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Sullivan

Report of the McNamara-Taylor Mission to South Vietnam 24 Sept. - 1 Oct. 1963

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Final Draft
October 1, 1963

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MEMORANDUM TO THE PRESIDENT

Subject: Report of McNamara-Taylor Mission to South Vietnam

Your memorandum of 21 September 1963 directed that General Taylor and Secretary McNamara proceed to South Vietnam to appraise the military and para-military effort to defeat the Viet Cong and to consider, in consultation with Ambassador Lodge, related political and social questions. You further directed that, if the prognosis in our judgment was not hopeful, we should present our views of what action must be taken by the South Vietnam Government and what steps our Government should take to lead the Vietnamese to that action.

Accompanied by representatives of the State Department, CIA, and your Staff, we have conducted an intensive program of visits to key operational areas, supplemented by discussions with U. S. officials in all major U. S. Agencies as well as officials of the GVN and third countries.

We have also discussed our findings in detail with Ambassador Lodge and General Harkins.

The following report is concurred in by the Staff Members of the mission as individuals.

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I. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions.

1. The military campaign has made great progress and continues to progress.

2. There are serious political tensions in Saigon (and perhaps elsewhere in South Vietnam) where the Diem-Nhu government is becoming increasingly unpopular.

3. There is no solid evidence of the possibility of a successful coup, although assassination of Diem or Nhu is always a possibility.

4. Although some, and perhaps an increasing number, of GVN military officers are becoming hostile to the government, they are more hostile to the Viet Cong than to the government and at least for the near future they will continue to perform their military duties.

5. Further repressive actions by Diem and Nhu could change the present favorable military trends. On the other hand, a return to more moderate methods of control and administration, unlikely tho it may be, would cause recent events shortly to be forgotten. ✓

6. It is not clear that pressures exerted by the US will move Diem and Nhu toward moderation. Indeed, pressures may increase their obduracy. But unless such pressures are exerted, they are almost certain to continue past patterns of behavior.

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B. Recommendations.

We recommend that:

1. General Harkins review with Diem the military changes necessary to complete the military campaign in the Northern and Central areas (I, II, and III Corps) by the end of 1964, and in the Delta (IV Corps) by the end of 1965. This review would consider the need for such changes as:

a. A further shift of military emphasis and strength to the Delta (IV Corps).

b. An increase in the military tempo in all corps areas, so that all combat troops are in the field an average of 20 days out of 30 and static missions are ended.

c. Emphasis on "clear and hold operations" instead of terrain sweeps which have little permanent value.


d. The expansion of personnel in combat units to full authorized strength.

e. The training and arming of hamlet militia at an accelerated rate, especially in the Delta.

f. A consolidation of the strategic hamlet program, especially in the Delta, and action to insure that future strategic hamlets are not built until they can be protected, and until civic action programs can be introduced.

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2. A program be established to train Vietnamese so that essential functions now performed by US military personnel can be carried out by Vietnamese by the end of 1965. It should be possible to withdraw the bulk of US personnel by that time.

3. ~~Until such time as Diem gives evidence of substantially more moderate and effective action (adoption of the measures proposed above under Recommendation 1 being one key criterion)~~  The US should maintain the present purely "correct" relations with the top GVN, and specifically between the Ambassador and Diem. Contact between General Harkins and Diem and Thuan on military matters should not however, be suspended, as this remains an important channel of advice. USOM and USIS should also seek to maintain contacts where these are needed to push forward programs in support of the effort in the field, while taking care not to cut across the basic picture of US disapproval and uncertainty of US aid intentions. We should work with the Diem government but not support it.

4. We continue to withhold commitment of funds in the commodity import program, but avoid a formal announcement. Meanwhile we will watch the course of events and decide ^{Be prepared to} ~~when it is appropriate to~~ _{when appropriate.} resume normal operations. The potential significance of the withholding of commitments for the 1964 military budget should be brought home to the top military officers in working level contacts.

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between USOM and MACV and the Joint General Staff; up to now we have stated \$95 million may be used as a planning level for the commodity import program for 1964, and we could now make clear that this is uncertain both because of lack of final appropriation action by the Congress and because of executive policy.

5. We should suspend approval of the pending AID loans for the Saigon-Cholon Waterworks and Saigon Electric Power Project, and make clear that we are doing so as a matter of policy.

6. We should advise Diem that MAP and CIA support for designated units, now under Colonel Tung's control (mostly held in or near the Saigon area for political reasons), will be cut off unless these units are promptly assigned to the full authority of the Joint General Staff and transferred to the field.

7. In accordance with the program to train progressively Vietnamese to take over military functions, the Defense Department should announce in the very near future presently prepared plans to withdraw 1000 US military personnel by the end of 1963. This action should be explained in low key as an initial step in a long-term program to replace US personnel with trained Vietnamese without impairment of the war effort.

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Because our interests would be better served by
8. ~~No initiative should be taken to encourage actively~~ a change in government. Our policy should be to ~~wait and~~ watch for an alternative leadership, and to seek urgently to identify and build contacts with such a leadership if and when it appears.

9. The substance of this report be presented both in Congressional testimony and in any public statement along the following lines:

- a. The security of South Vietnam remains ~~vital~~ *important crucial* to US security.
- b. The military program in Vietnam has made progress and is sound in principle.
- c. The political situation in Vietnam remains deeply serious.

It has not yet significantly affected the military effort, but could do so at some time in the future. If it continues unchanged, it will surely impair the prospects for success. We believe that the necessary improvements are a matter to be worked out by the Vietnamese. ~~with our encouragement.~~

d. The US has expressed its disapproval of certain actions of the Diem-Nhu regime. Our policy is to seek to bring about ~~the~~ *changes in* those methods and purposes which are ~~repugnant to U.S. principle and interests~~ abandonment of repression by our expressed disapproval and by *We will attempt this* making sure that we contribute only to those GVN activities that are clearly contributing to the war effort. We have not yet crossed the bridge of what we would do if abandonment of repression or other improvements do not come about.

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II. MILITARY SITUATION AND TRENDS

A. The Standards of Measure.

The test of the military situation is whether the GVN is succeeding in widening its area of effective control of the population and the countryside. This is difficult to measure, and cannot be stated simply in terms of the number of strategic hamlets built or the number of roads that can now be travelled without escort or with minimum escort. Nor can the overall situation be gauged solely in terms of the extent of GVN offensive action, relative weapon losses and defections, VC strength figures, or other measures of military performance. All of these factors are important and must be taken into account; however, a great deal of judgment is required in their interpretation.

We have looked at these factors carefully, but we have also given great weight to the evidence of the men on the spot -- the US military advisors and the USOM field representatives -- as to whether government control is in fact extending and becoming more accepted and solid in the various areas. We have been greatly impressed with the variation of the situation from area to area and from province to province; there is a different war in each area and province, and an example can be found somewhere to support any

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attitude toward the state of the counterinsurgency campaign. Our task has been to observe the situation as broadly as possible to avoid exaggerated importance to any single angle of observation.

B. Overall Progress.

With allowance for all uncertainties, it is our firm conclusion that the GVN military program has made great progress in the last year and a half, and that this progress has continued at a fairly steady rate in the past six months even through the period of ^{greatest} political unrest in Saigon. In national terms, the Viet Cong is on the defensive, and the tactics and techniques employed by the Vietnamese under US monitorship are sound and give promise of ultimate victory.

Specifically, progress is most clear in the northern areas (I and II Corps); especially noteworthy work has been done in key costal provinces where VC strength once threatened to cut the country in half but has now been substantially reduced. In the central area and the highlands (III Corps), progress has been steady though slower, and the situation remains difficult in the provinces to the west and north of Saigon itself. Throughout the northern two-thirds of the country the strategic hamlet program has matured effectively and freedom of rural movement has grown steadily.

The Delta remains the toughest area of all, and now requires

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top priority in both GVN and US efforts. Approximately 40% of the people live there; the area is rich and has traditionally resisted central authority; it is the center of Viet Cong strength -- over one third of the "hard core" are found there; and the maritime nature of the terrain renders it much the most difficult region to pacify.

A first step has just been taken by the move of a third division to the Delta, but further major actions are needed. They include priority decisions by the GVN in the use of its resources, the consolidation rather than further spread of strategic hamlets in many areas, the elimination of many fixed outposts, better hamlet defenses and more trained hamlet militia. Regular army units should be reserved for use in mobile actions and for clear and hold operations in support of the strategic hamlet program. Though there are unresolved problems in several key provinces close to Saigon, as well as in the southernmost parts where the VC are strongly established, it is clear that the Delta situation has generally improved over the past year, even with the limited resources allocated to it. It can continue to go forward (despite the evidences of greater VC effort, better weapons, etc.) if the essential priority is assigned to Delta requirements.

