ky rivalry splits the unity of the military establishment. There will also be the risk that Ky or his associates (e.g., General Loan) will succumb to temptation and try to rig the election in a politically disastrous manner. Predictions, thus, cannot be offered with confidence. It remains the case, however, that South Vietnam’s record of political achievement has been impressive, that in the process now in train there are signs of genuine political development, and that events, so far, are moving in the right direction.
The Setting

1. Since its independence in 1954, South Vietnam has been in the throes of political evolution, the course of which has been erratic and often convulsive. In particular, the pace of political activity quickened following the overthrow of the Diem regime, although such activity often occurred in extra-legal channels more than in legal ones. Under the present military regime, however, politics have tended to shift from the streets and back rooms toward more conventional political modes and forums. To have come this far is no mean achievement, given the country's political history, and represents more progress than anyone expected when the military assumed control in June 1965.

2. But the crucial question is, what happens now? South Vietnam has poor clay with which to build a national political structure. Endemic political fragmentation is still the rule, and politics tend to be dominated by narrow-based, usually contentious, factions reflecting regional, religious, or simply personal loyalties with little consideration for broader national interest. Not only is there nothing resembling a national party, but even the political fragments are badly splintered. Thus, the upcoming presidential and legislative elections will test the ability of the Vietnamese to form a government that is both reasonably effective and relatively representative; that is, a government that reflects, and is cognizant of, the necessity for balancing personal liberty and national order. There can be no assurance that this goal will be realized; the attempt itself might once again plunge the country into political paroxysms.

3. In any event, the divisive nature of Vietnamese politics will have to be attenuated, and eventually subsumed, by a broader political framework if continued political progress is to be realized. Although broadly based political groupings are not an early prospect, there are encouraging indications that the elections are stimulating cooperation among diverse political factions. This is of great significance for Vietnam and for the US
because, if handled well, this process could cause political life in South Vietnam to move in the general direction of stability and order. The following paragraphs will assess the factors and forces now influential in South Vietnamese political life.

The Military Establishment

Composition, Attitudes and Loyalties

4. Since assuming open control of the government in May 1965, the military establishment has displayed a remarkable degree of cohesion. This cohesion derives in large measure from the similar backgrounds of the senior officers--regional, religious, military, educational and experience--and their fairly acute awareness and understanding of the political realities in Vietnam. As a result, there is at least some willingness to subordinate personal ambitions to the collective interests of the military and an apparent consensus among the military hierarchy concerning the major policy issues facing Vietnam. In light of the past performance of South Vietnam's civilian politicians, the military has no confidence in the ability of the civilians to administer effectively, to maintain national cohesion, to pursue the war vigorously, or to refrain from interference in professional military matters. The military leaders share a common aspiration for political stability, but they interpret this as requiring military dominance in any government in the near future.

5. The military leadership has faced many thorny issues, but the most serious potential threat to the cohesion of the Directorate since its inception two years ago has come from within, on the issue of which of its two principal leaders would become the military candidate in the presidential elections. Early on, General Thieu seized the initiative by saying that while he thought that he would be a candidate, he would defer the public announcement of his decision while he reflected on his chances for success. This position evoked from General Ky a promise of support if, in fact, Thieu chose to run. But as months rolled by and Thieu continued to
vacillate, Ky who quite obviously wished to run and
tsaw his chances as infinitely better than those of
his senior colleague, became highly restive.

16. Since the two men were apparently unable
to resolve the problem face-to-face, Ky began to
exert pressure on the other members of the Directo-
rate to choose between the two by vote. Having
reached the top by not having made many bad guesses
in the Saigon arena of internal military politics,
the senior generals were understandably chary of
making such a selection, even by secret ballot. Both
contenders launched a variety of stratagems and ploys
to see the issue finally resolved. Suspicions and
divided loyalties among the other Directorate members
were major by-products of this prolonged infighting.
The 8 May announcement by the Minister of Defense,
General Vien, that the armed forces would not put
forth, as such, a military candidate, broke the im-
passe. In this statement, Ky saw absolution from
his pledge of support to Thieu, enabling him to an-
nounce his candidacy at once.

7. If the weight of Ky's confident bid for
power is sufficient to convince the indecisive
General Thieu that he should abandon all thoughts
of his own candidacy, the prognosis for unanimity
among the high command is good. Ky and his closest
supporters should be able to paper over the problems
in the Directorate that the delay has caused, and a
closing of ranks in support of Ky can be expected.
If Thieu also chooses to run, however, the dilemma
that has so far been fairly well contained within
the Directorate itself will be extended throughout
the ranks of the entire officer corps. Such a move
on Thieu's part could have divisive effects through­
out the country. Corps, provinces and districts
are almost exclusively administered by military
officers. The power of these officials, which was
admirably used in last September's Constituent
Assembly elections simply to get out the vote, may
well be abused in the presidential elections in
support of the military candidate whom they feel
deserves their loyalty. Within ARVN proper, down to
the platoon level, military commanders will be hard
pressed to decide how they should counsel their
troops to vote. This conundrum cannot help but distract the military and adversely affect the vigor with which the war is prosecuted during the months of the campaign.

8. Though remote, the possibility exists that General Thieu, who has stated that the military establishment ought to withdraw from politics, may decide to ally himself with a civilian running mate and campaign on a platform which advocates the return of power to civilian hands. This would have obvious appeal to the large civil element who might see in Thieu's candidacy an opportunity to reduce sharply the chances of front runner Ky. But inherently Thieu has minimal voter appeal, and no extra-military organizational base of national scope. Moreover, the Army, spearheaded by the "baby Turks," would see in Thieu's move a betrayal and a threat to the destiny to forge the nation which they believe is theirs. These predominantly northern and pro-Ky officers would be able to dilute the army loyalty Thieu might be counting on. The effect would still be divisive, of course, but much less so than if Thieu chose to run as an avowed military candidate.

Political Strategy and Assets

9. For over a year, the military establishment has been quietly exploring ways of creating a political apparatus with which to inure continued military domination within a constitutional and representative system. To this end, the GVN has sought and received advice from the South Koreans and, to a lesser extent, from the Chinese Nationalists (who have advisers in the GVN's political warfare department). The ROK CIA has sponsored trips to Korea by Generals Chieu, Loan, and Vien; Nguyen Van Kieu (General Thieu's brother and an assistant of General Chieu) had a "special assignment" to Seoul to study how the ROK military formed its political party. We do not know how much direct assistance the Koreans are providing to the GVN's political efforts, but we are reasonably confident that the ROK CIA is in contact with Loan and Chieu and probably with Ky as well. In any event, the manner in which the Korean military establishment has succeeded in legitimatizing its control of
political power is an obvious model for the Vietnamese military. According to National Police Director General Nguyen Ngoc Loan, however, the long delay in deciding which man would run has put the military months behind in the broad-based civil-military organizational planning which they had envisaged.

