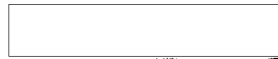


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DIRECTORATE OF
INTELLIGENCE

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

During the past several months the rice situation in South Vietnam has deteriorated steadily. Prices have risen, deliveries from the delta have fallen off, and government stocks have declined rapidly, necessitating sizable emergency imports.

Retail prices in Saigon rose about ten percent during January, primarily because of the increased demand for foodstuffs and other goods associated with the celebration of Tet. Black market dollar and gold prices fluctuated widely during January largely in response to rumors concerning devaluation.

ANNEX: Monthly and Weekly Currency and Gold Prices
(graph)

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Rice Market Difficulties

1. Once again the rice market in South Vietnam is beset by supply and price problems. During January-July 1969 the market appeared to be operating smoothly. Retail prices were relatively stable, deliveries of rice from the delta were at a very high level, stocks were declining to more manageable levels, and import requirements were lower. Since the end of July, however, the situation has deteriorated considerably. Retail rice prices in Saigon have risen almost steadily. Despite a bumper harvest, deliveries from the delta to Saigon during October-December were smaller than deliveries during the last quarter of any preceding year. Government stocks of rice (mainly imported) in Saigon also declined to an all-time low, and during December and January emergency imports were necessary to meet current demand and to begin replenishing stocks.

2. In mid-January retail prices of domestic rice in Saigon were 25 to 50 percent above the levels prevailing at the end of July 1969. Prices began to increase late in July. The increase apparently was due largely to speculation by merchants who were aware that government stocks were diminishing, but higher paddy prices in the delta probably also were a factor. Subsequently, the October increase in austerity taxes set off a new round of price rises.

3. Deliveries of rice from the delta during 1969 totaled 327,000 metric tons, the largest amount since 1965. More than 85 percent of the deliveries, however, arrived during the first three quarters of the year. Fourth-quarter deliveries were at an all-time low despite the fact that the harvest of the 1969-70 rice crop--estimated to be the largest in five years--had already begun and paddy prices are roughly double what they were during the previous year's harvest. Although deliveries increased during January 1970, partially due to government purchases, they still were below the level of January 1969. Several explanations have been offered for the low level of deliveries from the new crop, but it is difficult to judge their accuracy. Rice farmers or merchants or both

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apparently are holding rice off the market in expectation of higher prices or a devaluation of the piaster. Other reasons include delays in harvesting due to out-of-season rainstorms and the fact that farmers, whose real incomes rose in 1969, are under less financial pressure to sell their crop quickly.

4. Government stocks of rice in Saigon and the northern rice deficit provinces, which amounted to 302,000 tons at the end of 1968, were down to 47,000 tons, of which only 7,000 tons were in Saigon, at the end of 1969. (US and Vietnamese officials consider 150,000 tons, or a normal three-month supply, the most satisfactory level of stocks.) Although deliveries from the delta are smaller than a year ago, the tight supply of rice results from the low level of imports during 1969 and increased demand for rice from government stocks. Imports totaled 336,000 tons in 1969 compared with 679,000 tons in 1968 and 750,000 tons in 1967. A decline from the high level of government rice stocks at the beginning of 1969 was desirable, but once stocks reached a point below the 150,000-ton level and import schedules slipped, the decline itself became a major cause of speculation. Issuances of rice from government stocks in Saigon, which had been running about 450 tons a day during 1968 and the first half of 1969, have risen greatly, as shown in the following tabulation.

1 Aug-28 Oct	687 m.t.
29 Oct-27 Nov	1,243 m.t.
11 Dec-12 Jan	829 m.t.

When speculative hoarding began to drive up prices in July and August, the government responded by releasing more rice from stocks for sale to private retailers in Saigon and procurement officials in rice deficit areas.

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5. By January 1970, however, stocks had fallen to an extremely low level and rice prices, although they had declined somewhat, still were very high. Therefore, the government reversed its distribution policy and decided to restrict issuances from stocks to government civilian and military employees and their dependents. Provinces in III Corps and some areas in I Corps now must buy all their rice on the free market. Meanwhile, the government will rebuild its stocks through emergency imports. Recently the government arranged to import an additional 156,000 tons of rice, of which about two thirds should have reached Vietnam by the end of February.

6. It is anticipated that the higher prices that will result from shifting demand from government stocks to the domestic rice market will draw more rice out of the delta and cause dishoarding. The hope is that ultimately as both domestic and imported rice supplies increase, hoarding will cease and demand will return to a more normal level. Prices, in turn, should decline or at least stabilize.

