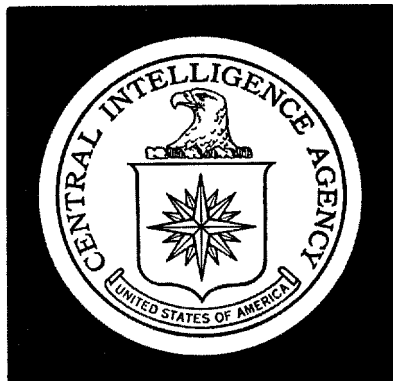


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DIRECTORATE OF
INTELLIGENCE

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

The Economic Situation in South Vietnam

Summary

Economic policy in the new Khiem government will be formulated and carried out by a group of men known for their competence, aggressiveness, and past good working relationships with US officials. The key man is Nguyen Huu Hanh, a former minister of economy and finance and former governor of the National Bank of Vietnam, who will be a part-time adviser to President Thieu and who hand-picked the appointees for the economic positions in the cabinet.

Economic activity in IV Corps reportedly is increasing steadily as a result of improved security. Higher paddy prices and declining transportation costs have brightened the outlook for most delta farmers.

After almost a year of relative stability, retail prices in Saigon began to increase early in August mainly as a result of sharp increases in the prices of rice and sugar. From August 1968 through July 1969 the average monthly retail price index increased only ten percent compared with an increase of 24 percent during August 1967-July 1968. Between 4 and 25 August 1969, however, the USAID index rose 13 percent. According to US officials, the higher prices for rice and sugar are the result of speculation based on anticipation of future low stocks rather than of any current shortages. The price index

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for imported commodities also increased sharply during August largely because of the higher sugar and rice prices. Free market currency and gold prices continued the upward trend that began in mid-May. On 26 August the price of gold leaf was the highest reported since the devaluation of the piaster in mid-1966.

ANNEX: Currency and Gold Prices (graph)

-2-

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New Economic Administration

1. Nguyen Huu Hanh, former minister of economy and finance and former governor of the National Bank of Vietnam (NBVN), refused a position in the cabinet, but agreed to become Thieu's chief economic and financial adviser, a post which US officials believe will make him the key decision-maker for economic policy in the Khiem government. This interpretation of his role is supported by the fact that the new ministers of economy and finance and almost all their deputies have worked with Hanh at the NBVN and were recommended to President Thieu by him. Pam Kim Ngoc, the new minister of economy, ably served as Hanh's deputy during the latter's term as minister of economy and finance in 1967 and has been associated with the commercial arm of the NBVN, Credit Commercial. Prior to becoming the new minister of finance, Nguyen Bich Hue was the research director of the NBVN. Tran Cu Uong and Ha Xuan Trung, who were appointed to the newly created positions of vice minister of economy for commerce and vice minister of finance, respectively, also worked with Hanh at the National Bank. The sixth member of the team is the vice minister of economy for industry, Pham Minh Duong, who has been associated with the government-owned paper mill Cogido. Hanh will continue to serve in his present position as an alternate executive director of the International Monetary Fund and will divide his time between Washington and Saigon.

2. On their first day in office, 1 September, the new appointees met with US officials and outlined some of their objectives. First priority will be given to halting the current increase in price of key commodities such as rice and sugar. In addition, the new team will concentrate on guidelines for the volume and type of goods to be imported during the remainder of 1969 and will meet with representatives of the business community to discuss grievances. Hanh and the new cabinet members apparently plan to work more closely with US officials than their predecessors, a practice for which Hanh was criticized during his tenure in the cabinet. US officials in Saigon are pleased

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with the new appointments and expect management of economic affairs to improve considerably. Americans always have considered Hanh among the most able and decisive Vietnamese administrators, but his decisiveness and sometimes abrasive personality have caused difficulties between him and other Vietnamese officials in the past.

