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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

Prices of domestic goods have been relatively stable recently, while prices of imported goods have been increasing more rapidly. The growth of the money supply also has picked up considerably since June.

Viet Cong use of US dollars in South Vietnam-- large amounts of which come from outside the country--apparently has become more widespread as the value of the piaster has deteriorated.

Vietnamese and Japanese investors have agreed to construct a farm machinery plant near Saigon.



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Prices

1. According to the USAID monthly average index, retail prices in Saigon increased 2 percent in September bringing the increase for the first nine months of the year to about 28 percent. The rate of increase in prices, however, has slowed considerably during the past two months. During the first seven months of the year prices increased at an annual rate of more than 50 percent, but because prices were relatively stable during August and September, the annual rate of increase based on the first nine months dropped to about 40 percent.

2. The rate of increase in the money supply, on the other hand, has picked up considerably--a sign of renewed inflationary pressure. During the first six months the money supply increased at an annual rate of about 12 percent. During July and August, however, the rate more than doubled. Faster growth of the money supply was to be expected in view of the restrictions on import licensing earlier in the year which have led to a reduction in import arrivals. As a result, government revenues from import taxes have declined--disproportionately so because the licensing restrictions were most severe on imports of luxury and semiluxury goods which are the most heavily taxed. Concurrent with the decline in revenues, government spending probably has begun to increase as a result of new expenditures for veterans and refugees.

3. The USAID monthly average price index for imported commodities increased 22 percent during the first eight months of the year. The fact that the price of imported rice has been stable since April, however, distorts the index somewhat. During April through August the index including rice increased 16 percent, while the index without rice increased 24 percent. Moreover, prices of imported commodities have risen at a faster rate during the last few months.

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4. There are several factors that may explain why prices of domestic goods (the general retail price index includes mainly domestically produced items) have been relatively stable recently while prices of imports, excluding rice, have risen rapidly. The price of domestic rice, which is the most heavily weighted item in the retail price index, has been very stable since February because of an increased supply of imported rice and government purchases of rice from the delta. This stability may have promoted consumer confidence in the market and reduced speculative buying of many goods. In addition, supplies of other goods such as pork, fish, and vegetables, prices of which rose steadily during earlier months, may have increased significantly. It is also possible that speculation has turned more to imported goods thus easing pressure on the domestic market. Consumers as well as importers are aware that a partial devaluation is planned and they may be speculating against the possibility that the devaluation could affect a wide range of imported goods. This factor combined with reduced arrivals of imports may be responsible for the faster increase in the prices of imported goods.

Currency and Gold

5. The black market price of dollars in Saigon reached an all-time high of 426 piasters on 29 September compared with the official rate of 118 piasters per dollar. The price of MPC (scrip) increased to 230 piasters per dollar, while the price of a dollar's worth of gold leaf remained relatively steady at 505 piasters. The market continues to be very active in anticipation of the upcoming change in exchange rates. The modified program law cleared the National Assembly on 29 September giving President Thieu the power to establish a second, higher exchange rate for certain transactions, including purchases of piasters by Americans, exports and possibly some small share of imports. Thieu is expected to sign the bill and shortly thereafter to announce the rate changes.

-3-

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VC Use of US Dollars

6. Viet Cong use of US dollars in South Vietnam apparently has become more widespread as the value of the piaster has deteriorated and expectations of devaluation have increased. Although the VC can acquire dollars through black market operations within Vietnam, evidence indicates that large amounts of the dollars are supplied from outside the country.

7. Documents and money captured in mid-1968 provided the first hard evidence that the VC had been resorting to the use of dollars as a store of value and as a direct supplement to provincial level budgets. In July 1968, US forces in Binh Dinh Province discovered a cache containing \$150,000 and 935,000 piasters. Documents also were found ordering Economic-Finance Sections of provinces and cities subordinate to MR-5 to convert dollars to piasters on the black market only when needed to buy supplies in government-controlled areas. During the past year captured documents have contained evidence of increased amounts of dollars being used and of their use in a greater number of areas. At the highest level, the 1970 budgets of certain COSVN and PRG agencies indicate that expenditures in dollars would be 75 percent above the 1969 level. In only two transactions during the first half of 1970 the VC in Quang Da Special Zone, which includes Da Nang and most of Quang Nam Province, are known to have exchanged a total of \$40,000. They also planned to establish a special currency exchange cell to facilitate conversions. In August a VC cache of dollars was discovered for the first time in Binh Tuy Province, where until 1970 no dollar conversions had been reported. The cache contained \$22,500 along with documents indicating that sizable amounts of dollars already had been exchanged for piasters earlier in the year. The funds probably were handled by Rear Services Group 84, a direct subordinate of COSVN.

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8. Although the VC could get a much better black market rate in Saigon, they apparently prefer in many instances to convert the dollars in the locale where the piasters are to be spent. Transport of large amounts of currency into and out of Saigon may be too risky. The VC also may prefer to hold dollars as long as possible as a hedge against further inflation and/or the possibility that the government may issue a new series of piasters.

9. The share of VC-held dollars acquired outside South Vietnam cannot be determined. Nevertheless, there is evidence that large amounts come from outside the country. Documents found in the large Binh Dinh cache included lists stamped with Chinese characters of the serial numbers of \$50,000 worth of the US banknotes.

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In addition, the \$150,000 found in Binh Dinh were all in \$50 bills, and the \$22,500 in Binh Tuy were all in \$100 and \$500 bills. Had these notes been supplied from black market sources within South Vietnam, they probably would have been in various, and probably smaller, denominations.

Private Vietnamese-Japanese Joint Venture

10. Subject to government approval, a group of Vietnamese and Japanese private investors have agreed to construct a factory to assemble motorized hand tillers and light marine engines. The plant, which will be located on land owned by the Vietnamese Confederation of Labor (CVT) in Thu Duc near Saigon, is expected to be completed by the end of 1971. Of the initial investment of 200 million piasters (\$1.7 million at the official exchange rate), 49 percent will come from the Mitsubishi enterprises of Japan and 51 percent from a Vietnamese consortium composed of the CVT, the CVT's Federation of Tenant

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Farmers, the National Federation of Agricultural Cooperatives, and the New Great South Company. Actual control of the new company, to be known as Farmassin, will rest with the Japanese, however, since the New Great South Co., although registered as a Vietnamese firm, is managed by Japanese nationals. The new firm has indicated that it intends to increase the proportion of Vietnamese-produced parts in the assembled products from an initial 20 percent to over 50 percent by 1977.



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