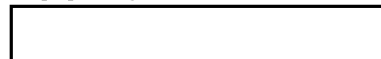
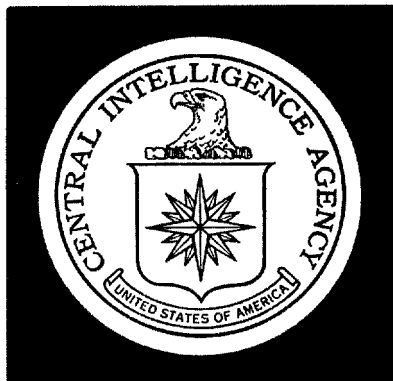


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

State Dept. review completed

USAID review completed

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~~SECRET~~CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

(Biweekly)

Summary

The Vietnamese Government has presented to the National Assembly a major new land reform program which would give all tenant farmers and squatters free title to the land they are now cultivating and would recognize ownership rights of peasants given land by the Viet Cong. The transfer of ownership would affect more than one third of the cultivated area in South Vietnam and could benefit at least a half million farm families. The reform, if approved and implemented, would cost about \$400 million, part of which would be covered by the US.

South Vietnam's holdings of foreign exchange have declined steadily since the fall of 1968 because of a substantial increase in imports. Reserves may level off during the second half of 1969, but further losses are anticipated next year if US expenditures in South Vietnam are reduced.

During the first six months of 1969 retail prices in Saigon rose ten percent compared with an increase of 17 percent during the first half of 1968. Prices of imported goods, which were unchanged during the first half of 1968, increased 13 percent during January-June 1969 partly because of higher taxes on imports. On 1 July free market dollar and gold prices were only one percent higher than they were at the beginning of the year, but the rate for MPC (scrip) was at a new high.

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

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~~SECRET~~New Land Reform Program

1. The Vietnamese Government has embarked on an ambitious land reform program to convert tenant farmers and squatters into landowners--all at government expense. The proposal presented to the National Assembly by President Thieu on 1 July would give every tenant farmer and squatter free title to the land he now tills. The transfer of ownership will involve approximately one million hectares* of privately owned land, or more than one third of the total cultivated area in the country, and could benefit at least 500,000 farmers. Under the proposal farmers could acquire up to a maximum of five hectares, depending on the size of their families and the size of the plots they now cultivate. Plots currently cultivated average 1.5 to two hectares in the delta and less than one hectare in the central lowlands.

2. Roughly 18,000 to 20,000 landlords will lose their rental lands as a result of the reform, but they still could remain relatively large landowners. Landlords will be able to retain the land they are now cultivating themselves. Currently, a person may own up to 100 hectares of which he may cultivate up to 30 hectares himself. Undoubtedly, landlords will do all they can to take advantage of the 30 hectare allowance.

3. The government will compensate landlords for the expropriation of their rental lands by giving them 20 percent of the value of the land in cash and the remaining 80 percent in interest-bearing eight-year bonds. In order to maintain real value during a period of inflation, the cash value of the bonds will be tied to the price of rice. US officials currently estimate that the average price per hectare will run about 45,000 piasters, or about \$150 per acre. This appears to be a favorable price for many landlords, particularly those living in insecure areas where rents are difficult or impossible to collect.

4. In an effort to gain the support of peasants the government, under the land-to-the-tiller concept, will recognize the ownership rights of individuals who received their land through Viet Cong distribution programs. In addition, on 2 July installment payments were terminated for those farmers who purchased land under

*One hectare equals approximately 2.5 acres.

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previous government reform programs. Finally, tenants will not be required to pay back rents which may have gone uncollected because of Viet Cong interference.

5. In addition to distributing the land presently owned by individuals, the government hopes to complete as soon as possible the distribution of the land that was donated by the French and expropriated from large Vietnamese landowners in the late 1950s. These lands--almost all ricelands in the delta--totaled about 700,000 hectares, of which only about half had been distributed by the end of 1968. The communal lands currently owned and rented out by villages will also be available for distribution, but they are not extensive.