IV Corps Economic Activity

3. According to AID's economic reports officer in IV Corps, economic activity in the delta during July was increasing steadily, especially in newly pacified areas. Moreover, the outlook for delta farmers was good because of high paddy prices and increasing security. Except for rice, food as well as nonfood prices remained steady, and the cost of transporting goods to Saigon continued to decline as road security improved. Traffic counts on Route 4, the major route from the delta to Saigon, showed 50 to 100 percent more vehicles on the road than during July 1968. A further increase in traffic is expected this month with the completion of a project to widen and repave Route 4 between My Tho and the Mekong River. Canal traffic also should increase following a navy clearing operation on the Mang-Thit Nicolai Canal, one of the major waterways in the delta. The exceptions to this generally encouraging report are that the coastal fishing industry still is relatively inactive and that there has been a dislocation of several hundred workers as a result of US troop withdrawals from the delta.

Prices

4. Largely because of further increases in rice and sugar prices, retail prices in Saigon rose eight percent during the two weeks ending 25 August. Prices began to increase steadily early in August ending the long period of relative stability that had prevailed since August 1968. From August 1968 through July 1969 the average monthly retail price index increased only ten percent compared with an increase of 24 percent

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during August 1967 - July 1968. Between 4 and 25 August 1969, however, the USAID index increased 13 percent. On 25 August rice prices were 13 to 29 percent higher than on 21 July, and sugar prices were more than double. According to US Embassy reports, these increases were the result of speculation based on anticipation of future low stocks rather than of any current shortages.

5. The ceiling prices on rice announced by the government on 9 August failed to stop the increase in prices. As a result, the government decided to expand its control over the rice market by requiring the rice deficit provinces in III Corps to buy all instead of one third of their rice needs from government-owned stocks. This step combined with the sale of rice to government employees and their dependents at official prices is designed to reduce the size of the commercial market for rice--thereby putting pressure on merchants to reduce, or at least not raise, their prices. It is too early to tell how effective this tactic will be, but prices of domestic rice in Saigon reportedly began to stabilize by the end of August. According to embassy officials, rice prices in the northern rice deficit provinces (I and II corps) have not been affected by the increases in Saigon.

6. Vietnamese officials believe the advantages of halting the rise in prices outweigh the risk of depleting stocks more rapidly. By mid-September, when additional imports are scheduled to arrive, stocks will be down to about one month's supply, or one third of the desired level. Should the new shipments be delayed rice prices could again spiral, and shortages could occur in some of the northern provinces.

7. The increase in sugar prices appears to stem from speculation that there may be a reduction in imports of sugar -- which account for more than half of total supply -- at a time when sugar is in great demand for making moon cakes for the children's mid-autumn festival and the government is considering plans to provide large quantities of free sugar to its employees as part of their promised wage increase. A recent agreement between the Vietnamese Government

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and USAID to transfer the portion of sugar imports financed by the US to GVN financing with its own foreign exchange holdings apparently has led to fears that sugar imports will be reduced. The government's decision to ban the production of moon cakes in order to conserve sugar probably has fueled the speculation. There is, however, no shortage of sugar in the country; stocks are at a normal levels and import orders now being processed will maintain regular import levels through October.

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
11 Aug 1969	464	537	329
18 Aug 1969	485	567	332
25 Aug 1969	499	586	337

8. The USAID price index for imported commodities increased eight percent during the period 12-26 August mainly as a result of higher prices for sugar, rice, and motorcycles. The government's decision in April to suspend imports of motorcycles has led to a decline in inventories and a sharp increase in the price of this item. The average monthly import price index for August was 23 percent above that for January. Most of the increase has occurred since June when the government imposed higher taxes on most imported goods.

