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MEMORANDUM FOR MR. ROSTOW

SUBJECT: Meetings of the Viet Nam Task Force on Monday, July 7, 1961
and Thursday, July 13, 1961

Meeting on Monday, July 7

The principal item was a preliminary oral report by Mr. Paul Geren, the State member of the Special Financial Group. He said that the principal gain from the SFG's visit was a confrontation of seven American economic officials with seven Vietnamese. Several of the Vietnamese were competent economists but the group was not representative of the inner circle of the government. It was headed by the dean of the law school. The members of the Vietnamese group ^{were} not in the same sort of communication with their superiors that the Americans were with theirs. They were not, for example, familiar with the texts of the letters that have been exchanged between the President and Diem.

The principal commitments made by the Vietnamese were the following:

- a. To increase the tax take through more effective collection of taxes.
- b. To attempt to sell government bonds. The Vietnamese were very skeptical of the feasibility of such government bond sale. They took the view that the attempt could do no harm and that after some effort to sell bonds to the people, they would be sold to the Central Bank.
- c. To collect at least 750 million additional piasters a year through raising the effective exchange rate from 35 to 60 to the dollar. This would be accomplished by leaving the official exchange rate as it is but by imposing special taxes which would have the effect of increasing the effective rate.

There was some discussion of the exchange rate question. In the course of this discussion it was pointed out that a rate of 60 represented in fact only a 6 piaster increase over the existing rate on aid imports. It was also noted that the proposed system will multiply the complexities of the exchange rate system rather than reducing them and will thus offer increased opportunities

for graft. Mr. Geren pointed out, as an example of Diem's impact on the negotiations, the fact that an initial one billion piaster estimate by the Vietnamese had been reduced to 750 million after a talk between Diem and the head of the GVN delegation. Mr. Geren believed that the lengthy discussions with the Vietnamese on this subject helped to convince them that what the U. S. can contribute is a transfer of goods and services and that the piaster problem is their problem.

Diem is convinced that exchange reform in Laos was responsible for its downfall. He argues that establishment of a unitary rate eliminated the possibility of export to Thailand of goods supplied under the aid program for Laos. This in turn made it impossible for the Lao Government to pay its soldiers, which in turn led to the Kong Le revolt. (This is a most curious argument and also a most curious use of U. S. aid supplies in Laos. As you may have noted from incoming telegrams, some effort is being made to develop the counter-argument.)

The Vietnamese have temporarily embargoed the export of rice on the grounds that they don't want a speculative movement in rice prices which might result from the capability of the Viet Cong to reduce rice supplies to Saigon. When the SFG suggested that this was a problem on which we might be able to give some help through our surplus agricultural commodity program, the Vietnamese indicated that they could not, for reasons of face, accept U. S. agricultural products.

The Vietnamese indicated that they wish next year a \$190 million commercial import program from the U. S. This they justify almost wholly on balance of payments grounds. The Special Financial Group did not, of course, agree to such a program. (Our commercial import program last year was something less than \$100 million.)

The Vietnamese represented their effort, as summarized briefly above, as the most that they would be able to do and they look to us to pick up the rest.

In the course of discussion of other matters, the JCS representative indicated that further investigation had revealed that there is existing authority to permit the U. S. military in Viet Nam to participate, as combat observers, in military operations down to the company level. However, the Vietnamese directive to GVN commanders states that such participation, as well as consultation on the planning of operations will take place "if necessary". Implementation of this directive is not as complete as the U. S. would like. Chief MAAG is attempting to remedy the situation.

Meeting on Thursday, July 13

In the intelligence briefing additional information was given on the recent three-service military sweep in the south. It involved 4,000 men on the Vietnamese side and resulted in 20 Viet Cong killed, 7 wounded, and 37 captured. This does not seem a very large result for such a military operation. Over-all (GVN-supplied) casualty figures for May and June were as follows:

	<u>Viet Cong</u>		<u>GVN</u>	
	<u>May</u>	<u>June</u>	<u>May</u>	<u>June</u>
Killed	824	757	240	187
Wounded	--	--	--	274
Captured	67	470	158	163
<u>Total</u>	891	1,227	439*	634

Reference was made to the fact that the Soviet Ambassador is said to have virtually demanded that the Thais accept Soviet aid. Sarit, according to a Reuters dispatch, has indicated that Thailand would accept Soviet aid provided there were no strings attached.

The State briefer summarized a TDCS (attached) containing much interesting information on alleged North Vietnamese activities bearing on South Viet Nam. The most striking item included was the allegation that North Viet Nam intends to infiltrate no less than 30,000 Viet Cong into South Viet Nam during the month of July. The State briefer was doubtful of the validity of this report and pointed out that, of course, if such an infiltration occurred it would be readily detectable and an obvious case of DRV aggression.

We have indications that the Cao Dai has taken the initiative to offer its support to the GVN. While no conditions were mentioned, it is assumed that, as in the past, the Cao Dai would impose conditions on its cooperation in the form of a request to recover some of its former status.

Another report indicated that agrarian reform had come to a virtual standstill in Viet Nam because of the insurgency. It was INR's evaluation, however, that while the program had slowed down, there continued to be some progress. (This is a matter that I have flagged to Cottrell and suggested that, if he did not already have clear information on it, he might check into it.)

* Includes 41 deserters not included in breakdown.

Most of the meeting was given over to discussion of Viet Nam with a press officers group which included Roger Tubby and Pierre Salinger. Cottrell did almost all of the talking and soon got on the subject of the effect of the situation in Laos on the situation in Viet Nam and what we might do about it. In this connection there was passed out a contingency plan for an information program to support a possible change in U. S. policy in Laos-Viet Nam. A copy is attached. As you will note, the emphasis in this plan is on procedure rather than upon substance. No opportunity was given to comment on the plan at the meeting. I today suggested to Cottrell that the substantive aspects be somewhat beefed up and also that the plan emphasize the control of the operation in South Viet Nam by the DRV. The plan (par. 5) now talks about DRV intervention solely in terms of exporting aggressors across international frontiers.

Although I had no opportunity to make the point while the press people were present, I subsequently suggested to the Task Force that one of the most difficult public relations problems we have to deal with is the common newspaper reporters' view that without political reform, the GVN cannot succeed in its fight against the Viet Cong. While there is much truth in this argument, I suggested that perhaps the writers did not adequately distinguish between "democracy in Saigon" and political and administrative reforms designed to increase the effectiveness of the government's operations and improve its relationship to the countryside. It seemed to me that the latter types of reform were much more important and more feasible than the former. I suggested that it might be desirable to get this point across to newsmen.


Robert H. Johnson