C. Military Indicators.

From a more strictly military standpoint, it should be noted

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that this overall progress is being achieved against a Viet Cong effort that has not yet been seriously reduced in the aggregate, and that is putting up a formidable fight notably in the Delta and key provinces near Saigon. The military indicators are mixed, reflecting greater and more effective GVN effort but also the continued toughness of the fight.

INDICATORS

	June	July	August	September (estimated)	Mo. Ave Year ago
No. of government initiated:					
Small operations	851	781	733	906	490
Large operations	125	168	166	141	71
Viet Cong Killed	1896	1918	1685	2034	2000
GVN Killed	413	521	410	525	431
GVN Weapons Lost	590	780	720	802	390
VC Weapons Captured	390	375	430	400	450
Viet Cong Military Defectors	420	310	220	519	90
Viet Cong Initiated Incidents of all Types	1310	1380	1375	1675	1650
Viet Cong Attacks	410	410	385	467	410
Estimated Viet Cong Strength:					
Hard Core	21000	21000	21000	21000	22000
Irregular	85000	82000	76000	70000	98000

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Recent days have been characterized by reports of greater Viet Cong activity, countrywide, coupled with evidence of improved weaponry in their hands. Some US advisors, as well as some Vietnamese, view this increased activity as a logical reaction to the steadily growing strategic hamlet program, which they believe is progressively separating the Viet Cong from the rural population and their sources of food and reinforcements. Others view it as a delayed effort to capitalize upon the political trouble. All agree that it reflects a continuing capability for offensive action.

D. The Strategic Hamlet Program.

In this generally favorable military picture, two main factors have been the strategic hamlet program and the effectiveness of the US advisory and support effort.

We found unanimous agreement that the strategic hamlet program is sound in concept, and generally effective in execution although it has been overextended in some areas of the Delta. The teamwork of US military men and civilians is generally excellent, and on the GVN side a number of the province chiefs who handled the program poorly in its initial phases have been replaced by men who appear to have a better grasp of the central purpose of the program -- to bring people under clear GVN control, in a way that really solidi-

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ifies their support of their government and opposition to the VC. The economic and civic action element of the program (schools, medicine, fertilizer, etc.) has been carried forward on the US side with considerable effectiveness, but has necessarily lagged behind the physical completion of hamlets and in insecure areas has made little progress. Without this element, coupled with effective hamlet defense measures, what are called "strategic hamlets" may be only nominally under GVN control. We were particularly struck by some evidence that a hamlet's readiness to defend itself often bore a direct relation to whether the Province Chief, with US help, had managed to make a convincing start in civic action.

E. The US Military Advisory and Support Effort.

We may all be proud of the effectiveness of the US military advisory and support effort. With few exceptions, US advisors report excellent relations with their Vietnamese counterparts, whom they characterize as proud and willing soldiers. The stiffening and exemplary effect of US behavior and attitudes has had an impact which is not confined to the war effort, but which extends deeply into the whole Vietnamese way of doing things.

The US advisory effort, however, cannot assure ultimate success. This is a Vietnamese war and the country and the war must,

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in the end, be run solely by Vietnamese. It will impair their independence and the development of their initiative if we leave our advisors in place beyond the time they are really needed. In some areas reductions in the US effort and transfer of US responsibilities to the Vietnamese can now be carried out without material impairment of the total war effort. As a start, we believe that a reduction of about 1000 US personnel (for which plans have been in preparation since the spring) can be carried out before the end of 1963. No further reductions should be made until the requirements of the 1964 campaign become firm.

F. Conclusion.

Acknowledging the progress achieved to date, there still remains the question of when the final military victory can be attained. If, by victory, we mean the reduction of the insurgency to something little more than sporadic banditry in outlying districts, it is the view of the vast majority of military commanders consulted that success may be achieved in the I, II and III Corps area by the end of CY 1964. Victory in the IV Corps will take longer -- at least well into 1965. These estimates necessarily assume that the political situation does not significantly impede the effort.

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III. ECONOMIC SITUATION AND TRENDS

The current economic situation in South Vietnam is, in the main, satisfactory. The internal price level is reasonably stable. Commercial inventories are high and national bank reserves of foreign exchange stand at approximately \$160 million which equals approximately 11 to 12 months imports at current rate (\$240 million imports less \$75 to \$80 million exports). The official rate of exchange of P70 to the dollar is within the range of reasonable economic value and the Hong Kong market has not been a significant factor in the last 12 months.

Trends are difficult to discern but the business community was optimistic before the present crisis. Rice exports for the current calendar year are projected at approximately \$30 million against \$8.75 million last year. Total exports are anticipated at \$70 million as against \$55 million last year. Banking circles point to one bearish factor in the export picture. Rubber, which represents more than half in value of all exports, faces a situation of declining world market prices and some plantations may curtail operations in the next year.

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On the domestic side South Vietnam is almost self-sufficient in cotton textiles and is on its way to satisfying its own fertilizer and cement requirements by 1966. At the beginning of the current year banking circles noted a healthy increase in local investments in small enterprises which reflects, in their judgement, an increase of confidence in the future that is unusual for recent years. The prospects for next year, under normal circumstances, appear reasonably good. If the Government encourages diversification in agriculture, exports of such products together with the increasing availabilities of rice should offset the decline in foreign exchange earnings from rubber.

The projected GVN budget for CY 1964 totals P27 billion; tax revenues are estimated at P11 billion, leaving an internal budget deficit of P16 billion. External resources (resulting principally from US operations) are estimated to generate an additional P9.5 billion, leaving a P6.5 billion estimated deficit. This deficit might be somewhat reduced by additional tax revenues but would probably result in borrowings from the National Bank with a resulting increase in the money supply.

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Although its inflationary effect has been dampened by the recent arrival of large shipments under USOM's commodity import program, the money supply has been increasing rather sharply in the last nine months. This has been accompanied by an increase in import licensing brought about principally by the GVN's adoption at the beginning of this year of an open general licensing system for certain manufactured goods such as trucks, automobiles, fabricated steel and some industrial raw materials. The banks estimate that the open general licensing system will result in a \$10 million increase in GVN-financed imports in CY 1963.

In short, while the general economic situation is good, the prospects for holding the line on inflation and the balance of payments do not appear bright for CY 1964 unless the GVN can be persuaded to impose severe restraints.

Effect of the Political Crisis on the Economic Situation

At the present time the current political problems have not had a significant effect on the internal economic situation.

French banking sources report a slight increase in the rate

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of withdrawals from private Vietnamese bank deposits over the last two months; but this increase has only been on the order of 1 to 2 percent.

Commercial inventory stocks seem to be increasing, but this can be explained by the recent increase in arrivals of foreign goods. In any case prices have remained stable with exception of a slight increase in the cost of cement, automobiles and certain industrial equipment.

The value of the piastre has fallen 10% on the market in the last month. Virtually no abnormal flight of capital has yet been observed in banking circles.

The most apparent effect of the crisis is a slowdown in investment decision, both in industry and in the limited capital market. Investors and industrialists are worried about a reduction in US aid. They are aware of the suspension in the issuances of procurement authorizations and are therefore concerned about the availability of imported raw materials and spare parts.

Since the Saigon business community has lived through some violent times before this, they have not reacted to events with as much panic as might have been expected.

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If the U.S. should long suspend import commitments, however,
it should be expected that the private sector of the economy
will react in the direction of inflation.

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IV. POLITICAL SITUATION AND TRENDS

Although our observations of the political situation were necessarily less extensive than of the military picture, they were ample to confirm that the existing situation is one of high tension. We reviewed the situation carefully with the relevant US officials and were also impressed by frank interviews with GVN officials and with third country representatives.

In essence, discontents with the Diem/Nhu regime, which had been widespread just below the surface during recent years, have now become a seething problem. The Buddhist and student crises have precipitated these¹⁵ discontents and given them specific issues. But the problem goes deeply into the personalities, objectives, and methods of operation, over a long period, of Diem and Nhu.

The evidence appears overwhelming that Diem and Nhu operate in close collaboration, and that each needs the other. They undoubtedly regard themselves as carrying out a social and political revolution for the good of their country, using all means -- including the strategic hamlet program -- to build up a secure base of political strength in the rural areas.

At the same time, the positive and educative sides of their actions, aimed primarily at the countryside, but with extensive

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countrywide educational efforts as well, have been increasingly matched by negative and repressive measures of control against the urban population. The urban elite or "Establishment" -- which includes intellectuals, civilian officials at all levels, and a high proportion of military officers -- has never been trusted by Diem and Nhu. Always sensitive to signs of opposition -- with some justification from events in 1954-55 and the attempted coups of 1960 and 1962 -- the regime has turned increasingly to police methods, particularly secret arrests, that have almost all the bad effects of outright totalitarianism even tho a good deal of freedom to criticize still remains.