Currency and Gold

9. During the two weeks ending 26 August free market dollar and gold prices continued the gradual upward trend that began in mid-May. The price of

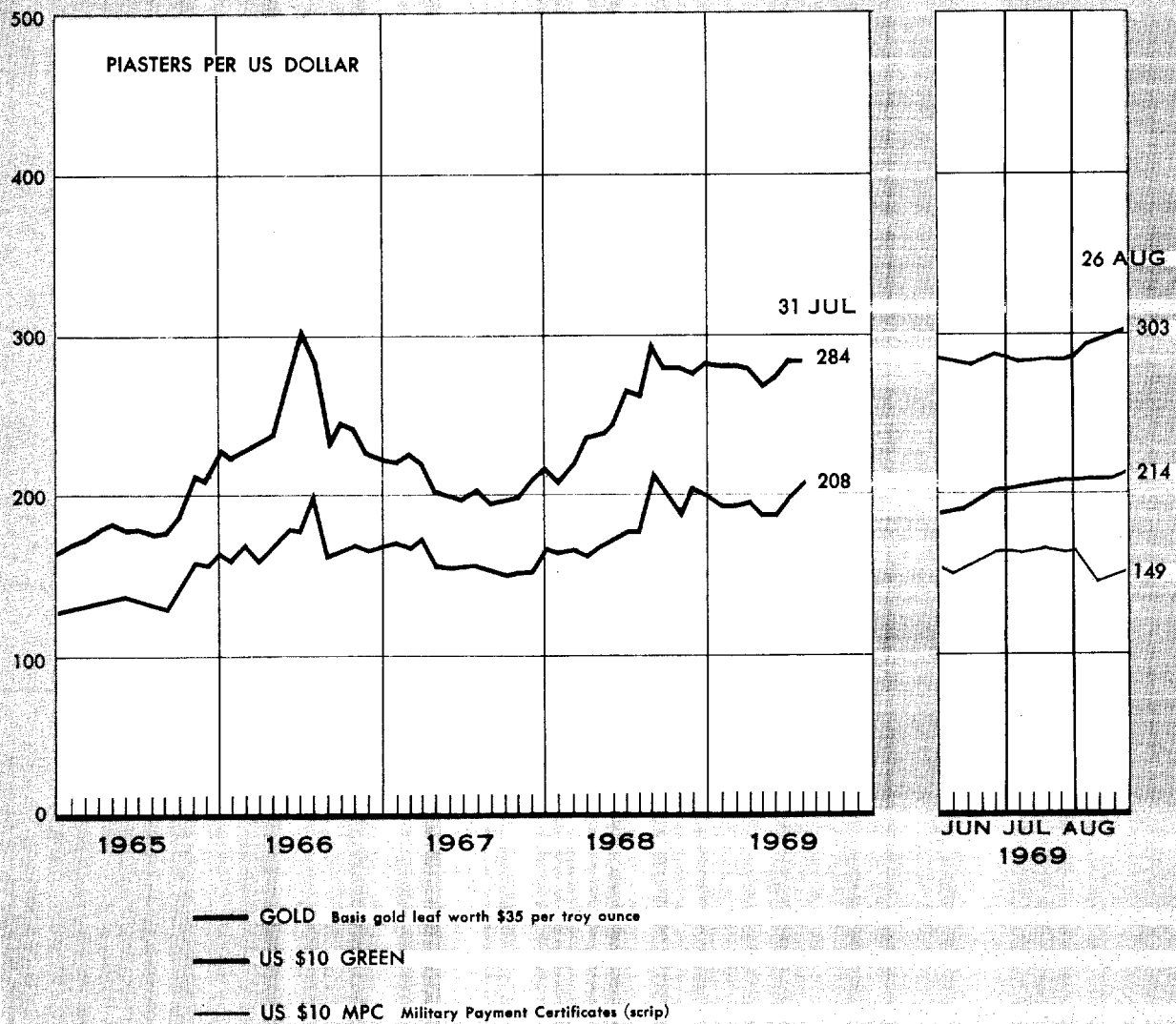
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dollars rose five piasters to 214 piasters per dollar, compared with the official rate of 118 piasters per dollar. The price of a dollar's worth of gold leaf increased nine piasters to 303 piasters -- the highest price since the devaluation in mid-1966. On 26 August the rate for the new series of MPC (scrip) issued on 12 August was 149 piasters per dollar, an increase of three piasters from the previous week and 31 piasters above the official rate. (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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