Prices

7. Incomplete data indicate that by 2 February the USAID weekly retail price index for Saigon had increased about ten percent above the December 1969 monthly average. The increase probably reflects the usual increase in demand associated with the Tet holidays (6-8 February). During the week ending 2 February the general price level rose six percent, with protein food prices increasing eight percent and rice prices two to three percent. The USAID price index for imported commodities, on the other hand, apparently had declined about four percent from the December monthly average.

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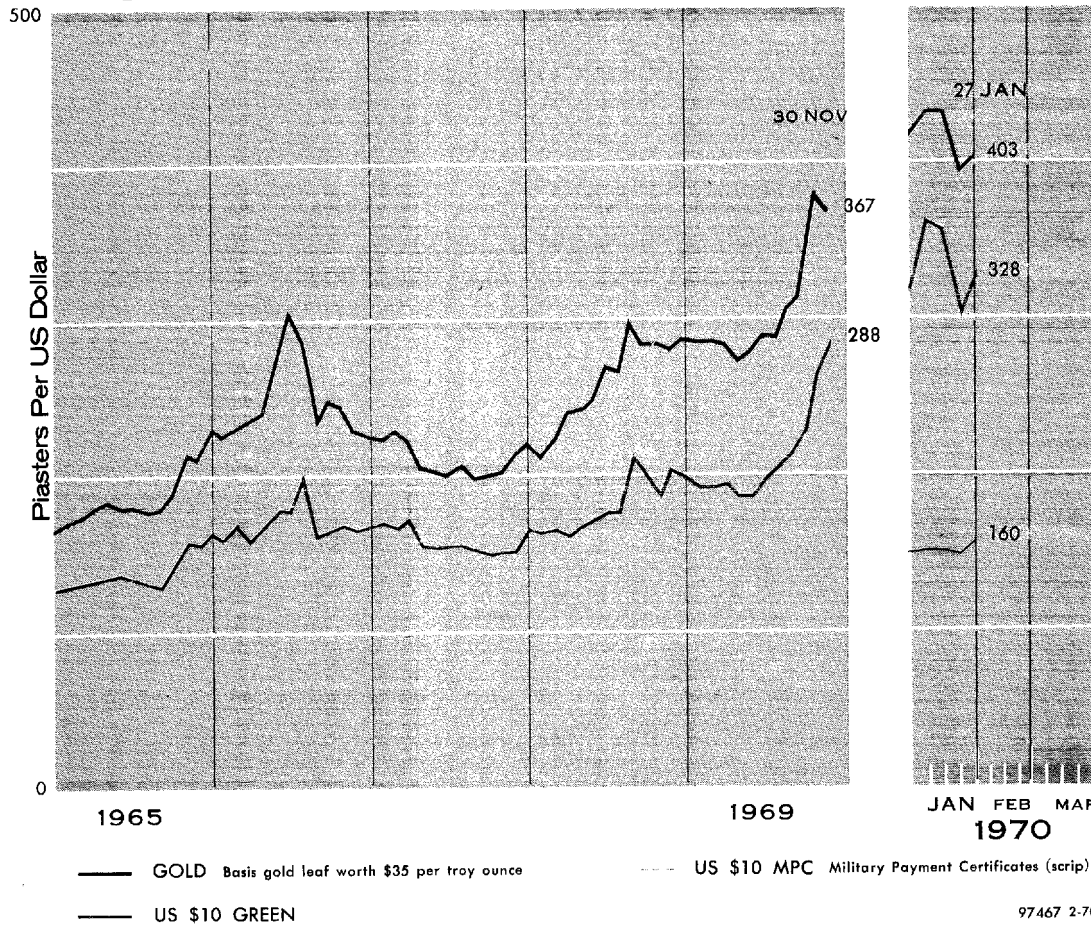
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Currency and Gold

8. During January the Saigon free market prices of dollars and gold changed erratically, apparently in response to differing rumors about devaluation. From 362 piasters on 6 January the price of dollars fell to 303 piasters on 20 January, but then climbed again to 328 piasters per dollar by the end of the month. The price of a dollar's worth of gold leaf fluctuated between 438 piasters and 391 piasters. The rate for MPC (scrip) was more stable, ranging between 155 and 160 piasters per dollar during January. The decline in mid-January reportedly reflected President Thieu's public statement that there would be no devaluation of the piasters, but subsequent rumors of a post-Tet devaluation helped push rates up again. In addition, currency dealers apparently have been manipulating prices by periodically withholding dollars from the market. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

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Saigon Free Market Gold and Currency Prices



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