Concurrently, the palace has always manipulated and controlled the government structure to ensure its own control. The degree to which centralized control and intervention have been carried, and the often quixotic nature of its use, have had a steadily growing adverse effect on efficiency and morale.

Both of these adverse characteristics of the regime, and the resentment of them, focus more and more on Nhu. Not merely is he the hatchet man, but his statements on "personalism" and his building up with Madame Nhu of a wide personal apparatus have smacked more

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and more of outright totalitarianism not unlike Communism.

Nhu's role and scope of action have increased, and he may well have the designs imputed to him of taking over from his brother in due course. Diem is still quite a long way from being a figurehead, and his personal prestige in the country has survived remarkably well. But Diem does depend heavily on Nhu, their central ideas are very close if not identical, and it would be remarkable if Diem were ever to drop Nhu from a commanding position.

Up to the Buddhist and student crises, it was probably true that the alienation between Diem and the elite was more a matter of basically divergent views of the right social structure and of Diem and Nhu's handling of individuals in the government than it was a matter of reaction to repressions. However, the crises have now brought the repressions so directly into the lives of many of the elite that more orderly methods, which might previously have kept the loyalty of the needed amount of talent, now probably cannot do so without a convincing degree of restoration of liberty. Yet both more orderly methods and a restoration of liberty cut diametrically across the grain of Diem's and especially Nhu's view of what is necessary to maintain their power and move toward their idea of social revolution.

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Thus, the discontent of the elite -- reflected chiefly in the progressive loss of responsible men -- has now reached the point where it is uncertain that Diem can keep or enlist enough talent to run the war. The loss of such men as Mau and Tuyen, and the deeply disturbed attitude of such a crucial figure as Thuan, are the strongest evidences of the seriousness of the situation.

This is not to discount groups other than the elite. However, the Buddhists and students cannot in themselves either threaten the regime or do more than focus issues -- although of course they seriously damage the regime's standing in the US and elsewhere, with press reactions that are no small contributor to the persecution complex that drives Diem and Nhu into repression. The business community is a passive factor only, and even urban labor is simply trying to hold its position, being anti-regime but not to the point of being an independent source of trouble. The rural peasantry is little affected even by the Buddhist issue, at least so far as observers can tell. All of these groups matter to the future of Vietnam as a progressively democratic society. If they could be kept even in an acquiescent state the war could go forward.

As matters stand now, political tension is so high that it could

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boil over at any time into another circle of riots, repressions, and resignations. This tension would ^{be sharply reduced if} ~~disappear in a very short time if~~

Nhu were removed. Whether it could be reduced to acceptable proportions by measures short of this is ^{doubtful, since} ~~a very difficult question,~~ but

it is clear that such measures would have to include both more

moderate control methods and a better government climate particularly

for civilian officials, ~~Neither of which these actions is likely to be initiated by this regime~~

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V. EFFECT OF POLITICAL TENSION

A. On Military Operations.

So far this has not significantly affected countryside operations in any area. US personnel in the field testified that a few officer or civilian counterparts showed concern over the Buddhist and student issues, but not to the extent, as yet, of materially affecting their doing their jobs. The rural population has been almost untouched. The pace of GVN operations was sharply cut for a short period at the end of August by transfers of units and general uncertainty, but is now picking up again toward previous levels. The Delta particularly has been so concerned with the war that it has been virtually unaffected.

Basically, the unifying factors embodied in the hatred of the military for Communism remains very sharp. This hatred is real and pervasive. It transcends domestic policies in the minds of most officers.

However, there are disturbing elements that could change this picture greatly unless the political tension can be reduced. Certain high officers have been heavily preoccupied with coup possibilities.

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Those who have had relatives directly involved in the regime's repressions are deeply disturbed though not necessarily ready to act against Diem.* Resentment of Nhu exists in top military circles and probably to some extent at middle levels. The fact that the great bulk of military officers--and Province Chiefs--come from urban areas (simply because of educational requirements in many cases) clearly does open up the possibility of progressive loss of morale and effectiveness, as well as coup participation, if the regime does not cease its oppressions against Buddhists, students, and real or supposed opposition individuals.

B. On Civilian Officials:

On the civilian official side, which is also relevant to the war effort, the reaction to the regime's actions has been sharper. The Embassy and USOM report unanimously that their normal counterparts have become afraid of associating too closely with Americans,

*A specific example of this is the Commandant of the Marine Corps in Saigon. His brother, along with many other relatives of military officers and cabinet members, was picked up in the student roundups of early September, some were tortured, and--as in his case--released only after intercession. However, the Commandant shows no inclination to take action against the Diem government.

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and that there is a general atmosphere of watch-and-wait, just going through the motions of the job but failing to exert what limited initiative and imagination they had previously been ready to exert in face of the constant and power-directed interventions of Nhu. The decline in the contribution of these officials is less serious than any similar decline among the military and province chiefs, but is nonetheless a potentially significant and growing factor if tension persists.

In summary, the political tension has not yet significantly affected progress in the field, nor does it seem likely to have major effects in the near future. Beyond that, however, the prognosis must be considered uncertain if political tension persists or mounts.

VI. OVERALL EVALUATION

From the above analysis it is clear that the situation requires a major effort by the U. S. to obtain a reduction of political tensions and improved performance by the Vietnamese Government. We can not say with assurance whether the effort against the Viet Cong is sure to fail in the absence of major political improvements. However, it does seem clear that after a period of months progress may be reduced and indeed reversed.

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Although the present momentum might conceivably continue to carry the effort forward even if Diem remains in power and political tensions continue, any slowing even in the rate of progress would surely have a serious effect on U. S. popular support for the U. S. effort. The result could well be a continuing vicious circle.

Finally, and perhaps most disturbingly, it is not at all clear that the US and GVN ultimate objectives coincide. The Diem-Nhu ambition of creating some form of corporate state seems to run counter to US interests in Vietnam. It is clear that the current coincidence of U. S. and GVN interests in defeating the Viet Cong may be transitory and ~~subject to later divergence.~~

That Nhu is quite capable of bargaining with the North for a modus vivendi to be achieved at the cost of eliminating the U.S. presence. We can have no confidence that, in such modus vivendi, Nhu would be capable of averting total subversion by the North.

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VII. U. S. LEVERAGES TO OBTAIN DESIRED CHANGES IN THE DIEM REGIME

A. Conduct of US Representatives.

US personnel in Saigon might adopt an attitude of coolness toward their Vietnamese counterparts, maintaining only those contacts and communications which are necessary for the actual conduct of operations in the field. To some extent this is the attitude already adopted by the Ambassador himself, but it could be extended to the civilian and military agencies located in Saigon. The effect of such action would be largely psychological.

B. Economic Leverage.

Together, USOM's Commodity Import Program (CIP) and the P1 480 program account for between 60 and 70 percent of imports into Vietnam. The commitment of funds under the CIP has already been suspended. CIP deliveries result in the generation of piastres, most of which go to the support of the defense budget. It is estimated that CIP pipelines will remain relatively large for some five or six months, and within this period there would not be a serious material effect. Even within this period, however, the flow of piastres to support the defense budget will gradually begin to decline and the GVN will be forced to draw down its foreign exchange reserves or curtail its military expenditures.

Within the domestic economy the existing large pipelines would mean that there would be no material reason for inflation to begin in the short term period. However, the psychological effect of growing realization that the CIP program has been suspended might be substantial in

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2-4 months. Saigon is a volatile business community and although there is considerable police effort to control prices, this might not be able to contain a general trend of speculation and hoarding. Once inflation did develop, it could have a serious effect on the GVN budget and the conduct of the war.

Apart from CIP, two major AID projects are up for final approval - the Saigon-Cholon Waterworks (\$9 million) and the Saigon Electric Power Project (\$4 million). Suspension of these projects at the present stage would probably cause a proportionately longer delay in completion of the projects if they were restored at a later date, and, most likely, an increase in their estimated cost. There would, however, be a possible advantage in demonstration to Congress and the world that we disapprove of GVN policies and are not providing additional aid not directly essential to the war effort.

C. Paramilitary and Other Assistance.

(1) USOM assistance to the Combat Police and USOM and USIS assistance to the Director General of Information and the ARVN PsyWar Program could be suspended. These projects involve a relatively small amount of local currency but their suspension, particularly in the case of USIS, might adversely affect programs which the US wishes to see progress.

(2) However, there would be merit in a gesture aimed at Colonel Tung, whose forces in or near Saigon played a conspicuous part in the pagoda affair and are a continuing support for Diem. Colonel Tung commands a mixed complex of forces, some of which are supported by MAP and others presently through CIA. All of those now in or near Saigon were trained

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either for combat missions or for special operations into North Vietnam and Laos. Purely on grounds of their not being used for their proper missions, the US could inform Diem that we would cut off MAP and CIA support unless they were moved to clear military control and to field operations. Almost certainly, Diem would refuse.