10. Loan, who will manage the Ky campaign, feels that it is too late to create the viable political coalition originally planned as a front for the military candidate. With less than four months until election, such a front now would only be window dressing. Instead he plans to work clandestinely on a province-by-province basis using what strengths exist in terms of favorably inclined local political groups and the facilities of the government’s administrative apparatus. In the latter instance, the military establishment has substantial political assets at its disposal. It controls the financial coffers of the country; it is the dispenser of governmental favors, jobs and sinecures; it has the organization, manpower, and trucks to see that the voters get to the polls. In short, the military is the only (non-Communist) body whose power and sway extends throughout the country, and this gives it tremendous advantages in organizing grass roots support. In particular, the Revolutionary Development (RD) program and cadre provide the regime with a potentially formidable political instrument with which to get to the people. The RD teams were used for political purposes to get out the vote for the Constituent Assembly elections last September, and will undoubtedly be even more active in the presidential and legislative contests this fall.

11. In addition to the RD cadre, the military hierarchy can count on the support of most of the armed forces, the civil administrative apparatus, and provincial and district officials (most of whom are military). These groups not only have a vested interest in the present system, but they are susceptible to persuasion and pressure from the government. Thus, as election day approaches, it can be assumed that considerable emphasis will be placed on these groups delivering the vote. Officials whose
response appears less than enthusiastic will run the risk of being replaced.

Civilian Support

12. In addition to the substantial affects the military has from its own resources, the establishment leaders will probably be at least moderately successful in garnering support for their presidential candidate from a number of the traditional civilian political factions. It is generally accepted in Vietnam that military support is essential for the survival of any government, and many believe that at this time the only way to insure military support is to have a military man in the top executive post. Moreover, the military's support of a faction's legislative ticket could be decisive. Such considerations, plus the fact that most Vietnamese observers believe that the military will win anyway, tend to provide considerable incentive to cooperate with the military and thereby get on the bandwagon and share the rewards and spoils of victory.

13. The military establishment will have to make strong overtures to these groupings, but it must be stressed that endorsement of a candidate by a political faction does not mean that the candidate will receive full support from the faction's adherents. There is such a mishmash of conflicting interests within the many political groups that some seepage is inevitable. Indeed, some groups will attempt to be involved to some extent in each of the contending camps so as to insure their interests no matter how the election comes out.

14. Chief among the military establishment's political targets will be the following groups:

a. The Hoa Hao Sect. In the Delta, the Hoa Hao religious organization, which carries more political weight than the sect's small political parties, appears to favor backing the military's candidate. Such leaders as Van Phu and Le Phuoc Sang, once a special assistant to Ky and now the leader of the Democratic-Alliance Bloc in the Constituent Assembly (CA), probably see more to gain
in aligning the sect with the military than in following southern regionalist sentiments and backing a candidate such as Tran Van Huong or Phan Khac Suu. In fact, the sect's strength as a southern faction gives it particular appeal to the GVN, which is weakest in this area.

b. The Cao Dai Sect. No longer much of a political force outside of certain enclaves such as Tay Ninh Province, the Cao Dai Sect has been amenable to GVN persuasion in the past. The presidential candidacy of civilian Phan Khac Suu (a Cao Dai member) notwithstanding, the odds are slightly better than even that most of the Cao Dai leaders will follow the GVN's lead.

c. The VHQDD Party. Truly a many splintered thing, some of the VHQDD factions, whose strength is primarily in I Corps area of central Vietnam, will back the military; to do otherwise would risk having the military opt to work exclusively with the Dai Viet; the VHQDD's arch rivals in I Corps. During the "struggle" movement last year, the VHQDD leaders apparently cooperated with the GVN. Ky has been in frequent contact with VHQDD leaders and other military leaders have probably had similar contacts.

d. Northern Catholics. Plunged into disarray following Drum's ouster, the large (almost one million) northern Catholic element has steadily reasserted itself as a strong and cohesive political force that must be reckoned with in the nation's political future. Sharing very similar goals with the military, many of whom are northern Catholics, the northern Catholics have had cordial relations with the military regime. In particular, the northern Catholics favor the military's policy of a vigorous prosecution of the war. The candidacy of Tran Van Huong, however, might draw some support from the northern Catholics because of his anti-Buddhist background, but the southern regionalism that Huong also personifies would work against him. Moreover, the northern Catholics were undoubtedly more impressed by the military's forthright squashing of the militant Buddhists last year than they were by Huong's overthrow by the Buddhists. In any event,
we believe that the bulk of northern Catholic support will go to the military establishment's candidate.

3. Northern Buddhists. The northern refugee Buddhists are led by Thich Tam Chau and are strongest in and near Saigon. Following the open break between Chau and militant Buddhist Thich Tri Quang in the wake of the "struggle movement" last year, Chau has been cooperating with the military government, with General Loan serving as the regime's principal contact. The regime has been aiding Chau in his efforts, as yet unsuccessful, to create a national Buddhist organization free from the influence of Tri Quang. In return, Chau will probably be expected to back the military's presidential candidate, and although he might not formally endorse the candidate, we believe that he will deliver the vote. Indeed, if Tran Van Huong is the main civilian candidate, or if Tri Quang takes an active role in the election, we believe the odds are fairly good that Chau will openly back the military's choice.

f. Labor. Tran Quoc Buu, prominent leader of Vietnam's major labor organization, appears to have switched his allegiance from Tran Van Huong to Premier Ky. The labor vote in Vietnam is not large, but in the Saigon area it is of some consequence. Buu claims to be working with Dan Van Sung, an old-line Dai Viet, and Nha Hao leader Le Phuoc Sang in forming a front to support Ky. Buu, who aspires to be a political force, has apparently concluded that no civilian candidate can hope to win and that it is smart politics to back a winner.

g. The Veterans' League. Under the leadership of General Chieu, the Veterans' League, which has limited political potential, should be solidly in the military's camp. The League plans to run about 30 candidates for the legislature and will probably receive governmental support for this endeavor. Apart from the general value of organized support, the League gives the military establishment some organized support in the south--the weakest link in the military's chain of support, and the area from which the major opposition to the GVN will come.
The Civilian Opposition

15. Phan Khac Suu. Chairman of the Constituent Assembly and former chief of state (October 1964 - June 1965), Phan Khac Suu apparently has decided to stand for the presidency with Phan Quang Dan, CA member and president of the Gia Dinh Provincial Council, as his vice-presidential running mate. Suu has had a long, if not particularly distinguished, political career in South Vietnam. And although his age (62) and lack of dynamism are considered liabilities by some, he is nationally known and may even be something of a "father image" in a country where "generation of the elderly is a strong, common emotion. In any event, Suu, who is a southerner, would run strongest in the Delta area and might also get some support from VNOQDD elements in central Vietnam. The presence of Dan on the slate would draw votes in the populous Saigon area. The Suu-Dan ticket makes some attempt at a regional balance, but unless a centrist is added as the prime ministerial choice, it does not seem likely to obtain significant support outside of southern region. Unless it does obtain such support, its chances of seriously challenging the military's candidate are very small.

