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Following is short outline of draft report for meeting of EA IRG scheduled for Nov 29.

SUBJ: Thailand Country Review -- Status of the Insurgency and Major Policy Issues.

I. Review of Insurgency and Counterinsurgency Effort During 1967

A. Threat Assessment: Terrorists reacted strongly to 09/10 pressures during first quarter of 1967 as evidenced by sharp rise in incidents. By spring it was evident that insurgent groups had been squeezed out of old operating areas and separated from support. However, RTG unable initially protect new areas into which terrorists moved.

By March, incidents had dropped by about half and have remained at this level for past six months. Security units

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have been deployed into new Communist areas of operation and there are numerous recent reports that insurgents are encountering increasing difficulties. [redacted] These may drive them to greater use of terror. Bangkok estimates total of hard-core insurgents has risen from 13 to 1500 in Northeast during 1967.

A serious potential problem, although still on a limited scale, has been spread of insurgent activity to North Thailand, mid-South, and West central areas.

Recent arrest of top Communist leaders has been significant setback. Full effects will only become apparent with time but interrogations have provided a wealth of information about Communist activities in Thailand.

B. Program Highlights (Working Group members will supply listing of most important program gains this year).

On balance RTG appears by and large to have continued to contain and slow growth of insurgency. One development, however, will bear watching, i.e., RTA pressure for larger role in counterinsurgency. Bangkok has made our concern at this development known at high levels and received assurances that

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"militarization" of Thai counterinsurgency effort is not intended. It remains to be seen how new arrangements will work out.

II. Major Policy Issues

A. RTA Decision to Deploy 10,000 Additional troops to Vietnam. During negotiations Thai MAP ceiling raised to $75 million for FY 68-69. Two points emerged from this exercise: additional deployment plus internal security requirements will place heavy load on Thai military establishment, and Service-funded MAP money is very tight.

B. There has been a noticeable stiffening of Thai positions on a variety of matters relating to U.S. use of Thai bases -- SOFA negotiations suspended; new U.S. troop deployment must be approved at highest levels and require the fullest justification, etc. Thai motivation for these actions is not entirely clear but increased political sensitivity in view of impending Constitution and elections is the reason generally cited.

C. There is continuing expectations that Constitution will be promulgated soon, although date is indefinite. There have been reports of some restiveness on the part of Thai

FORM DS-322A
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military in the face of this development.

D. AID FY 68 program faces significant shortfalls resulting from Congressional cuts, with following policy implications:

1. Serious loss of momentum in Thai CI programs and reduction in our ability influence Thai leaders.
2. Cuts of this magnitude would have adverse impact on Thai confidence in our leadership and Thai willingness to take risks involved in affording us full cooperation in commong struggle im SEA.

One alternative source of funding is shift of AID items to DOD. This is being explored but Ambassador has warned it must be handled so that it does not reinforce Thai pressures for "militarization" of counterinsurgency. Second alternative is getting RTG to assume some foreign exchange costs of US assistance. State, AID, and IBRD economists agree Thai reserves are at all-time high and face significant, continuing drawdown next year. This alternative requires careful study. Bangkok Mission is preparing comprehensive examination of all Thai resources, including foreign exchange, which will be ready next March.

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Conclusions: At time when Thai leadership is seeking to move toward political liberalization, U.S. making heavy demands:

-- additional resources for CI;

-- deployment of more troops for Vietnam;

-- accommodation of further U.S. forces in Thailand;

-- conclusion of SOFA.

Achievement of these U.S. objectives feasible in due course, but will require exercise of considerable self-discipline and ordering of priorities. Efforts to push all these goals rapidly and simultaneously could unsettle internal political stability. Adequacy of resources will be a key factor to success. (End of draft)

COMMENT: Would appreciate receiving your comments, suggestions, amendments by Nov 22. Do you feel conclusions should be sharpened or made more specific, e.g., some order of priorities for objectives should be spelled out? GP-3

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