6. The cost of the new land-to-the-tiller program is estimated at \$400 million of which some \$80 million would be paid in cash. The US already has agreed to provide indirect support by financing \$10 million worth of additional imports to reduce the inflationary effects of the program. The release of these funds, however, is contingent on the legislature's approval of the land reform proposal, the issuance of the necessary decrees, and the provision of sufficient funds by the Vietnamese Government to finance the cost of the first year's down payments to former landlords. As the program gets under way, additional US support probably will be forthcoming. Vietnamese officials anticipate that after the program is approved by the legislature implementation will take one to three years.

Foreign Exchange Reserves

7. South Vietnam's holdings of foreign exchange declined steadily since the fall of 1968 because of a very large increase in imports. From a high of about \$375 million at the end of September 1968 official holdings of gold and foreign exchange at the National Bank of Vietnam (NBVN) had fallen to approximately \$270 million at the end of June 1969.* During the 12 months ending 30 June (US Fiscal Year 1969) the government issued foreign exchange for imports amounting to \$462 million, or almost 90 percent more than during FY 1968.

*Data exclude foreign exchange holdings at commercial banks, which amounted to \$16 million in September 1968 and \$24 million at the end of May 1969.

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Licensing of all imports increased 51 percent during FY 1969, as shown in the following tabulation (in millions of US dollars):

| | <u>FY 1968</u> | <u>FY 1969</u> |
|--------------|----------------|----------------|
| GVN-financed | 247 | 462 |
| US-financed | 245 | 283 |
| | <u>492</u> | <u>745</u> |

Since late 1968 the availability of larger amounts of imported goods and the relatively slow growth of the money supply are largely responsible for holding inflation to a comparatively moderate rate.

8. Both imports and the level of foreign exchange reserves probably will level off during the second half of 1969. There could, however, be a renewed loss of reserves in 1970 as a result of a decline in earnings of foreign exchange from the US presence. Since the purchase of piasters for dollars by the US Government for official and personal spending in Vietnam is the source of three fourths of the GVN's earnings of foreign exchange, further reductions in the US commitment will eventually lead to a reduction in these earnings. There already are indications that the government is concerned about the decline in exchange reserves and is becoming more cautious in authorizing the use of foreign exchange. According to US officials, the Ministry of Economy recently placed a ceiling of \$20-25 million per month on import licenses. The government also has reduced the amount of foreign exchange that Vietnamese tourists and businessmen may buy from the NBVN for use on trips abroad, although the amount of foreign exchange used by travelers is only a small part of total foreign exchange expenditures.

Prices

9. During the first half of 1969 the amount of money in circulation increased about five percent and retail prices in Saigon rose ten percent. During the corresponding periods of 1968 and 1967 prices rose 17 percent and 19 percent, respectively. The USAID price

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index declined slightly during the two weeks ending 30 June as a decline in food prices more than offset an increase in the prices of some nonfood items. As of 30 June food and nonfood prices were 11 percent and two percent, respectively, above the level of 6 January.

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 |
| 16 Jun 1969 | 446 | 514 | 318 |
| 23 Jun 1969 | 449 | 518 | 321 |
| 30 Jun 1969 | 440 | 502 | 324 |

