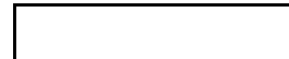


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

State Dept. review completed

USAID review completed

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
6 October 1969

The Economic Situation in South Vietnam
(Biweekly)

Summary

American businessmen in Saigon find it frustrating to do business in South Vietnam and are pessimistic about investing there in the future. They are highly critical of government regulation of business activities and believe political instability and security conditions will deter new investment during the next few years.

By 29 September retail prices in Saigon had declined seven percent from the peak reached at the end of August. At the end of September the USAID indexes for retail prices in Saigon and for prices of imported commodities were 16 and 26 percent, respectively, above the levels prevailing at the beginning of the year. Free market dollar and gold prices were relatively stable during the last two weeks of September, while the rate for MPC (scrip) fluctuated.

ANNEX: Currency and Gold Prices (graph)

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Pessimism of American Businessmen in Saigon

1. There is no doubt that the South Vietnamese economy will need considerable private foreign investment in the post-hostilities period if it is to reduce its dependence on foreign aid. The war and uncertain political future of the country naturally have discouraged such investment at present, but it appears that the Vietnamese government has thrown up its own barriers against foreign businessmen who might be interested in investing there. In a recent survey American businessmen in Saigon voiced frustration at doing business in South Vietnam and pessimism regarding the future of private investment there. On a confidential basis, embassy officials interviewed all key American businessmen in Saigon who have had considerable experience in the area and in dealing with Vietnamese government authorities. All but one of those interviewed described his business as "at best a holding operation," and the consensus was that American companies had been expanding their activities only when they had excess piasters that could not be repatriated. All were critical of constant changes in government economic policies and of the officials who manage them. They also were very critical of the excessive government regulation of business that requires a government authorization for even the smallest transaction. Massive and confusing government controls over business activities in South Vietnam present greater difficulties for foreign than for Vietnamese businessmen, since the latter can more easily operate "illegally" by making the necessary payoffs.

2. A major deterrent to American investment in South Vietnam is the Vietnamese government's refusal--for almost two years--to approve projects for which US investors could insure the full value of their investments with AID. The Vietnamese government fears that the US Government will exercise its option to require the Vietnamese government to reimburse AID for any war damage claims paid by the US Government to the investor. Americans also cited their difficulties in hiring trained personnel to replace high-cost American employees. Many businessmen would prefer to reduce costs by hiring Vietnamese who could be trained at the firm's home office, but claim that the government's restrictive travel policies effectively prohibit training abroad.

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3. When questioned about prospects, all stated that political instability, the military situation, and government restrictions on business would deter new investment. None of those interviewed were interested in further investment in South Vietnam except to the extent of using piasters they could not repatriate. Even in those instances, the investors are only interested in short-term investments and anticipate small profits. While acknowledging South Vietnam's great potential and the need for major new investments, the common reaction was "why invest here then there are so many other attractive places to invest?" Many businessmen concede that the laws regulating foreign investment in South Vietnam, which were passed in 1963, are reasonable and provide sufficient incentives to investors, but claim that the government apparently has no intention of implementing them. The businessmen believe that the Vietnamese resent foreign influence and that the wealthy and established industrialists in South Vietnam, who fear competition from foreigners, will never allow the government to carry out the provisions of the investment laws.

Prices

4. Retail prices in Saigon declined four percent during the week ending 22 September and held steady through the end of September. On 29 September the USAID index was 16 percent above the level prevailing at the beginning of the year--down seven percent from the peak reached at the end of August when speculators pushed up prices of rice and sugar. The increase of 16 percent for the first nine months of the year compares with increases of 30-36 percent during the first three quarters of each year during 1965-68. Prices of imported goods declined slightly during the last two weeks of September, although they remain 26 percent above the level of 7 January.