16. Dan, and perhaps Suu as well, recognize the odds against their ticket. Indeed, Dan has indicated that he believes the military will win the election, and there were indications that he was trying to persuade Suu not to run for the presidency but to head up a legislative slate. We do not know what lies behind Suu's decision. He may feel that his time is running out to play an important role in Vietnamese politics, and he would prefer to play it in the main arena, not in a legislative side show. Or he may feel that, whatever his chances are, he has something to contribute to a presidential campaign and the country's political future. In any event, Suu's presence in the race will have the effect of splitting southern strength, and there is a possibility that the GVN had a surreptitious hand in persuading Suu to run.

17. Tran Van Huong. The strongest civilian candidate is Tran Van Huong, who, despite not having
yet formally declared his candidacy, is almost certain to run. Huong, unlike Suu, is both forceful and determined. He has not forgotten his past difficulties with the military and the Buddhists who were instrumental in his ouster as premier in January 1965. As a result, he harbors much distrust for both. Thus, while Huong gives lip service to the need for military-civilian cooperation, compromise with the military would tend to be difficult for him. Huong believes in a strong executive and is frankly of the belief that the majority of the Vietnamese people are not ready for democracy and do not necessarily need or want it. US officials have stated that Huong, who has expressed admiration for Diem's "good qualities," appears to have some of the late dictator's characteristics, namely honesty, courage, a sense of mission, a capacity for stubbornness, and a basically confucian-mandarin view of government and society.

19. Huong, a southerner, is a staunch champion of southern regionalist sentiments and would draw heavy support from this area. Even some southern-born military officers have expressed interest in Huong's candidacy. Former youth minister Vo Long Trieu, who was one of the dissident southern ministers that resigned in last October's "cabinet crisis," is currently acting as Huong's campaign manager and is a member of a "brain trust" that is plotting Huong's political strategy. Trieu is the acknowledged leader of the Movement for the Renaissance of the South, a militantly southern separatist group, which is solidly in Huong's camp. Huong would probably obtain the bulk of southern Catholic and Buddhist support since these politically inchoate groups generally follow the lead of the southern political organizations; he would also pull some votes in the Hoa Hao and Cao Dai areas.

19. Huong realizes that if he is to have a real chance of challenging the military's candidate, he must broaden his political base outside the southern region. Initially, Huong appeared to favor an alignment with the VNQDD. But since the military (or more specifically, Ky) seems to have gained a rather secure lock on VNQDD support, Huong
has explored the possibility of an alliance with Revolutionary Dai Viet Party (RDVP) leader Ha Thuc Ky, who at the moment claims to be running for the presidency himself.

20. Huong would probably garner some northern Catholic votes because of his previous strong stand against the Buddhist Institute. Trieu is one of the key leaders of the Catholic Liaison Office in Saigon, which has played an important role in promoting Catholic cohesion, and can be expected to lobby for Huong in this group. Trieu has also said that Tri Quang's militant Buddhist following in central Vietnam would not oppose Huong's candidacy. Indeed, it is not at all out of the question that Tri Quang might enter into an open alliance with the southern regionals in support of Huong, especially if Huong should take a strong stand against the military and a somewhat anti-US tack.

21. Politics, as is generally recognized, produce strange bedfellows, particularly in South Vietnam. Precisely because Huong appears to be the strongest likely civilian candidate, particularly in light of his southern ties, Ky seems to be weighing the idea of seeking Huong's cooperation, perhaps as his (Ky's) running mate. At first blush this might seem an improbable ticket, but it would be a very strong one, particularly since Huong's and Ky's relative strengths and assets are very complementary. Huong might reject the offer, but it is far from certain that he would do so, particularly if he felt Ky sure to win anyway (illegally, if necessary) and thought that by joining forces with Ky he could not only share the spoils of victory but, by his participation, temper the military cast and orientation of Ky's government.

22. Ha Thuc Ky. Although RDVP leader Ky has made no secret of his presidential candidacy, he may really be fishing for a deal in which he "withdraws" and throws his support to another candidate in return for the vice-presidential slot or some other prestigious position in the new government for himself and his party. It remains to be seen whether Ky will forge an alliance with Huong. Indeed, the odds are as good or slightly better that the military establishment can win the RDVP over to its side.
Many of the military leaders have a Dai Viet background, e.g., Thieu, Tri, and Vien. (Thieu's brother, Kieu, was an influential Dai Viet leader, and two of Ky's closest advisers, Dinh Trinh Chinh, and Bui Diem, were connected with the party.) Finally, of course, Ha Thuc Ky may not be able to make a deal with anyone; if so, he would almost certainly remain in the race despite his negligible chances.

The Elections: Issues and Pitfalls

Issues

23. Marshal Ky will run on the accomplishments of his government's two years in power. The stability he has provided Vietnam will be less an issue than the social revolution which has been begun. Ky sees himself as one of the few leaders sufficiently concerned with raising the living standard above its present subsistence level with the power and determination to do something about it. He believes, with some justice, that the progress made in just a year toward elective representative government based on a constitution has been heartening and impressive, particularly in a nation at war. If Ky is able to make clear in the villages and hamlets what the implications of this new structure can be, he may do much more than just insure his election -- he may cause the Vietnamese to start thinking of themselves as a nation. Reportedly, the main thrust of his campaign will be conducted in the countryside, where he will attempt to identify himself with a social revolution in which the government (i.e., his government) has joined forces with the poor.硬革命ary in Western eyes, a direct appeal to the peasantry, in itself, would be a major change in the traditional mandarinal Vietnamese way of life.

24. Ky has shown more skill than most people gave him credit for in his informal dealings with the Constituent Assembly members in an effort to see the government's thinking reflected in the constitution. He will undoubtedly continue his efforts within this group, many of whom will be candidates for the legislature. A presidential victory would
be incomplete without substantial majorities in both houses of the legislature. To accomplish this, General Loan plans to spend the majority of his election funds in direct support of individual legislative candidates. Loan feels that the average Vietnamese politician lacks the breadth of vision to understand the principle of reciprocal political power. He thinks only of his own political fortunes rather than in terms of tying his fortunes to that of any other power element. The concept of log-rolling is largely foreign in the Vietnamese political milieu. Political "deals," which are a basic practice in sophisticated Western democracies, have little appeal or meaning in the relatively primitive political context of Vietnam, where only money has political value at this time.