The practical effect of the cut-off would probably be small. The equipment cannot be taken out of the hands of the units, and the pay provided to some units could be made up from the GVN budget. Psychologically, however, the significance of the gesture might be greater. At the least it would remove one target of press criticism of the US, and would probably also be welcomed by the high military officers in Vietnam, and certainly by the disaffected groups in Saigon.

At the same time, support should continue, but through General Harkins rather than CIA, for border surveillance and other operations that are in the field and are contributing to the war effort.

We have weighed this cut-off action carefully. It runs a risk that Colonel Tung would refuse to carry out, jointly with CIA, external operations against the Lao corridor and North Vietnam. It might also limit CIA's access to the military. However, overall US liaison with high military officers could be fully maintained through the US military advisors. On balance, we conclude that these possible disadvantages are outweighed by the gains implicit in this action.

(3) Consideration has been given both by USOM and the military (principally the JCS in Washington) to the possibility of redirecting

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economic and military assistance in such a fashion as to bypass the central government in Saigon. Military studies have shown the technical feasibility, though with great difficulty and cost, of supplying the war effort in the country-side over lines of communications which do not involve Saigon, and it is assumed that the same conclusions would apply to USOM deliveries to the field under the rural strategic hamlet program. However, there is a consensus among U.S. agencies in Saigon that such an effort is not practical in the face of determined opposition by the GVN unless, of course, a situation had developed where the central government was no longer in control of some areas of the country. Nor is it at all clear that such diversion would operate to build up the position of the military or to cut down Nhu's position.

D. Propaganda.

Although the capability of USIS to support the United States campaign of pressure against the regime would be small, consideration must be given to the content and timing of the United States pronouncements outside the country. The Ambassador has already suggested the use of the Voice of America in stimulating, in its broadcasts to Vietnamese, discussions of democratic political philosophies. The possibility of this medium could obviously be exploited over a wide range of ascending political pressure. In addition, a phased program of United States official pronouncements could be developed for use in conjunction with the other leverages as they are applied.

E. The Leverage of Conditioning Our Military Aid on Satisfactory Progress.

Coupled with all the above there is the implicit leverage embodied

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in our constantly making it plain to Diem and others that the long term continuation of military aid is conditioned upon the Vietnamese Government demonstrating a satisfactory level of progress toward defeat of the insurgency.

F. Conclusions.

A program of limited pressures, such as the CIP suspension, will not have large material effects on the GVN or the war effort, at least for 2 - 4 months. However, the psychological effects could be greater, and there is some evidence that the suspension is already causing concern to Diem. At the same time, the fact that all United States support directly related to the war effort is continuing may still suggest to Diem that we are not yet ready for intensive pressures. In sum, the effect of pressures that can be carried out without detriment to the war effort is probably limited with respect to the possibility of Diem making necessary changes.

We have not analyzed with care what the effect might be of a far more intensive level of pressure such as cessation of MAP deliveries or long continued suspension of the commodity import program. If the Diem government should fail to make major improvements, serious consideration would have to be given to this possible course of action, but we believe its effect on the war effort would be so serious - in psychological if not in immediate material terms - that ~~it should not be considered at the present time.~~

any decision to move to
this course of action should be taken only
by highest ~~and~~ authority.

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VIII. COUP POSSIBILITIES

A. Prospects of a Spontaneous Coup

The prospects of an early spontaneous replacement of the Diem Regime are not high. The two principal sources of such an attempt, the senior military officers and the students, have both been neutralized by a combination of their own inability and the regime's effective counter-measures of control. The student organizations have been emasculated. The students themselves have displayed more emotion than determination and they are apparently being handled with sufficient police sophistication to avoid an explosion.

The generals appear to have little stomach for the difficult job of secretly arranging the necessary coalescence of force to upset the Regime.

Diem/Nhu are keenly aware of the capability of the generals to take-over the country, utilizing the tremendous power now vested in the military forces. They, therefore, concentrate their manipulative talent on the general officers, by transfers, and by controls over key units and their locations. They are aware that these actions may reduce efficiency, but they tolerate it rather than risk the prospect that they be overthrown and their social revolution frustrated. They have established a ~~fiercely loyal~~ praetorian guard ^{in an effort} to guarantee considerable bloodshed if any attack is made. The generals have seen slim hope of surmounting

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these difficulties without prohibitive risk to themselves, the unity of the Army and the Establishment itself, although they constantly keep the prospect in the forefront of their minds.

Despite these unfavorable prospects for action in the short term, new factors could quickly arise, such as the death of Diem or an unpredictable and even irrational attack launched by a junior officer group, which would call urgently for US support or counteraction. In such a case, the best alternative would appear to be the support of constitutional continuity in the person of the Vice President, behind whom arrangements could be developed for a more permanent replacement after a transitional period.

B. Prospects for Improvement under an Alternative Government

The prospects that a replacement regime would be ^{more efficient} ~~an improvement~~ now appear to be no better than even. Initially, only a strongly authoritarian regime would be able to pull the government together and maintain order. In view of the pre-eminent role of the military in Vietnam today, it is probable that this role would be filled by a military officer, perhaps taking power after the selective process of a junta dispute. Such an authoritarian military regime, perhaps after an initial period of euphoria at the departure of Diem/Nhu, would be apt to entail a resumption of the repression ~~at least~~ of Diem, the corruption of the Vietnamese Establishment before Diem, and an

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emphasis on conventional military rather than social, economic and political considerations, with at least an equivalent degree of xenophobic nationalism.

However, these expected defects would not entail the fundamental weakness of Nhu's drive for a communist-type state under his control.

These features must be weighed, however, against the possible results of growing dominance or succession by Nhu, which would continue and even magnify the present dissension, unhappiness and unrest.

C. Possible US Actions

Obviously, clear and explicit US support could make a great difference to the chances of a coup. However, at the present time we lack a clear picture of what individuals might be brought to the point of action, or what kind of government might emerge. We therefore need an intensive clandestine effort, under the Ambassador's direction, to establish necessary contacts.

If and when we have a better picture, the choice will still remain difficult whether we would prefer to take our chances on a spontaneous coup (assuming some action by Diem and Nhu would trigger it) or to risk having the US hand show with a coup group which appeared likely to be a better alternative government. Obviously, any regime that was identified from the outset as a US "puppet" would have serious disadvantages both within South Vietnam and in significant areas of the

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world, including other underdeveloped nations where the US has a major role.

In any case, whether or not it proves to be wise to promote a coup at a later time, we must be ready for the possibility of a spontaneous coup, and this too requires clandestine contacts on an intensive basis.

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IX ANALYSIS OF ALTERNATIVE POLICIES

Broadly speaking, we believe there are three alternative policies the U. S. could pursue to achieve its political and military objectives:

1. Return to avowed support of the Diem Regime and attempt to obtain the necessary improvements through persuasion from a posture of "reconciliation." This would not mean any expression of approval of the repressive actions of the regime, but simply that we would go back in practice to business as usual.

2. Follow a policy of selective pressures: "purely correct" relationships at the top official level, continuing to withhold further actions in the commodity import program, and making clear our disapproval of the regime by such actions as VOA broadcasts stressing the importance of Democratic practices. A further element in this policy is letting the present impression stand that the U. S. would not be averse to a change of Government --- although we would not take any ^{immediate} ~~express~~ actions to initiate a coup.

3. Start ^{immediately} to promote a coup by high ranking military officers. This policy might involve more extended suspensions of aid and sharp denunciations of the regime's actions so timed as to fit with coup prospects and planning.

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Our analysis of these policies is as follows:

1. Reconciliation.

We believe that this course of action would be ineffective from the standpoint of events in South Vietnam alone, and would also greatly increase our difficulties in justifying the present U. S. support effort both to the Congress and generally to significant third nations. We are most unlikely, after recent events, to get Diem to make the necessary changes; on the contrary, he would almost certainly regard our reconciliation as an evidence that the US would sit still for just about anything he did. The result would probably be not only a continuation of the destructive elements in the Regime's policies but a return to larger scale repressions as and when Diem and Nhu thought they were necessary. The result would probably be sharp deterioration in the military situation in a fairly short period.

2. Selective Pressures.

We have examined numerous possibilities of applying pressures to Diem in order to incline him to the direction of our policies. The most powerful instrument at our disposal is the control of military and economic aid but any consideration of its use reveals the double-edged nature of its effects. Any long term reduction of aid cannot but have an eventual adverse effect on the military campaign since both the military and the economic programs have been consciously designed and justified in terms of their contribution to the war effort.