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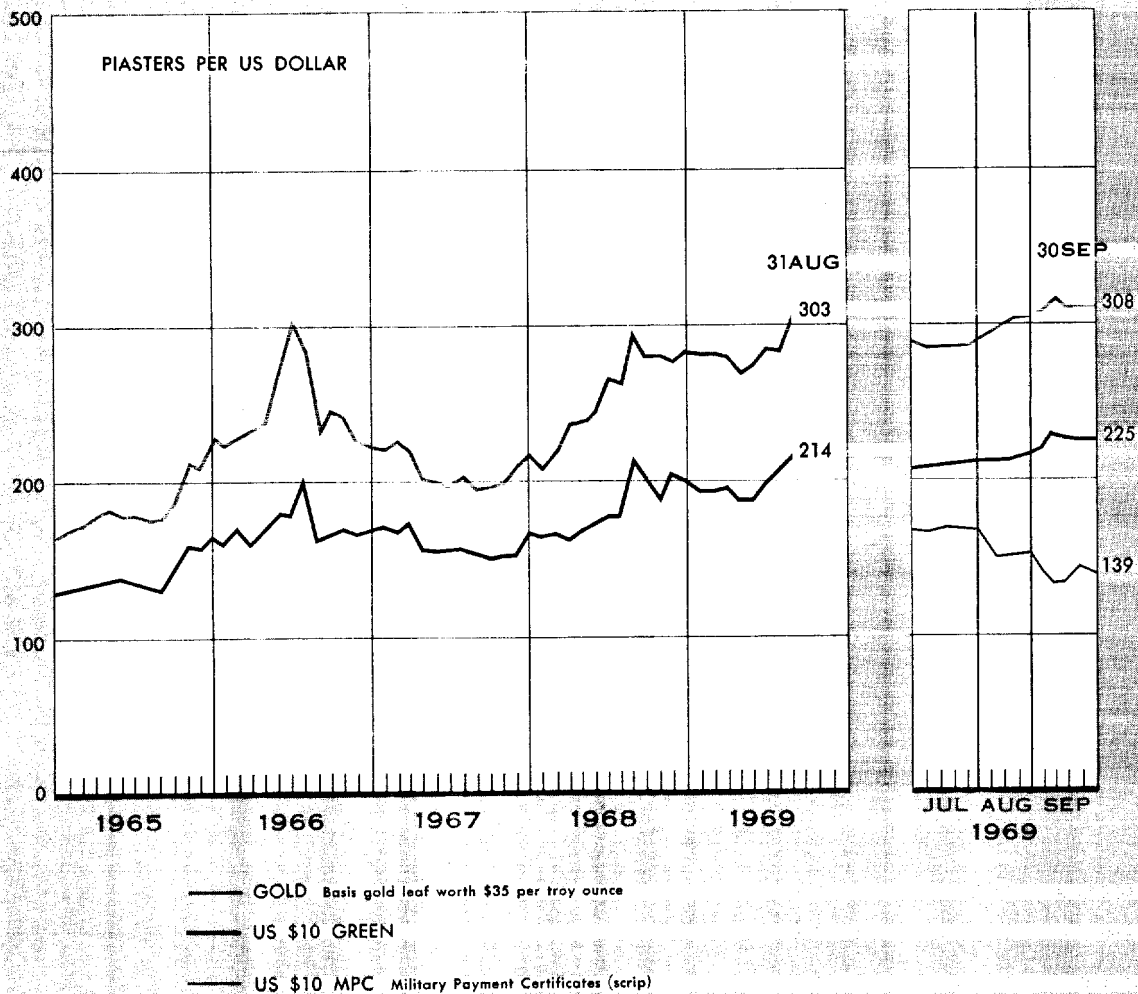
USAID Retail Price Indexes for Saigon
(1 January 1965 = 100)

	<u>All Items</u>	<u>Food Items</u>	<u>Nonfood Items</u>
2 Jan 1968	308	344	241
6 Jan 1969	400	443	319
15 Sep 1969	484	567	331
22 Sep 1969	462	535	326
29 Sep 1969	463	535	327

Currency and Gold

5. Free market dollar and gold prices held steady during the two weeks ending 30 September. The price of a dollar's worth of gold leaf was unchanged at 308 piasters. The price of dollars declined only one piaster to 225 piasters per dollar, compared with the official rate of 118 piasters per dollar. The average price of dollars during the month of September--225 piasters--was the highest ever reported. The rate for MPC (scrip) fluctuated during 16-30 September closing at 139 piasters per dollar. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

Saigon Free Market Gold and Currency Prices



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