25. These machinations and other local deals, patronage, etc., Marshal Ky will leave to General Loan—who will function in the murky, behind-the-scenes, atmosphere. Ky will stay in the public eye, hammering home the broad themes of social justice and nation building.

26. One major issue on which Ky will undoubtedly take a hard line will be on the question of a coalition government or of discussions with the Viet Cong and the National Liberation Front. The generals are adamantly on record on this score, but they have shown some willingness to consider talking to their Hanoi counterparts. For all practical purposes, however, a strong anti-Communist posture and a resolute determination to prosecute the war will probably be the strongest plank in the platform.

27. As electioneering picks up steam, we anticipate a rising chorus of criticism against the military establishment and its performance in office. This could become particularly bitter if the civilian candidates decide that their only hope of rallying the people is to pull out all the stops in attacking the military. The military establishment will be charged with attempting to perpetuate itself in power and thereby flaunting the people's "desire" for a civilian government. General Loan,
long a target of southern civilian ire, will almost certainly be bitterly assailed and accused of intimidating and suppressing civilian opposition to the military regime. And as is usually the case in politically underdeveloped states, the "outs" will be predisposed to charge that the "ins" have rigged the elections.

28. The civilian opposition will undoubtedly hammer away consistently at the themes of inefficiency and corruption within the military establishment. The GVN is vulnerable on the score of corruption and is itself embarked on an anti-corruption crusade. Nonetheless, the opposition will get some mileage from this issue. The military (and the US) will also be blamed for the increased cost of living, inflation, and other deprivations occasioned by the war. Finally, the military will almost certainly not escape being labelled as a "US-puppet."

29. Beyond these issues, such potentially explosive questions as peace and the US role in Vietnam are certain to be broached during the election campaign. The opposition groups, feeling themselves in dire need of some emotionally dramatic issues to offset the military's advantageous position, may come out for peace and neutrality and may attack the US presence in Vietnam. Indeed, there are signs that the militant [Tri Quang] wing of the Buddhist movement is trying to launch just such a campaign. Tri Quang may hope to make common cause with non-clerical, southern groups who, partially reflecting their closer affinity and contact with the French, have generally taken a more compromising attitude toward ending the war and have tended to be more vocal about the allegedly deleterious effects of the US presence on the country's economic, social, and moral fibre. Even if this recently surfaced Buddhist campaign does not catch on, there will at least be significant undertones of anti-US and neutralist sentiments in the campaigning.
Potential Pitfalls

30. The most obvious pitfall, of course, is that the electoral process will somehow set off forces which destroy the substantial, but as yet fragile, progress made thus far. This could come about in a number of ways, e.g., a serious split in the military establishment that resulted in a military coup, or a situation in which the campaign became so bitter that the security of the country was so threatened by demonstration, riots, and the like that the military felt compelled to suspend the elections and resort to suppressive measures. However, both of these possibilities are unlikely at the present time.

31. Somewhat more likely is the possibility that the military will attempt to rig the elections or engage in flagrant activities that would destroy their integrity. Getting out the vote in the Constituent Assembly elections was one thing, getting it out in support of a particular candidate requires more sophisticated tactics. General Loan has said that he could rig the elections but, with the foreign press looking over his shoulder, not without detection. Although he claims he has consequently discarded any thought of rigging Loan may be irresistibly tempted to shore up soft spots as a matter of expediency, particularly since time is so short. Loan, despite the assets at the government’s command and his confidence that Ky will win, does not see victory as automatic. In effect, he is running scared. His current estimate gives Ky 60 percent of I Corps, and he is sure of II Corps, but he believes that in III Corps and the Delta provinces, the nation’s population center, southern support favors Phan Khac Suu. Though by no means the crude hatchet man his opponents depict him to be, General Loan may be impelled by excessive zeal to resort to politically counter productive intimidation of his opposition, particularly in the critical southern provinces.
32. Equally serious and perhaps more damaging, if exploited by the civilians, will be the sources of funds developed to support the Ky campaign and the method Loan uses to raise such funds. He estimates 50 million piastres will be needed for the presidential race and 70 million will have to be expanded on legislative candidates. This sum -- the equivalent of one million dollars -- he sees as the absolute minimum required. Given the loose fiscal practices of the government, Loan could easily raise such a sum quietly if he had more time. But pressed, he is quite likely to turn to methods not easily concealed which, in turn, could tie Ky directly to the major issue of governmental corruption, a charge from which Ky has been free up till now. In short, Loan is an active man, and, now, an impatient one as well. He has many talents but little experience and sorely needs political guidance if he is not to kick over the traces.

33. Yet another potential pitfall lies in the danger that the military will not be particularly concerned to make an effort to include a significant civilian element in the new government. Some in the military do not sufficiently appreciate the political need for the new government to look like something new, or at least to avoid having it look as if the political process now in train has been designed only to give a constitutional and electoral veneer to the same old political arrangements. This is important for both the domestic and international image of the new government. On balance, however, the top leadership in the military is aware of the importance of the coupling of the military and civilian elements in the government, and they will be receptive to US advice in this direction. Thus, the odds are better than even that the new government will contain enough of a civilian aura to give credibility and substance to a claim that it does represent a real step forward.

Prospects

34. Considering the assets that the military establishment already possessor and the potential
support that it may gain through political deals, chances are considerably better than even that if the military remains unified, whoever it supports for the presidency will win comfortably. No opposition group can rival the nation-wide apparatus and potential Tammany-like influence that can be utilized by the military establishment.

35. Should the opposition campaigns become bitter, as they might, a number of abrasive issues may be raised which will involve the US. Should the government try to insure the success of their candidate through fraud or bulldozer tactics, its victory may be so sullied as to destroy the value of the election itself.

36. Should Ky and Thieu both run and carve each other up, or should a particularly heinous case of government election fraud be revealed -- or perhaps simply through an act of God -- a civilian candidate may squeak through in September. Should this happen, the basic differences between the military and the civilians will soon be manifested. In discussing such a possibility, General Loan felt that the military establishment would not surrender any of its decision making prerogatives on the conduct of the war to the civilians. (He included in this the military budget.) He predicted that given a repetition of the civilian ineptitude of the past, such a government would soon be toppled by a military coup. Loan freely admitted the retrogression this would represent for the nation and saw, as well, the impossible position in which this would place the US, but still felt the clash would be inevitable.