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There are clear risks to this policy. It leaves Diem uncertain of our long-term intentions, and in some apprehension that we may in fact be ^{initiating} ~~moving to support~~ a coup -- even though we would not actually be doing so. He and Nhu might will take some action against the potential elements of a coup, and this might trigger either a return to general repression or, conversely the very coup he would be trying to forestall. ~~If that happens~~

~~Any consideration of reversing our course and resuming~~
~~As to when we would reverse our course, the resumption~~
of the full program of economic and military aid should be tied to the military and political performance of the Diem government. We believe it may be possible to develop specific military objectives to be achieved by agreed-upon dates. The extent to which such objectives are met, in conjunction with an evaluation of the regime's political performance, would determine the level of aid for the following period.

On balance we consider that the most promising course of action to adopt at this time is an application of selective short-term pressures, principally economic, and the conditioning of long term aid on the satisfactory performance by the Diem government in meeting military and political objectives which in the aggregate equate to the requirements of final victory.

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Hence, immediate reductions must be selected carefully and be left in effect only for short periods.

We believe that the present level of pressures is causing, and will cause, Diem some concern, while at the same time not concretely impairing the military effort. We are not hopeful that this level (or indeed any level) of pressure would actually induce Diem to remove Nhu from the picture completely. However, there is a *good chance that significant elements of the Establishment might be better change that Diem would at least be deterred from resuming be willing to take action leading to their removal of both Diem & Nhu.* ~~large scale oppressions.~~

At the same time, there are various factors that set a time limit to pursuing this course of action in its present form. Within 2-4 months we have to make critical decisions with the GVN about its 1964 budget and our economic support level. We must also decide whether to resume the commodity import program unless we wish to risk a sharp drop in this fairly early in 1964; the machinery of imports alone would require that a decision to resume be communicated to the Government. Finally, there is a significant and growing possibility that even the present limited actions in the economic field -- more for psychological than for economic reasons -- would start a wave of speculation and inflation that would be difficult to control or bring back into proper shape.

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3. Organizing a Coup.

For the reasons stated earlier, we believe this course of action should not be undertaken at the present time.

In accordance with this analysis, the specific actions recommended in this Report are consistent with the second line of policy analyzed above.

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THE SECRETARY OF DEFENSE

WASHINGTON

2 October 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Report of McNamara-Taylor Mission to South Vietnam

Your memorandum of 21 September 1963 directed that General Taylor and Secretary McNamara proceed to South Vietnam to appraise the military and para-military effort to defeat the Viet Cong and to consider, in consultation with Ambassador Lodge, related political and social questions. You further directed that, if the prognosis in our judgment was not hopeful, we should present our views of what action must be taken by the South Vietnam Government and what steps our Government should take to lead the Vietnamese to that action.

Accompanied by representatives of the State Department, CIA, and your Staff, we have conducted an intensive program of visits to key operational areas, supplemented by discussions with U.S. officials in all major U.S. Agencies as well as officials of the GVN and third countries.

We have also discussed our findings in detail with Ambassador Lodge, and with General Harkins and Admiral Felt.

The following report is concurred in by the Staff Members of the mission as individuals, subject to the exceptions noted.

1. REPORT OF THE MISSION

2. SUMMARY

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I. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions.

1. The military campaign has made great progress and continues to progress.

2. There are serious political tensions in Saigon (and perhaps elsewhere in South Vietnam) where the Diem-Nhu government is becoming increasingly unpopular.

3. There is no solid evidence of the possibility of a successful coup, although assassination of Diem or Nhu is always a possibility.

4. Although some, and perhaps an increasing number, of GVN military officers are becoming hostile to the government, they are more hostile to the Viet Cong than to the government and at least for the near future they will continue to perform their military duties.

5. Further repressive actions by Diem and Nhu could change the present favorable military trends. On the other hand, a return to more moderate methods of control and administration, unlikely though it may be, would substantially mitigate the political crisis.

6. It is not clear that pressures exerted by the U.S. will move Diem and Nhu toward moderation. Indeed, pressures may increase their obduracy. But unless such pressures are exerted, they are almost certain to continue past patterns of behavior.

B. Recommendations.

We recommend that:

1. General Harkins review with Diem the military changes necessary to complete the military campaign in the Northern and Central areas

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(I, II, and III Corps) by the end of 1964, and in the Delta (IV Corps) by the end of 1965. This review would consider the need for such changes as:

- a. A further shift of military emphasis and strength to the Delta (IV Corps).
- b. An increase in the military tempo in all corps areas, so that all combat troops are in the field an average of 20 days out of 30 and static missions are ended.
- c. Emphasis on "clear and hold operations" instead of terrain sweeps which have little permanent value.
- d. The expansion of personnel in combat units to full authorized strength.
- e. The training and arming of hamlet militia at an accelerated rate, especially in the Delta.
- f. A consolidation of the strategic hamlet program, especially in the Delta, and action to insure that future strategic hamlets are not built until they can be protected, and until civic action programs can be introduced.

2. A program be established to train Vietnamese so that essential functions now performed by U.S. military personnel can be carried out by Vietnamese by the end of 1965. It should be possible to withdraw the bulk of U.S. personnel by that time.

3. In accordance with the program to train progressively Vietnamese to take over military functions, the Defense Department should announce in the very near future presently prepared plans to withdraw 1000 U.S.

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military personnel by the end of 1963. This action should be explained in low key as an initial step in a long-term program to replace U.S. personnel with trained Vietnamese without impairment of the war effort.

4. The following actions be taken to impress upon Diem our disapproval of his political program.

a. Continue to withhold commitment of funds in the commodity import program, but avoid a formal announcement. The potential significance of the withholding of commitments for the 1964 military budget should be brought home to the top military officers in working level contacts between USOM and MACV and the Joint General Staff; up to now we have stated \$95 million may be used by the Vietnamese as a planning level for the commodity import program for 1964. Henceforth we could make clear that this is uncertain both because of lack of final appropriation action by the Congress and because of executive policy.

b. Suspend approval of the pending AID loans for the Saigon-Cholon Waterworks and Saigon Electric Power Project. We should state clearly that we are doing so as a matter of policy.

c. Advise Diem that MAP and CIA support for designated units, now under Colonel Tung's control (mostly held in or near the Saigon area for political reasons) will be cut off unless these units are promptly assigned to the full authority of the Joint General Staff and transferred to the field.

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d. Maintain the present purely "correct" relations with the top GVN, and specifically between the Ambassador and Diem. Contact between General Harkins and Diem and Defense Secretary Thuan on military matters should not, however, be suspended, as this remains an important channel of advice. USOM and USIA should also seek to maintain contacts where these are needed to push forward programs in support of the effort in the field, while taking care not to cut across the basic picture of U.S. disapproval and uncertainty of U.S. aid intentions. We should work with the Diem government but not support it.*

As we pursue these courses of action, the situation must be closely watched to see what steps Diem is taking to reduce repressive practices and to improve the effectiveness of the military effort. We should set no fixed criteria, but recognize that we would have to decide in 2 - 4 months whether to move to more drastic action or try to carry on with Diem even if he had not taken significant steps.

5. At this time, no initiative should be taken to encourage actively a change in government. Our policy should be to seek urgently to identify and build contacts with an alternative leadership if and when it appears.

6. The following statement be approved as current U.S. policy toward

* Mr. Colby believes that the official "correct" relationship should be supplemented by selected and restricted unofficial and personal relationships with individuals in the GVN, approved by the Ambassador, where persuasion could be fruitful without derogation of the official U.S. posture.

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South Vietnam and constitute the substance of the government position to be presented both in Congressional testimony and in public statements.**

a. The security of South Vietnam remains vital to United States security. For this reason, we adhere to the overriding objective of denying this country to Communism and of suppressing the Viet Cong insurgency as promptly as possible. (By suppressing the insurgency we mean reducing it to proportions manageable by the national security forces of the GVN, unassisted by the presence of U.S. military forces.) We believe the U.S. part of the task can be completed by the end of 1965, the terminal date which we are taking as the time objective of our counterinsurgency programs.

b. The military program in Vietnam has made progress and is sound in principle.

c. The political situation in Vietnam remains deeply serious. It has not yet significantly affected the military effort, but could do so at some time in the future. If the result is a GVN ineffective in the conduct of the war, the U. S. will review its attitude toward support for the government. Although we are deeply concerned by repressive practices, effective performance in the conduct of the war should be the determining factor in our relations with the GVN.

d. The U. S. has expressed its disapproval of certain actions of the Diem-Nhu regime and will do so again if required. Our policy is to seek to bring about the abandonment of repression because of its effect on the popular will to resist. Our means consist of expressions

** Editor's Note: See actual text issued by the White House on 2 October 1963, reflecting changes and modifications in this proposal.

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of disapproval and the withholding of support from GVN activities that are not clearly contributing to the war effort. We will use these means as required to assure an effective military program.