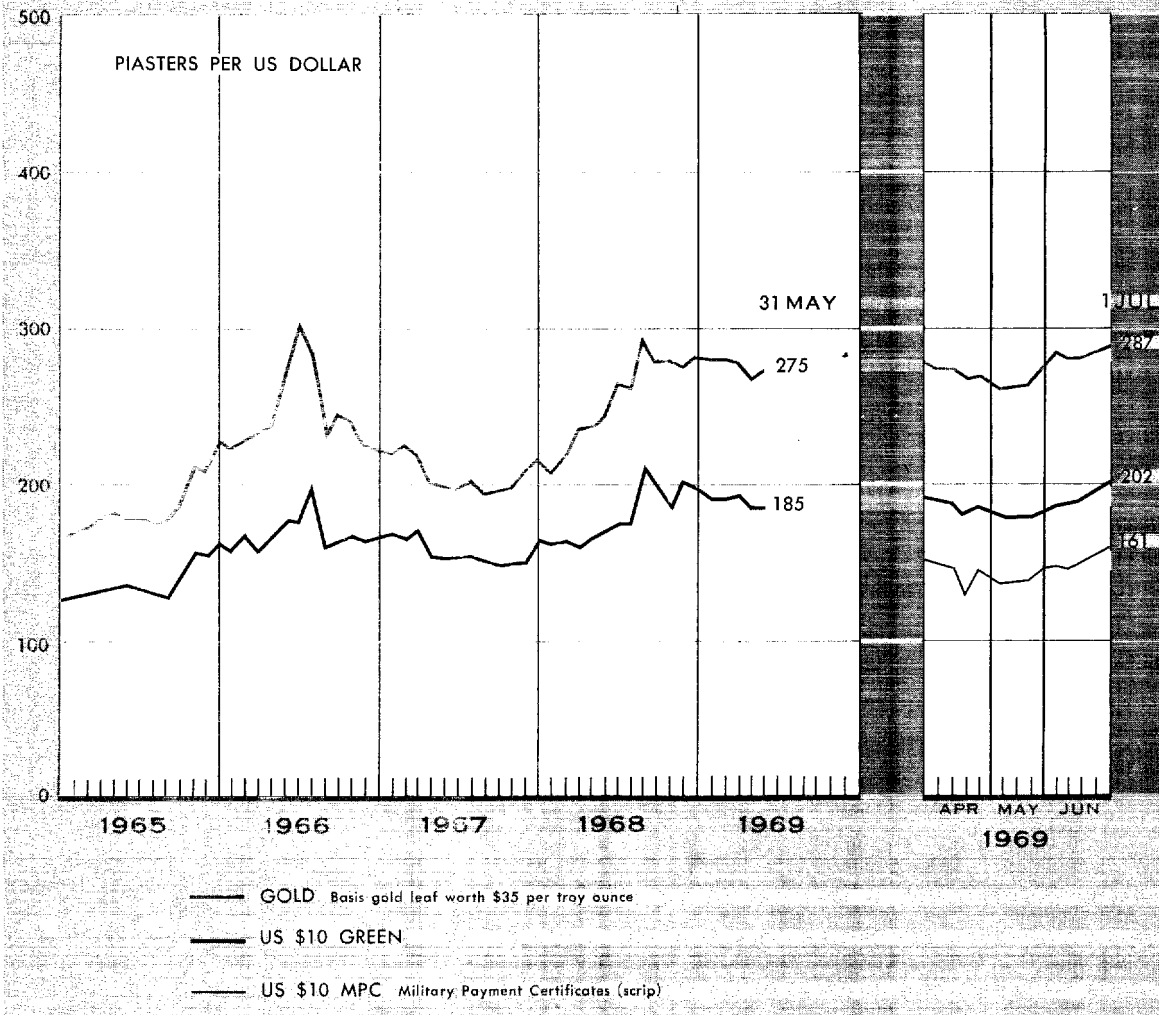
10. After remaining stable during the first three months of 1969 the price index for imported goods rose 15 percent between mid-April and the end of June, partly because of higher taxes on imports. During the first six months of 1968 the index for imported goods showed no increase.

Currency and Gold

11. All free-market currency and gold prices increased during the two weeks ending 1 July. The rate for MPC (scrip) reached a new high of 161 piasters per dollar, an increase of 11 piasters over the price quoted on 17 June. The price of dollars also rose 11 piasters to 202 piasters per dollar, compared with the official exchange rate of 118 piasters per dollar. A dollar's worth of gold leaf increased from 282 piasters to 287 piasters. Despite these increases, the black market rates for dollars and gold were only one percent higher on 1 July than they were at the beginning of the year. (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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