37. In the more likely event of a victory for General Ky, even with fair support in the legislature, politics in the new government would generally resemble the present situation. Most of the same problems would still exist, and the government would still be faced with the same vulnerabilities. The civilian-military relationship in general, and regionalism in particular, would continue to be the major stumbling blocks. Regardless of the extent of civilian participation in the new administration, there are certain to be strains and stresses in
executive-legislative relations. Compromise and political give and take are not firmly rooted in Vietnamese political life, and the disparity of power between the civilians and military tends to result in the civilians being over-sensitive to real or imagined faults of the military while some of the military leaders tend to take a rather cavalier attitude toward the civilians and the need to cooperate with them. Because of the fragile nature of the system, judgments concerning longer range developments must be highly tentative. There will be crises, any of which could prove to be the ultimate undoing of the whole system.

38. The forthcoming national elections -- if they are held, result in a winner with a reasonable plurality (say, 40 percent or better of the total vote), and are reasonably free from suspicion of fraud -- will be an important political achievement and milestone. Even successful elections, however, will not insure continued political progress in South Vietnam. The stability and effectiveness of the present regime and any elected successor cannot be separated from the three principal determinants of Vietnamese political life: the conduct of the war, the development of representative national institutions, and the engagement of the bulk of the populace in a GVN-oriented political process. No Saigon government will be able to develop and sustain a viable national base without stimulating popular engagement or identification with its fortunes. No government will be able to stimulate such engagement without freeing itself from presently powerful commercial and landed interests and adopting a stance that, in Vietnamese terms, has genuinely revolutionary elements.

39. Ky himself has already begun paying articulate lip-service to this need for a "genuine revolution." Incorporation of such sentiments into his political platform and program may well help carry him to an honest victory. If he wins, however, he will have to match words with deeds if he and his colleagues are to generate any real political momentum or develop a real base of rice-rooted support.
40. The prospects for political development in Vietnam is uncertain but the record of the past year is encouraging. Despite the obvious stresses, strains and potential pitfalls, the possibilities for genuine progress are there and, at the moment, events are moving in the right direction.

41. Finally, it should be noted that the course of political evolution in South Vietnam will inevitably be influenced by the stance adopted by the US and the actions the US engages or does not engage in. A majority of the politically articulate and concerned elements in South Vietnam believes the US has and exercises substantial political influence (a view also widely held outside of Vietnam). Thus, the US will be presumed to be playing a direct role in Vietnamese political life even if it endeavors to remain aloof. At a minimum, US advice will be sought and US support solicited by most of the major contenders for electoral office. The US, in short, will inevitably be dealt a hand and its play of that hand will have a significant impact on the outcome of the game.
South Vietnam: An Economic Appraisal
The economy of South Vietnam, which has been greatly distorted by the war, must further endure strains in 1967, as the demand for goods continues to exceed the supply. The gap could be substantially widened by increases in US forces larger than currently planned, except in the unlikely event that MACV can repeat its remarkable achievement of 1966, when spending by the US military was reduced while US troop strength increased.

Since mid-1965, the growth of demand in South Vietnam, fed by increasing expenditures on the part of both the Government of Vietnam (GVN) and the Allied military forces, has greatly outstripped the growth of local production. Overall industrial output has increased, but the production of major war-related commodities such as cement and textiles declined in 1966. Agricultural production has fallen, particularly the output of the major crops, rice and rubber. Imports have risen sharply, almost doubling in value in 1966, but not enough to prevent inflation. Port bottlenecks, especially in Saigon, inefficiency in domestic trade, and corruption and lack of strong economic leadership in the GVN, have all contributed to inflation.

In mid-1966, the GVN enacted a series of reforms, the most important of which was the devaluation of the piaster. These reforms generally relieved inflationary pressures during the remainder of the year. The growth of the money supply was slowed and prices held reasonably steady after rising, as was expected, immediately following the devaluation. Renewed pressures, however, began to appear late in the year and are still present.

Domestic output is not expected to increase significantly in 1967. The production of rice in the 1966/67 crop year is down by 10 percent, and
imports of rice in 1967 are expected to equal about one-third of total domestic production. Imports of all goods may be lower than planned in 1967, if the present low rate of import licensing continues. Retail prices were originally expected to increase by 15 to 25 percent, but larger increases are likely. Prices in Saigon at the end of April were already 16 percent higher than at the beginning of the year, and rice prices were up about 50 percent. The growth of the money supply has also quickened. The pressure for substantial additional wage increases is already evident and will intensify as more workers demand increases to match the increase in the cost of living. Strenuous efforts by both the US and the government of South Vietnam will be necessary to hold inflationary pressures within acceptable bounds.

The Viet Cong continue to interdict internal transport and to exercise control over extensive rural areas, draining off manpower, commodities, and revenues that otherwise would be available to the government. The Viet Cong are able to mobilize from within South Vietnam most of the funds, rice, and other non-military supplies required to support the Communist insurgency.
I. Introduction

The economy of South Vietnam is primarily agricultural, with roughly 85 percent of the population engaged in farming, fishing, or forestry. Most of the productive land is planted to rice and cultivation is heavily dependent on hand labor. Two-thirds of rice production comes from the delta. Agricultural activities account for about one-third of GNP while manufacturing and domestic trade together account for another third. The recent growth of GNP is difficult to determine. It is estimated that during 1959-62, the annual rate of real growth did not exceed 3.5 percent, and the rate has probably declined since then.

The country is poor in industrial resources. Manufacturing is on a small scale, mainly in industries that use agricultural materials and produce for the domestic consumer market, such as textiles, beverages, and tobacco. There are shortages of electric power, long-term capital, and skilled managerial and technical personnel. Another major factor hindering economic development is the inadequacy of land transportation. All transportation and communications networks are centered in Saigon, the major port and hub of economic activity. There are only about 12,500 miles of highways, half unsurfaced, and about 840 miles of railway, most of which are insecure at present. The operation of the most important transportation facility, the inland waterway system, of which 80 percent is located in the Mekong delta, is constantly threatened by military activities.

South Vietnam's dependence on imports is increasing. Some raw materials and foodstuffs are exported, but the country relies on imports for many basic commodities and manufactured consumer and capital goods. Imports from the US far exceed those from any other country, while France remains South Vietnam's largest customer.
II. Recent Economic Developments

Agriculture, still the largest sector of the Vietnam economy, has suffered greatly from the war. The movement of farm families to secure areas, the increased demand for labor in urban areas, low returns to the farmer, and the disruption of transport have lowered productivity and reduced the acreage under cultivation. Rice, by far the most important crop, has suffered the most. It is estimated that the output of paddy declined 7 percent in the 1965/66 crop year and a further 10 percent in the 1966/67 crop year. South Vietnam has moved from a substantial net export position in 1963 to an even greater net import position in 1966. Imports of rice in 1967 are expected to be around 870,000 tons, an amount equal to about one-third of rice production and probably to the bulk of urban requirements for rice. Table 1 shows production, imports, and exports of milled rice in South Vietnam for the years 1963-67.