II. MILITARY SITUATION AND TRENDS

A. The Standards of Measure.

The test of the military situation is whether the GVN is succeeding in widening its area of effective control of the population and the countryside. This is difficult to measure, and cannot be stated simply in terms of the number of strategic hamlets built or the number of roads that can now be travelled without escort. Nor can the overall situation be gauged solely in terms of the extent of GVN offensive action, relative weapon losses and defections, VC strength figures, or other measures of military performance. All of these factors are important and must be taken into account; however, a great deal of judgment is required in their interpretation.

We have looked at these factors carefully, but we have also given great weight to the evidence of the men on the spot -- the U. S. military advisors and the USOM field representatives -- as to whether government control is in fact extending and becoming more accepted and solid in the various areas. We have been greatly impressed with the variation of the situation from area to area and from province to province; there is a different war in each area and province, and an example can be found somewhere to support any attitude toward the state of the counterinsurgency campaign. Our task has been to observe the situation as broadly as possible to avoid giving exaggerated importance to any single angle of observation.

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B. Overall Progress.

With allowance for all uncertainties, it is our firm conclusion that the GVN military program has made great progress in the last year and a half, and that this progress has continued at a fairly steady rate in the past six months even through the period of greatest political unrest in Saigon. The tactics and techniques employed by the Vietnamese under U.S. monitorship are sound and give promise of ultimate victory.

Specifically, progress is most clear in the northern areas (I and II Corps); especially noteworthy work has been done in key coastal provinces where VC strength once threatened to cut the country in half ^{but} has now been substantially reduced. In the central area and the highlands (III Corps), progress has been steady though slower, and the situation remains difficult in the provinces to the west and north of Saigon itself. Throughout the northern two-thirds of the country the strategic hamlet program has matured effectively and freedom of rural movement has grown steadily.

The Delta remains the toughest area of all, and now requires top priority in both GVN and U.S. efforts. Approximately 40% of the people live there; the area is rich and has traditionally resisted central authority; it is the center of Viet Cong strength -- over one-third of the "hard core" are found there; and the maritime nature of the terrain renders it much the most difficult region to pacify.

A first step has just been taken by the move of a third division to the Delta, but further major actions are needed. They include priority decisions by the GVN in the use of its resources, the consolidation

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rather than further spread of strategic hamlets in many areas, the elimination of many fixed outposts, better hamlet defenses and more trained hamlet militia. Regular army units should be reserved for use in mobile actions and for clear and hold operations in support of the strategic hamlet program. Though there are unresolved problems in several key provinces close to Saigon, as well as in the southernmost parts where the VC are strongly established, it is clear that the Delta situation has generally improved over the past year, even with the limited resources allocated to it. Despite recent evidences of greater VC effort and better weapons, the Delta campaign can continue to go forward if the essential priority is assigned to Delta requirements.

C. Military Indicators.

From a more strictly military standpoint, it should be noted that this overall progress is being achieved against a Viet Cong effort that has not yet been seriously reduced in the aggregate, and that is putting up a formidable fight notably in the Delta and key provinces near Saigon. The military indicators are mixed, reflecting greater and more effective GVN effort but also the continued toughness of the fight.

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INDICATORS

	June	July	August	September (estimated)	Mo. Ave. Year ago
No. of government initiated:					
Small operations	851	781	733	906	490
Large operations	125	168	166	141	71
Viet Cong Killed	1896	1918	1685	2034	2000
GVN Killed	413	521	410	525	431
GVN Weapons Lost	590	780	720	802	390
VC Weapons Captured	390	375	430	400	450
Viet Cong Military Defectors	420	310	220	519	90
Viet Cong Initiated Incidents of all Types	1310	1380	1375	1675	1650
Viet Cong Attacks	410	410	385	467	410
Estimated Viet Cong Strength					
Hard Core	21000	21000	21000	21000	22000
Irregular	85000	82000	76000	70000	98000

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Recent days have been characterized by reports of greater Viet Cong activity, countrywide, coupled with evidence of improved weaponry in their hands. Some U.S. advisors, as well as some Vietnamese, view this increased activity as a logical reaction to the steadily growing strategic hamlet program, which they believe is progressively separating the Viet Cong from the rural population and from their sources of food and reinforcements. Others view it as a delayed effort to capitalize upon the political trouble. All agree that it reflects a continuing capability for offensive action.

D. The Strategic Hamlet Program.

In this generally favorable military picture, two main factors have been the strategic hamlet program and the effectiveness of the U.S. advisory and support effort.

We found unanimous agreement that the strategic hamlet program is sound in concept, and generally effective in execution although it has been overextended in some areas of the Delta. The teamwork of U.S. military men and civilians is generally excellent, and on the GVN side a number of the province chiefs who handled the program poorly in its initial phases have been replaced by men who appear to have a better grasp of the central

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purpose of the program -- to bring people under clear GVN control, in a way that really solidifies their support of their government and opposition to the VC. The economic and civic action element of the program (schools, medicine, fertilizer, etc.) has been carried forward on the U.S. side with considerable effectiveness, but has necessarily lagged behind the physical completion of hamlets and in insecure areas has made little progress. Without this element, coupled with effective hamlet defense measures, what are called "strategic hamlets" may be only nominally under GVN control. We were particularly struck by some evidence that a hamlet's readiness to defend itself often bears a direct relation to whether the Province Chief, with U.S. help, has managed to make a convincing start in civic action.

E. The U.S. Military Advisory and Support Effort.

We may all be proud of the effectiveness of the U.S. military advisory and support effort. With few exceptions, U.S. advisors report excellent relations with their Vietnamese counterparts, whom they characterize as proud and willing soldiers. The stiffening and exemplary effect of U.S. behaviour and attitudes has had an impact which is not confined to the war effort, but which extends deeply into the whole Vietnamese way of doing things.

The U.S. advisory effort, however, cannot assure ultimate success. This is a Vietnamese war and the country and the war must, in the end, be run solely by the Vietnamese. It will impair their independence and the development of their initiative if we leave our advisors in place beyond the time they are really needed. In some areas reductions in the U.S. effort and transfer of U.S. responsibilities to the Vietnamese can now be carried out without material impairment of the total war effort. As

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a start, we believe that a reduction of about 1000 U.S. personnel (for which plans have been in preparation since the spring) can be carried out before the end of 1963. No further reductions should be made until the requirements of the 1964 campaign become firm.

F. Conclusion.

Acknowledging the progress achieved to date, there still remains the question of when the final military victory can be attained. If, by victory, we mean the reduction of the insurgency to something little more than sporadic banditry in outlying districts, it is the view of the vast majority of military commanders consulted that success may be achieved in the I, II and III Corps area by the end of CY 1964. Victory in the IV Corps will take longer -- at least well into 1965. These estimates necessarily assume that the political situation does not significantly impede the effort.

III. ECONOMIC SITUATION AND TRENDS

The current economic situation in South Vietnam is, in the main, satisfactory. The internal price level is reasonably stable. Commercial inventories are high and national bank reserves of foreign exchange stand at approximately \$160 million which equals approximately 11 to 12 months imports at current rate (\$240 million imports less \$75 to \$80 million exports). The effective rate of exchange of the piastre to the dollar is within the range of reasonable economic value.

Trends are difficult to discern but the business community was optimistic before the present crisis. Rice exports for the current calendar year are projected at approximately \$30 million against \$8.75 million last year. Total exports are anticipated at \$70 million as against \$55 million last year. Banking circles point to one bearish

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factor in the export picture. Rubber, which represents more than half in value of all exports, faces a situation of declining world market prices and some plantations may curtail operations in the next year.

On the domestic side South Vietnam is almost self-sufficient in cotton textiles and is on its way to satisfying its own fertilizer and cement requirements by 1966. At the beginning of the current year banking circles noted a healthy increase in local investments in small enterprises which reflects, in their judgment, an increase of confidence in the future that is unusual for recent years. The prospects for next year, under normal circumstances, appear reasonably good. If the Government encourages diversification in agriculture, exports of such products together with the increasing availability of rice should offset the decline in foreign exchange earnings from rubber.

The projected GVN budget for CY 1964 totals P27 billion; tax revenues are estimated at P11 billion, leaving an internal budget deficit of P16 billion. External resources (resulting from U.S. operations but requiring also use of foreign exchange reserves) are estimated to generate an additional P9.5 billion, leaving a P6.5 billion estimated deficit. This deficit might be somewhat reduced by additional tax revenues. To meet the remaining deficit, borrowings from the National Bank would still be required with a resulting increase in the money supply.

The money supply has been increasing rather sharply in the last nine months, although its inflationary effect has been dampened by the recent arrival of large shipments under USOM's commodity import program. This has been accompanied by an increase in import licensing brought about principally by the GVN's adoption at the beginning of this year of an open general licensing system for certain manufactured goods such as

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trucks, automobiles, fabricated steel and some industrial raw materials. The banks estimate that the open general licensing system will result in a \$10 million increase of GVN-financed imports in CY 1963.

