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TELEGRAM SENT

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FROM COLLINS

1. I called on Diem 18th, principally to discuss sect problem. I told him that I hoped problem would be solved politically rather than by use of force and advised him of progress of US-French plan to provide discharged sect forces with severance pay on surrender of their arms and some aid toward reestablishing selves in civil life. Diem expressed interest in this plan but said he thought it was more theoretical than practical since he does not believe arms, or at least all arms, will be turned in. He said that if he had fifteen million piastres per month for three or four months available as secret fund for political use among sects, he could buy off enough sectarian dissidents to cripple sects militarily. I asked how he could be sure of buying permanent loyalty in this manner. He replied he was sure there were enough sectarian troops dissatisfied with their lot and their leaders and anxious to be relieved of their feudal bonds to insure the success of his plan. I agreed to discuss this matter with Diem further. (There is a certain validity to this approach. Will explore with CAS and others before taking action).

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2. I asked Diem how he might renew contact with Bay Vien to determine what practicable terms of settlement might be acceptable to Binh Xuyen leader. I said I understood Minister for Plan Thoai might be suitable intermediary. (FONMIN Do had made this suggestion to me although I did not tell Diem.) Diem replied that Bay Vien reacted unfavorably to ministers, but that he did intend attempt renew contact in coming week through an old friend of Bay Vien whom he did not name. Diem went on to say that Bay Vien is ailing, very rich and disinclined to continue struggle for power, but is egged on by his political adviser Tai and police chief Sang, both of whom are enriching selves under his protection. Moreover, Diem said, Bay Vien has had bad news from Cannes that Bao Dai does not intend support sects, a fact which may further encourage him to relax his efforts against Govt.

3. I asked Diem if he believed that Bao Dai was really serious in his rejection of sect overtures. He said he felt sure sects believed Bao Dai was sincere. Sixteenth Binh Xuyen had meeting on subject at which they decided undertake campaign of vilification against Bao Dai since he had declined support them.

4. I inquired of Diem what plans he had to neutralize Binh Xuyen and insure security of Saigon in event he decided withdraw control of police from Binh Xuyen. He said that to take over police with safety he would need have three or four battalions of National Army encamped within city. That force would be sufficient to deal with sporadic local outbreaks and insure general security. However National Army does not have installations

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sufficient to house so many troops. He has asked Ely to turn over certain barrack areas for this purpose, but no agreement has been reached. I informed Diem I had asked O'Daniel to organize a National Army tank company which could be stationed in city for some time and later incorporated in one of the combat divisions. (In this connection see report of my conversation with General Gambiez, embtel 4011 ).

5. I told Diem I hoped to meet with him and Ministers of Defense and Finance during coming week to complete military and civil budget estimates for present year. Diem agreed, saying budget for Center Vietnam is completed while that for South Vietnam should be finished in few days. He remarked that this would be first Vietnamese budget since war and first ever drawn up by Vietnamese.

6. Referring to my recent trip to Cambodia, I said I was surprised to note that Associated States have not exchanged diplomatic representatives, since to do so rather than continue association through French would be clear demonstration of their independence. He replied that FONMIN has contacted Laotians and Cambodians to that end, but that neither appear to be in any hurry. I said I would raise question in Laos in coming week. Diem said he had always had good relations with Norodom Sihanouk and that it was his policy to be friendly with Cambodians to keep them from turning away from port of Saigon.

7. Changing subject with some abruptness, Diem said that since turn over of territorial command of South Vietnam had been

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completed Feb 20 great progress had been made in establishing National Army control. Soai is now reduced to certain "islands of villages" and has been so weakened that Diem let him know indirectly that he could leave the govt whenever he wished. Diem believes Soai has no intention of resigning, however, and that he is led on to cause trouble by the Binh Xuyen. Meanwhile the Hoa Hao Ministers of Agriculture and National Economy are tending to break away from Soai's influence.

8. I said that current situation points up how much of governmental load Diem is bearing. He replied that he was thinking of naming a Vice PRIMIN but was hesitating between two men: Justice Minister Think and FONMIN Do. Latter however is deficient in "work capacity." I asked if Diem had no intention of appointing anyone from outside present govt. He replied that he did not so intend for the moment. He would like to name Ambassador to Japan Tho as Vice PRIMIN but that would mean open war with the Hoa Hao. I reminded Diem that when we had talked of Quat's entering the govt he had alleged that would cause troubles with the sects, but I wondered if we would have had any more trouble with sects than he now has. Diem made no reply. I asked Diem if he would consider turning over Interior Ministry to new Vice PRIMIN. He replied that Interior is chiefly concerned with police and surete and as long as Binh Xuyen control those services there would be no advantage in assigning Interior to Vice PRIMIN.

9. Referring further to his cabinet, Diem said that the financial-economic group is functioning well and as a team.

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Other cabinet groups however are dominated by the sects and PRIMIN is obliged to step in repeatedly to rectify errors they have committed.

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