Table 1
South Vietnam: Production, Exports, and Imports of Milled Rice

<table>
<thead>
<tr>
<th>Year</th>
<th>1963</th>
<th>1964</th>
<th>1965</th>
<th>1966</th>
<th>1967**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>3,123</td>
<td>3,120</td>
<td>3,111</td>
<td>2,993</td>
<td>2,600</td>
</tr>
<tr>
<td>Exports</td>
<td>323</td>
<td>49</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Imports</td>
<td>0</td>
<td>0</td>
<td>130</td>
<td>470</td>
<td>80</td>
</tr>
</tbody>
</table>

*Data are for crop years ending in the year indicated.
**Estimated.
South Vietnam has had similar though less serious problems with most of its other food and commercial crops. The production of fish and meat has declined somewhat and has not been adequate to satisfy the demand in urban areas. The production of rubber, three-fourths of which comes from French-owned plantations, has fallen because of insecurity, the interdiction of marketing routes, and the movement of laborers to better paying work. Once a major earner of foreign exchange, the export of rubber fell from 71,600 metric tons in 1964 to 43,600 in 1966. Earnings declined proportionately more, because of falling world prices. The production of vegetables, by contrast, probably has increased, but interdiction of the main transport route between Dalat and Saigon has kept market prices high.

South Vietnam's industry produces primarily light consumer goods and processed agricultural products and plays only a minor role in direct support of the war effort. Although overall industrial output grew during 1966, the production of some important commodities declined, including textiles and cement. The output of cotton yarn and cotton cloth declined by 30 percent and 10 percent, respectively. Almost all military and civilian clothing requirements of the Vietnamese are still met from indigenous production, but dependence on imports is increasing. Cement production, important to the large military and civil construction effort, was almost 30 percent less in 1966 than in 1965. The production of such goods as paper, beer, soft drinks, refined sugar, glass, and pharmaceuticals rose mainly in response to growing demand in Saigon. The production of electric power rose by 15 percent in 1966 but still did not meet all needs. The Saigon area accounted for 85 percent of the total.

The war has produced a great increase in demand in South Vietnam, and has drastically changed its composition. Personal expenditures by Free World forces and expenditures on the military construction program have required large quantities of labor and locally produced goods and services, thus pushing up their price. The increase in income among the
Vietnamese has created an additional demand for goods and services and put further pressure on prices. US and Government of Vietnam (GVN) rural development and pacification programs, and the military and civilian programs of the GVN, also involve large expenditures for already scarce labor and materials. GVN budgetary expenditures grew by 39 and 21 percent, respectively, in 1965 and 1966. The budget for 1967 calls for expenditures of 75 billion piasters, about 20 percent more than in 1966, but this total is likely to be exceeded.

In the face of rapidly rising demand and declines or stagnation in the output of many important products, South Vietnam has required massive imports of commodities. US-financed imports, not including military aid, totaled $414 million in 1966 (based on import licensing) and were equivalent to 23 percent of South Vietnam’s estimated GNP of $1.8 billion. Total commercial imports, including GVN-financed imports, amounted to about one-third of GNP. Even imports of this magnitude did not meet the demand. Imports were limited not by lack of funds, but principally by the inadequacies of South Vietnam’s ports and of its transport and distribution systems. These inadequacies were compounded by the interdiction of truck transport and the disruption of rail services by the Viet Cong, which restricted the movement of goods out of the ports to ultimate consumers.
III. Principal Economic Problems

A. Inflation

The enormous increase in demand in a war-disrupted economy was bound to bring considerable inflation. Compounding the problem have been port bottlenecks, the absence of strong economic leadership in Saigon, and rural insecurity, which are discussed below. By mid-1966, inflation had reached critical proportions. Compared with January 1965, retail prices in the capital were up almost 75 percent, and the money supply had nearly doubled.

On 18 June 1966 the GVN adopted a series of economic reforms designed to control inflation and to reduce the high profits being made by importers. These reforms included increases in imports and taxes and the devaluation of the piaster by 50 percent. At the same time, the GVN was forced to grant 20 to 30 percent wage increases to civil servants and to the military who had suffered declines in real income as a result of rising prices. The devaluation brought a swift and substantial improvement in the government's financial position. Customs receipts and piaster counterpart funds rose sharply, and GVN borrowing from the national bank, which had been the main source of monetary expansion, was nearly eliminated.

The economic reforms of June 1966 generally relieved inflationary pressures during the remainder of 1966. As was expected, retail prices rose in the period immediately following the devaluation and then held reasonably steady until late in the year. At the end of December, prices in Saigon were about 25 percent above the level prevailing just prior to the devaluation but only three percent above the average level during the two months following devaluation. Some success was achieved in slowing the growth of the money supply, which rose by six percent during the last half of 1966 compared with

*Counterpart funds are generated by the commercial import program financed by the Agency for International Development and are deposited in a special account for use within South Vietnam.
29 percent during the first half. Moreover, confidence in the piaster was restored, and the black market rates for dollars and gold held fairly steady at levels well below those prevailing in June and July.

It became necessary, however, during the last half of 1966 to carefully control monetary expansion in the private sector. The pressure for higher wages increased throughout the economy. As a result of the rising level of imports and the price effects of the devaluation, importers were forced to turn to the commercial banks for financing. Private bank credit more than doubled during the last half of 1966, as the source of monetary expansion was shifted from the government to the private sector of the economy.

Inflationary pressure has picked up considerably in 1967 as a result of increasing wages and accelerating military and civilian spending, coupled with declining domestic production. There may also have been a shortfall in planned imports. During the first two months of 1967 the growth of the money supply equalled that during the last six months of 1966. The cost of living (including rent) for working class families in Saigon began to move up again late in 1966 and continued to rise through the first two months of this year, the latest period for which data are available. From the beginning of January through the end of April the USAID weekly index of retail prices in Saigon rose by 16 percent; the price of rice consumed by the working class went up by 53 percent. Prices were relatively stable in April, and the black market rate for dollars and gold declined substantially, but the prospects for continued price stability are not good. The accompanying charts show the cost of living index for Saigon and the size of the money supply from 1963 through February 1967.