In short, while the general economic situation is good, the prospects for holding the line on inflation and the balance of payments do not appear bright for CY 1964 unless the GVN can be persuaded to impose severe restraints.

Effect of the Political Crisis on the Economic Situation.

At the present time the current political problems have not had a significant effect on the internal economic situation. French banking sources report a slight increase in the rate of withdrawals from private Vietnamese bank deposits over the last two months; but this increase has only been on the order of 1 to 2 percent.

Commercial inventory stocks seem to be increasing, but this can be explained by the recent increase in arrivals of foreign goods. In any case prices have remained stable with exception of a slight increase in the cost of cement, automobiles and certain industrial equipment.

The value of the piastre has fallen 10% on the Hong Kong market in the last month. Virtually no abnormal flight of capital has yet been observed in banking circles.

The most apparent effect of the crisis of the past several weeks is a slowdown in investment decision, both in industry and in the limited capital market. Investors and industrialists are worried about a reduction in U.S. aid. They are aware of the suspension in the issuances of procurement authorizations and are therefore concerned about the availability of imported raw materials and spare parts.

Since the Saigon business community has lived through some violent

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times before this, they have not reacted to events with as much panic as might have been expected. If the U.S. should long suspend import commitments, however, it should be expected that the private sector of the economy will react in an inflationary manner.

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IV. POLITICAL SITUATION AND TRENDS

Although our observations of the political situation were necessarily less extensive than of the military picture, they were ample to confirm that the existing situation is one of high tension. We reviewed the situation carefully with the relevant U.S. officials and were also impressed by frank interviews with GVN officials and with third country representatives.

In essence, discontent with the Diem/Nhu regime, which had been widespread just below the surface during recent years, has now become a seething problem. The Buddhist and student crises have precipitated these discontents and given them specific issues. But the problem goes deeply into the personalities, objectives, and methods of operation of Diem and Nhu over a long period.

The evidence appears overwhelming that Diem and Nhu operate in close collaboration, and that each needs the other. They undoubtedly regard themselves as carrying out a social and political revolution for the good of their country, using all means -- including the strategic hamlet program -- to build up a secure base of political strength in the rural areas.

At the same time, the positive and educative sides of their actions, aimed primarily at the countryside, but with extensive country-wide educational efforts as well, have been increasingly matched by negative and repressive measures of control against the urban population. The urban elite or "Establishment" -- which includes intellectuals, civilian officials at all levels, and a high proportion of military officers -- has never been trusted by Diem and Nhu. Always sensitive to signs of opposition -- with some justification from events in 1954-55 and the attempted coups of 1960

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and 1962 -- the regime has turned increasingly to police methods, particularly secret arrests, that have almost all the bad effects of outright totalitarianism even though a good deal of freedom to criticize still remains.

Concurrently, the palace has always manipulated and controlled the government structure to ensure its own control. The degree to which centralized control and intervention have been carried, and the often quixotic nature of its use, have had a steadily growing adverse effect on efficiency and morale.

Both of these adverse characteristics of the regime, and the resentment of them, focus more and more on Nhu. Not merely is he the hatchet man, but his statements on "personalism" and his building up with Madame Nhu of a wide personal apparatus have smacked more and more of outright totalitarianism. A further disturbing feature of Nhu is his flirtation with the idea of negotiating with North Vietnam, whether or not he is serious in this at present. This deeply disturbs responsible Vietnamese and, more basically, suggests a possible basic incompatibility with U.S. objectives.

Nhu's role and scope of action have increased, and he may well have the designs imputed to him of succeeding his brother in due course. Diem is still quite a long way from being a figurehead, and his personal prestige in the country has survived remarkably well. But Diem does depend heavily on Nhu, their central ideas are very close if not identical, and it would be remarkable if Diem dropped Nhu from a commanding position.

Until the Buddhist and student crises, it was probably true that the alienation between Diem and the elite was more a matter of basically divergent views of the right social structure and of Diem and Nhu's

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handling of individuals in the government than it was a matter of reaction to repressions. However, the crises have now brought the repressions so directly into the lives of many of the elite that more orderly methods, which might previously have kept the loyalty of the needed amount of talent, now probably cannot do so without a convincing degree of restoration of personal security. Yet both more orderly methods and a restoration of personal security cut diametrically across the grain of Diem's and especially Nhu's view of what is necessary to maintain their power and move toward their idea of social revolution.

Thus, the discontent of the elite -- reflected chiefly in the progressive loss of responsible men -- has now reached the point where it is uncertain that Diem can keep or enlist enough talent to run the war. The loss of such men as Mau and Tuyen, and the deeply disturbed attitude of such a crucial figure as Thuan, are the strongest evidences of the seriousness of the situation.

This is not to discount groups other than the elite. However, the Buddhists and students cannot in themselves either threaten the regime or do more than focus issues -- although of course they seriously damage the regime's standing in the U.S. and elsewhere, with uninhibited press reactions that contribute further to the persecution complex that drives Diem and Nhu into repression. The business community is a passive factor only. Urban labor is simply trying to hold its position, being anti-regime but not to the point of being an independent source of trouble. The rural peasantry appear little affected even by the Buddhist issue. If these groups can be kept even in an acquiescent state the war could go forward.

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As matters stand, political tension in the urban centers is so high that it could boil over at any time into another cycle of riots, repressions, and resignations. This tension would disappear in a very short time if Nhu were removed. Whether it could be reduced to acceptable proportions by measures short of this is a very doubtful question,

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but it is clear that such measures would have to include both more moderate control methods and a better government climate particularly for civilian officials.

V. EFFECT OF POLITICAL TENSION

A. On Military Operations.

So far this has not significantly affected countryside operations in any area. U.S. personnel in the field testified that a few officer or civilian counterparts showed concern over the Buddhist and student issues, but not^{to} the extent, as yet, of materially affecting their doing their jobs. The rural population has been almost untouched, The pace of GVN operations was sharply cut for a short period at the end of August by transfers of units and general uncertainty, but has now largely renewed its previous intensity. The Delta particularly has been so concerned with the war that it has been virtually unaffected.

Basically, the unifying factors embodied in the hatred of the military for Communism remain very sharp. This hatred is real and pervasive. It transcends domestic policies in the minds of most officers.

However, there are disturbing elements that could change this picture greatly unless the political tension can be reduced. Certain high officers have been heavily preoccupied with coup possibilities. Those who have had relatives directly involved in the regime's repressions are deeply disturbed though not necessarily ready to act against Diem.*

* A specific example of this is the Commandant of the Marine Corps in Saigon. His brother, along with many other relatives of military officers and cabinet members, was picked up in the student roundups of early September. Some were tortured, and -- as in the case of the Commandant's brother -- released only after intercession. However, the Commandant shows no inclination₂₁ to take action against the Diem government.

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Resentment of Nhu exists in top military circles and probably to some extent at middle levels. The fact that the great bulk of military officers -- and Province Chiefs -- come from urban areas (simply because of educational requirements in many cases) clearly does open up the possibility of progressive loss of morale and effectiveness, as well as coup participation, if the regime does not cease its oppressions against Buddhists, students, and real or supposed opposition individuals.

B. On Civilian Officials.

On the civilian official side, which is also relevant to the war effort, the reaction to the regime's actions has been sharper. The

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Embassy and USOM report unanimously that their normal counterparts have become afraid of associating too closely with Americans, and that there is a general atmosphere of watch-and-wait, just going through the motions of the job but failing to exert what limited initiative and imagination they had previously been ready to exert in face of the constant and power-directed interventions of Nhu. The decline in the contribution of these officials is less serious than any similar decline among the military and province chiefs, but is nonetheless a potentially significant and growing factor if tension persists because these officials play a substantial role in the strategic hamlet program.

In summary, the political tension has not yet significantly affected progress in the field, nor does it seem likely to have major effects in the near future. Beyond that, however, the prognosis must be considered uncertain if political tension persists or mounts.

VI. OVERALL EVALUATION

From the above analysis it is clear that the situation requires a constant effort by the U.S. to obtain a reduction of political tensions and improved performance by the Vietnamese Government. We cannot say with assurance whether the effort against the Viet Cong will ultimately fail in the absence of major political improvements. However, it does seem clear that after another period of repressive action progress may be reduced and indeed reversed. Although the present momentum might

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conceivably continue to carry the effort forward even if Diem remains in power and political tensions continue, any significant slowing in the rate of progress would surely have a serious effect on U.S. popular support for the U. S. effort.