The inflation since mid-1965 has affected the real incomes of various groups of the population differently. Although current wage data are not available for any group, the real income of South Vietnam's military personnel and civil servants has almost certainly not increased and has probably...
declined. Since their wages were increased in June the cost of living has risen while wages for GVN employees have remained almost stationary. Real incomes in the private sector, by contrast, have made rapid gains, especially in construction and services. The impact of inflation on urban dwellers has been cushioned by the increase in income per family produced by more family members taking jobs, but this trend has probably reached its limit. The real income of farmers probably declined until mid-1966, but has risen somewhat since then because higher agricultural prices have more than offset recent increases in consumer prices in the provinces.

Inflation has significant implications for political stability in South Vietnam. The effects of inflation probably fall most heavily on the urban lower and middle classes who are the most likely sources of protest in any event. Although there has been no overt action against the government over economic issues, serious inflationary pressures, and especially higher rice prices, could cause trouble. The decline in morale and the rise in corruption among underpaid government workers are well known. Moreover, during the next few months the country may well be faced with a series of strikes as the current pressure for wage increases intensifies. More broadly, inflation has increased the dissatisfaction of the population with its government, and has provided the Viet Cong a ready-made propaganda issue to use against the GVN and the US.

B. Congestion at the Port of Saigon

In order to combat inflation, the US and the GVN have attempted to absorb excess purchasing power by flooding the market with imported goods. Total commercial imports increased from $357 million in 1965 to an estimated $600 million in 1966. Ninety percent of these goods, as well as sizable amounts of military cargo, come through the port of Saigon. Congestion at the port has been a major problem. Although some relief is in sight, congestion will probably continue to be a problem.

The congestion stems not only from a lack of physical facilities but also from the unwillingness
or inability of private importers to remove their cargo from the port area. A cost-price squeeze resulting from the June devaluation and the general expectation that prices would rise reduced the incentive for importers to move their goods to market. Although the GVN adopted measures in mid-1966 to force removal, almost nothing was done to enforce them in spite of insistent prodding by US officials. The result has been a shortage of space for new cargoes being offloaded, a proliferation of barges holding goods in the Saigon River, and a backlog of ships waiting off Vung Tau and elsewhere to move up to Saigon.

There is some hope for improvement in the situation this year because the physical capacity of the port of Saigon has been greatly enlarged and US port experts estimate that during 1967 port capacity will exceed expected cargo arrivals. The GVN adopted several remedial measures in late March, including the use of additional out-of-port storage areas for unclaimed import goods, and is considering others—for example, financial arrangements to permit importers to borrow funds for paying customs duties. It remains to be seen, however, how effective the new measures will be.

C. Rural Insecurity

The lack of security in many rural areas has disrupted economic activity and contributed greatly to inflation, by restricting the flow of goods while stimulating the movement of people from farm to city. The maintenance of checkpoints by the Viet Cong and acts of sabotage on roads, waterways, and the rail system have sharply limited freedom of movement, including that of farm produce to urban markets and of urban products and imports to the countryside. Goods that are permitted to flow do so only after the payment of heavy taxes to the Viet Cong. Heavy damage has been inflicted on all forms of surface transportation.

Persistent insecurity in rural areas, Allied military operations, and the growth of non-farm economic opportunities have all stimulated a large migration to urban areas in the last year and a half.
According to GVN sources, about 1.7 million refugees have come from rural areas since January 1964, of which more than 700,000 came in 1966 and 110,000 in January and February of 1967. The total migration is considerably greater than this, because many of those moving are not counted as refugees. If the migration continues, as seems likely, there will be a continuing adverse effect upon agricultural production and a further increase in the urban demand for food.

D. Leadership Problems

Efforts to halt inflation and to adopt and carry out suitable economic policies have been greatly hampered by the lack of responsible and decisive economic leadership in the GVN. Prime Minister Ky takes little interest in economic affairs except in times of crisis, preferring to leave such matters in the hands of various cabinet members.

The chief economic post, that of Minister of Economy and Finance, has changed hands three times since February 1966 and was vacant from November 1966 to January 1967. Although responsibility for economic matters is fragmented among a number of ministries, a competent and decisive Minister of Economy and Finance with the full confidence of Ky could probably overcome this problem to a great extent. Such a man would certainly be welcomed by US Mission officials, who have had difficulty finding anyone who will make a firm decision and act on it. For example, the rice crisis of March 1967, when stocks were at an all-time low and prices soared, was greatly aggravated by the inability of GVN officials to make adequate and timely arrangements for the import of rice, which the US had been urging since December.

The appointment in mid-March of Governor Hanh of the National Bank of Vietnam as the new Minister of Economy and Finance should be a major forward step in providing economic leadership in the GVN, if the Governor can be persuaded to remain in the post longer than the three months to which he has reportedly agreed. Hanh has long been a major
force in G' economic circles, but has previously declined to accept a cabinet position. He is reputed to be an able administrator and, although strong-minded, has worked well with US officials in the past. Several knowledgeable assistants came into office with him, and US officials hope for greater efficiency in the management and planning of economic affairs in the future.

E. Rice Policy

The basic economic problems of South Vietnam -- inflation, rural insecurity, and the lack of strong leadership -- have all contributed to the disruption of rice production and distribution. The output of rice has declined since 1964 while consumption has increased. South Vietnam, which exported 323,000 metric tons of rice in 1963, is expected to import about 870,000 metric tons in 1967, mostly from the US.

The GVN has failed to establish a rice policy that would give adequate price incentives to the farmers or provide them with the fertilizer needed to increase yields. During the last few months the paddy price received by the farmer has increased, but this was the result of a decline in rice stocks and high retail prices for rice, rather than of action by the GVN. The GVN and the US signed an agreement in March for the import of fertilizer which called for the adoption of a new system of distribution. Judging by past experience, however, it is far from certain that the imported fertilizer will actually be made available to rice farmers at a price they can afford.

The delivery of rice from the delta to Saigon, from where it is distributed to rice deficit areas, has declined more rapidly than production. Part of the reason is interception and taxation by the VC. In addition, the GVN heavily regulates this traffic, by prescribing routes and using a series of checkpoints, mainly as a means of tax collection. These checkpoints provide an ideal setup for corrupt officials. The result of the interference from both sides is to reduce the incentive of the provincial rice merchants to deliver rice to government stockpiles in Saigon and also to drive up the price of rice that reaches the retail market.
Large-scale military activity in the delta is likely to have a short-term negative effect on rice production, but to the extent that operations are designed to secure transportation routes throughout the area, military activity could be beneficial. Higher yields are essential, because the area sown to rice cannot be enlarged greatly until pacification is well along. Higher yields, in turn, depend on the application of greater quantities of fertilizer.
IV. Prospects for Economic Stability

Prospects for stability are poor, because demand will almost certainly continue to outpace supply, with a resulting upward pressure on prices. The military operations of both sides will have an increasingly disruptive effect on economic activity, especially if force levels are raised. Moreover, the government's failure to accept responsibility for making and carrying out realistic economic policies will hamper efforts to curb renewed inflationary pressures. In view of the fact that the 1967 stabilization plan proposed by the US, which contained tight ceilings on expenditures and relatively optimistic goals for revenues, was expected to result in price increases estimated at 15 to 25 percent, it seems probable that actual price increases in 1967 will be greater.

Persistent US attempts to obtain GVN agreement to an economic stabilization plan for 1967 have failed, partly because of GVN unwillingness to accept a US request that the GVN spend a larger amount of its own growing foreign exchange reserves during 1967. Proposed GVN budgetary targets would have meant a deficit amounting to about one-fourth of total expenditures in 1967, compared with one-half in 1965 and a planned one-third in 1966. Nonetheless, US officials report that the GVN has not exercised the budgetary restraint it had initially pledged. There has also been a proliferation of extra-budgetary accounts, causing serious concern that GVN expenditures will substantially exceed the amounts originally planned.

A further cause for concern is the low level of import licensing for the first three months of 1967. Although US officials expect that licensing will gain momentum as goods clear more rapidly through the port and stocks of goods on hand are used up, even a temporary decline in imports below planned levels would not only reduce government revenues but also result in a shortage of goods later in the year.

The most recent US stabilization plan for 1967 provides for some increase in US troop strength in
South Vietnam. Should a more sizable increase in force levels occur this year, US military spending would probably also rise beyond planned levels. During the last half of 1966, MACV succeeded in reducing spending while troop strength was increasing and prices were generally rising. It is not certain, however, that this remarkable achievement can be repeated. The US stabilization plan projects a gap between demand and supply of some 20 billion piasters. An increase of say 100,000 troops over the planned level could increase the gap by as much as 50 percent. Excess demand of this magnitude would probably lead to higher prices, because domestic output is not expected to increase significantly, imports may be lower than planned, and the MACV miracle is unlikely to be repeated.
V. The Viet Cong Economy

The Viet Cong have mobilized from within South Vietnam the bulk of the funds and the nonmilitary supplies needed to support the Communist insurgency. Taxation, self-initiated economic activities, seizures, and clandestine operations are the principal means for obtaining the necessary financial and material resources. The Viet Cong exercises considerable control over the production, processing, and movement of many commodities essential to South Vietnam's economy, including rice, salt, timber, charcoal, and rubber, and have limited the availability of these goods and caused their prices to increase. Viet Cong economic activities, carried out both overtly and through coercion, bribery, and clandestine operations, combined with military operations against economic targets, have denied considerable financial and material resources to the government.

Taxation is by far the most important source of Viet Cong revenues. Viet Cong tax revenues are estimated to have been within the range of 2.0 billion to 2.9 billion piasters for 1965, compared with GVN internal tax revenues of about 9.4 billion piasters. Agricultural taxation remains the most important single source of Viet Cong tax receipts, accounting for about 80 percent of the total. The remaining 20 percent is collected from taxes on transportation, business, and commercial activities.

The collection of revenues is clearly dependent on continuing Viet Cong access to or control over the rural population. During 1966 and early 1967, the Viet Cong have tried to expand the base of their tax collection activities in order to meet their increasing financial requirements. Tentative evidence indicates that they have been forced to use more coercive measures, and as a result, peasant dissatisfaction with the Viet Cong has increased. There is no indication, however, that this dissatisfaction has reached a level great enough to impair significantly the continued collection of funds and non-military supplies.
The Viet Cong are nearly self-sufficient with regard to rice and most other non-military supplies. They currently exercise predominant control over roughly 25 to 30 percent of the area cultivated to rice in South Vietnam. The annual consumption of rice by Communist regular forces in South Vietnam theoretically would be covered by an average tax of about 3.5 percent on total production in the areas controlled by the Viet Cong. The Viet Cong actually tax rice production at rates ranging from 10 to 15 percent, which yields supplies substantially greater than consumption requirements. The surplus is used to build up reserves for the increasing number of Communist troops, to replenish stocks destroyed by Free World military operations, to help feed the large number of non-main force troops, and to cover the purchase of other food and non-food commodities.

Clandestine business operations by the Viet Cong, and the involvement of legitimate enterprises, wittingly or unwittingly, in Viet Cong procurement operations, are common in many district and provincial capitals. These operations yield essential indigenous and imported supplies for the Viet Cong from areas controlled by the central government. At local levels, the Viet Cong use the civilian population under its control to make discreet purchases of required goods.

At present, the population under Viet Cong control and in contested areas is estimated at 40 percent of South Vietnam's population (see Table 2). This percentage represents a slight decline since January 1966. There will probably be a further decline during 1967, as a result of military operations, a more effective implementation of the Revolutionary Development program, and increases in defections and desertions among the Viet Cong. An increasing number of captured enemy documents indicate that, during 1966 and early 1967, more effective Free World/GVN military operations have placed a greater strain on the Viet Cong's ability to maintain adequate food supplies and to recruit manpower for their military units and civilian labor force.
### Table 2
Population of South Vietnam, by Controlled Area a/ 1 January 1967

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Controlled by GVN</th>
<th>Contested</th>
<th>Controlled by Viet Cong</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million Persons</td>
<td>Percent of Population</td>
<td>Million Persons</td>
<td>Percent of Population</td>
</tr>
<tr>
<td>Total</td>
<td>16.52</td>
<td>100.0</td>
<td>9.91</td>
<td>60.0</td>
</tr>
<tr>
<td>I Corps</td>
<td>2.73</td>
<td>16.5</td>
<td>0.97</td>
<td>35.5</td>
</tr>
<tr>
<td>II Corps</td>
<td>2.85</td>
<td>17.3</td>
<td>1.41</td>
<td>49.6</td>
</tr>
<tr>
<td>III Corps</td>
<td>1.93</td>
<td>11.7</td>
<td>1.17</td>
<td>60.5</td>
</tr>
<tr>
<td>IV Corps</td>
<td>5.71</td>
<td>34.6</td>
<td>3.36</td>
<td>55.4</td>
</tr>
<tr>
<td>Capital Special Zone b/</td>
<td>3.30</td>
<td>20.0</td>
<td>3.20</td>
<td>97.1</td>
</tr>
</tbody>
</table>

**Notes:**
- **a.** Total population figure from US Mission in Vietnam and percentage distribution from MACV population and area control data. Because of rounding, components may not add to totals shown.
- **b.** Including Gia Dinh Province and the cities of Saigon and Cholon.
- **c.** Less than 1,500 persons.

---