VII. U.S. LEVERAGES TO OBTAIN DESIRED CHANGES IN THE DIEM REGIME

A. Conduct of U. S. Representatives.

U.S. personnel in Saigon might adopt an attitude of coolness toward their Vietnamese counterparts, maintaining only those contacts and communications which are necessary for the actual conduct of operations in the field. To some extent this is the attitude already adopted by the Ambassador himself, but it could be extended to the civilian and military agencies located in Saigon. The effect of such action would be largely psychological.

B. Economic Leverage.

Together, USOM's Commodity Import Program (CIP) and the PL 480 program account for between 60 and 70 percent of imports into Vietnam. The commitment of funds under the CIP has already been suspended. CIP deliveries result in the generation of piastres, most of which go to the support of the defense budget. It is estimated that CIP pipelines will remain relatively large for some five or six months, and within this period there would not be a serious material effect. Even within this period, however, the flow of piastres to support the defense budget will gradually begin to decline and the GVN will be forced to draw down its foreign exchange reserves or curtail its military expenditures.

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Within the domestic economy the existing large pipelines would mean that there would be no material reason for inflation to begin in the short term period. However, the psychological effect of growing realization that the CIP program has been suspended might be substantial in 2-4 months. Saigon has a large number of speculative traders, and although there is considerable police effort to control prices, this might not be able to contain a general trend of speculation and hoarding. Once inflation did develop, it could have a serious effect on the GVN budget and the conduct of the war.

Apart from CIP, two major AID projects are up for final approval - the Saigon-Cholon Waterworks (\$9 million) and the Saigon Electric Power Project (\$4 million). Suspension of these projects would be a possible means of demonstrating to Congress and the world that we disapprove of GVN policies and are not providing additional aid not directly essential to the war effort.

C. Paramilitary and Other Assistance.

(1) USOM assistance to the Combat Police and USOM and USIS assistance to the Director General of Information and the ARVN PsyWar Program could be suspended. These projects involve a relatively small amount of local currency but their suspension, particularly in the case of USIS, might adversely affect programs which the U.S. wishes to see progress.

(2) However, there would be merit in a gesture aimed at Colonel Tung, the Special Forces Commander, whose forces in or near Saigon

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played a conspicuous part in the pagoda affair and are a continuing support for Diem. Colonel Tung commands a mixed complex of forces, some of which are supported by MAP and others presently through CIA. All of those now in or near Saigon were trained either for combat missions or for special operations into North Vietnam and Laos. Purely on grounds of their not being used for their proper missions, the U.S. could inform Diem that we would cut off MAP and CIA support unless they were placed directly under Joint General Staff and were committed to field operations.

The practical effect of the cut-off would probably be small. The equipment cannot be taken out of the hands of the units, and the pay provided to some units could be made up from the GVN budget. Psychologically, however, the significance of the gesture might be greater. At the least it would remove one target of press criticism of the U.S., and would probably also be welcomed by the high military officers in Vietnam, and certainly by the disaffected groups in Saigon.

At the same time, support should continue, but through General Harkins rather than CIA, for border surveillance and other similar field operations that are contributing to the war effort.

We have weighed this cut-off action carefully. It runs a risk that Colonel Tung would refuse to carry out external operations against the Lao corridor and North Vietnam. It might also limit CIA's access to the military. However, U.S. liaison with high military officers could probably be fully maintained through the U.S. military advisors. On balance, we conclude that these possible disadvantages are outweighed by the gains implicit in this action.

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(3) Consideration has been given both by USOM and the military (principally the JCS in Washington) to the possibility of redirecting economic and military assistance in such a fashion as to bypass the central government in Saigon. Military studies have shown the technical feasibility, though with great difficulty and cost, of supplying the war effort in the countryside over lines of communications which do not involve Saigon, and it is assumed that the same conclusions would apply to USOM deliveries to the field under the rural strategic hamlet program. However, there is a consensus among U.S. agencies in Saigon that such an effort is not practical in the face of determined opposition by the GVN unless, of course, a situation had developed where the central government was no longer in control of some areas of the country. Nor is it at all clear that such diversion would operate to build up the position of the military or to cut down Nhu's position.

D. Propaganda.

Although the capability of USIS to support the United States campaign of pressure against the regime would be small, the Ambassador believes consideration must be given to the content and timing of the United States pronouncements outside the country. He has already suggested the use of the Voice of America in stimulating, in its broadcasts to Vietnamese, discussions of democratic political philosophies. This medium could be used to exploit a wide range of ascending political pressure. In addition, a phased program of United States official pronouncements could be developed for use in conjunction with the other leverages as they are applied. We must recognize the possibility that

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such actions may incite Diem to strong countermeasures.

E. The Leverage of Conditioning Our Military Aid on Satisfactory Progress.

Coupled with all the above there is the implicit leverage embodied in our constantly making it plain to Diem and others that the long term continuation of military aid is conditioned upon the Vietnamese Government demonstrating a satisfactory level of progress toward defeat of the insurgency.

F. Conclusions.

A program of limited pressures, such as the CIP suspension, will not have large material effects on the GVN or the war effort, at least for 2-4 months. The psychological effects could be greater, and there is some evidence that the suspension is already causing concern to Diem. However, the effect of pressures that can be carried out over an extended period without detriment to the war effort is probably limited with respect to the possibility of Diem making necessary changes.

We have not analyzed with care what the effect might be of a far more intensive level of pressure such as cessation of MAP deliveries or long continued suspension of the commodity import program. If the Diem government should fail to make major improvements, serious consideration would have to be given to this possible course of action, but we believe its effect on the war effort would be so serious - in psychological if not in immediate material terms - that it should not be undertaken at the present time.

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[Section VIII is TOP SECRET and LIMITED DISTRIBUTION. It is omitted from this edition, which is the same in all other respects.]

IX. ANALYSIS OF ALTERNATIVE POLICIES

Broadly speaking, we believe there are three alternative policies the U.S. could pursue to achieve its political and military objectives:

1. Return to avowed support of the Diem regime and attempt to obtain the necessary improvements through persuasion from a posture of "reconciliation." This would not mean any expression of approval of the repressive actions of the regime, but simply that we would go back in practice to business as usual.

2. Follow a policy of selective pressures: "purely correct" relationships at the top official level, continuing to withhold further actions in the commodity import program, and making clear our disapproval of the regime. A further element in this policy is letting the present impression stand that the U.S. would not be averse to a change of government.

3. Move immediately to promote an alternative government.

Our analysis of these alternatives is as follows:

1. Reconciliation.

We believe that this course of action would be ineffective from the standpoint of events in South Vietnam alone, and would also greatly increase our difficulties in justifying the present U.S. support effort both to the Congress and generally to significant third nations. We are most unlikely, after recent events, to get Diem to make the necessary changes; on the contrary, he would almost certainly regard

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our reconciliation as an evidence that the U.S would sit still for just about anything he did. The result would probably be not only a continuation of the destructive elements in the Regime's policies but a return to larger scale repressions as and when Diem and Nhu thought they were necessary. The result would probably be sharp deterioration in the military situation in a fairly short period.

2. Selective Pressures.

We have examined numerous possibilities of applying pressures to Diem in order to incline him to the direction of our policies. The most powerful instrument at our disposal is the control of military and economic aid but any consideration of its use reveals the double-edged nature of its effects. Any long term reduction of aid cannot but have an eventual adverse effect on the military campaign since both the military and the economic programs have been consciously designed and justified in terms of their contribution to the war effort. Hence, immediate reductions must be selected carefully and be left in effect only for short periods.

We believe that the present level of pressures is causing, and will cause, Diem some concern, while at the same time not significantly impairing the military effort. We are not hopeful that this level (or indeed any level) of pressure will actually induce Diem to remove Nhu from the picture completely. However, there is a better chance that Diem will at least be deterred from resuming large scale oppressions.

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meeting military and political objectives which in the aggregate equate to the requirements of final victory. The specific actions recommended in Section I of this report are consistent with this policy.

Chairman, Joint Chiefs of Staff

Secretary of Defense

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At the same time, there are various factors that set a time limit to pursuing this course of action in its present form. Within 2-4 months we have to make critical decisions with the GVN about its 1964 budget and our economic support level. In addition, there is a significant and growing possibility that even the present limited actions in the economic field -- more for psychological than for economic reasons -- would start a wave of speculation and inflation that would be difficult to control or bring back into proper shape. As to when we would reverse our present course, the resumption of the full program of economic and military aid should be tied to the actions of the Diem government.

As a foundation for the development of our long-term economic and military aid programs, we believe it may be possible to develop specific military objectives to be achieved on an agreed schedule. The extent to which such objectives are met, in conjunction with an evaluation of the regime's political performance, would determine the level of aid for the following period.

3. An immediate move to promote an alternative government.

We believe this course of action should not be undertaken at the present time.

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On balance, we consider that the most promising course of action to adopt at this time is an application of selective short-term pressures, principally economic, and the conditioning of long-term aid on the satisfactory performance by the Diem government in

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