

Sanitized Copy Approved for
Release 2011/09/19 :
CIA-RDP85T00875R00170001

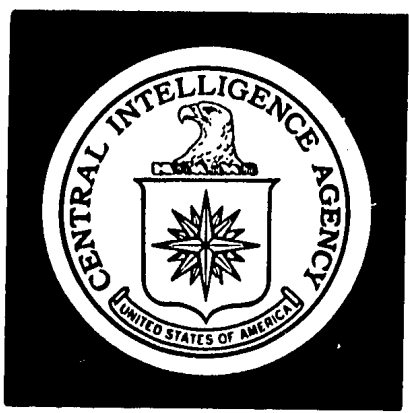
Sanitized Copy Approved for
Release 2011/09/19 :
CIA-RDP85T00875R00170001

Doc/Ver.

Secret



25X1



**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

The Economic Situation In South Vietnam

Secret

ER IM 71-92
May 1971

Copy No. 203

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1 Excluded from automatic downgrading and declassification

SECRET

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 1971

INTELLIGENCE MEMORANDUM**THE ECONOMIC SITUATION IN SOUTH VIETNAM**Highlights

1. Economic activity in urban areas of South Vietnam is in a quiescent period as evidenced by stable prices, tight money, little speculation, and low demand for imports. The money supply is expected to increase considerably during the next few months, but it does not appear that this increase will add greatly to inflationary pressure over the short run. The fairly long period of stability in retail prices and in the value of the piaster on the black market reflects confidence among consumers and businessmen that stability will continue.

2. Output of South Vietnam's two most important agricultural commodities - rice and rubber - increased substantially in 1970. The final estimate of the rice harvest confirms that the 1970/71 crop was the largest in South Vietnam's history. The 12% increase in output resulted almost entirely from greater use of the new high-yielding varieties of seed. The rise in rubber production was the first since 1961 and is expected to be exceeded this year.

3. Charts on foreign exchange reserves, money supply and prices, import licensing, currency and gold prices, and the government budget follow the text.

DiscussionRecent Developments

4. During the past several months there has been a general lull in business activity in Saigon and other urban areas. As evidence of this

Note: This memorandum was prepared by the Office of Economic Research.

SECRET

25X1

SECRET

development, prices have been stable since last July, money is said to be tight, speculative activity appears to be at a minimum, and demand for imports has been lagging. Although the money supply - stable during February and March - is expected to increase considerably during the next few months as government expenditures outpace revenues from imports, many businessmen and bankers reportedly believe the lull will persist. Past experience indicates that prices usually respond only gradually to changes in the money supply and that other factors, such as inventory levels, imports, and the degree of general confidence, also are important. Over a period of years, however, increases in prices have roughly paralleled those in the money supply, and it is clear that the expected growth of the money supply during the coming months is legitimate cause for concern about prospects for stabilization later this year and in 1972.

Import Demand

5. One of the major factors in the current lull has been the low demand for imports. Not only was demand for imports less than anticipated during the first quarter of this year, but also importers have shown a clear preference for goods coming in at lower effective exchange rates as opposed to luxury goods which come in at the higher parallel exchange rate and carry high taxes as well. Import licensing averaged about \$40 million a month (excluding PL-480 imports) during the first quarter of this year, or about \$10 million a month below expectations. Although licensing jumped to about \$70 million in April, this surge was mainly the result of periodic large orders for basic items such as fertilizer, cement, and petroleum products.

6. There usually is some decline in import licensing following the burst of orders for the Tet holidays, but there have been additional factors at work this year as a result of the economic reforms enacted by the government last fall. Speculation about devaluation was dampened, and the raising of interest rates and the requirement for advance deposits on imports put a financial squeeze on importers. Demand for imports has probably lagged also because savings have risen. Between mid-September 1970 (when commercial bank interest rates were raised) and the end of March 1971, savings and time deposits increased almost 90%. Interest rates on Treasury bills were raised on 5 March, and during March public and commercial bank holdings of Treasury bills increased 7%. Finally, the long period of price stability probably has influenced the level of licensing.

Prices

7. On 10 May, retail prices in Saigon - which had begun to stabilize even before the October 1970 reforms - were still only 3.5% above the

SECRET

SECRET

level of last July. There is no simple explanation for the behavior of prices during the period. Among the reasons for stable prices are the relatively slow growth in the money supply during 1969 and much of 1970, the stability of retail rice prices since last June, 1/ and the apparently adequate supplies of other domestically produced items. The reforms of last fall also have had an impact by curbing speculation and making savings more attractive. Moreover, consumer expectations about inflation probably have been an important stabilizing influence. When prices begin to stabilize, expectations of continued stability tend to be self-fulfilling.

8. Not surprisingly, the USAID index that measures only prices of imported commodities has been less stable. Between July 1970 and April 1971 the price index for imported commodities increased 18%. Imports were the center of considerable speculative activity until the fall of 1970 and were directly affected by both the October and March 1970 reforms.

Currency Black Market

9. Prices on the Saigon black market in currency have been relatively stable for the past six months. On 10 May, the dollar was quoted at 392 piasters, or only two piasters above the average price of last December. The rate for MPC (scrip), which has hovered below the legal rate of 275 piasters per dollar since mid-February, was 261 piasters. The price of a dollar's worth of gold leaf on 10 May was 506 piasters.

10. There has been an enormous increase in legal sales of piasters since last October, when the official rate of exchange for MPC (the accommodation rate) was changed from 118 to 275 piasters per dollar. South Vietnam's monthly earnings of foreign exchange from conversions by US personnel rose to an average of \$8.6 million during the period from November 1970 to March 1971, compared with about \$2 million during July-September 1970. Moreover, this increase occurred in the face of a 15% decline in the number of US military personnel in Vietnam between September and February.

11. Despite the reduced supply of dollars, however, the black market rate for dollars has been remarkably stable. This is because various factors favoring the shift of assets toward piasters have resulted in a fall-off in the demand for dollars. Following the economic reforms last fall, importers (who have been the most important faction in the black market) were squeezed for funds because of higher interest rates on loans and the advance deposits required for many imported items. As a result of this squeeze,

1. *Rice accounts for 17% of the weights used to calculate the USAID retail price index.*

SECRET

SECRET

they were less able to finance purchases of dollars. This factor was probably less significant during the first quarter of 1971, as import licensing declined.

25X1

Another factor responsible for the decreased interest in obtaining dollars has been the steady increase in savings and time deposits since interest rates were raised last September. The increase in savings is an indication of a growing confidence in the piaster and overall price stability, and this confidence is now manifest in a less volatile currency black market.

1970/71 Rice Crop

12. The final official estimate for South Vietnam's 1970/71 rice crop confirms that this harvest was the largest in South Vietnam's history. On a per capita basis the crop was almost as large as it was in 1964, the last year in which the Vietnamese were self-sufficient. Nevertheless, because of distribution and marketing problems and possibly an increase in consumption over the years, South Vietnam already has imported some rice this year and may need additional imports this fall. During the crop year ending 31 May 1971, paddy production increased 12% to reach 5.7 million metric tons. Relevant production data for this and last year's crops are shown in the following tabulation.

	<u>1969/70</u>	<u>1970/71</u>
Paddy production (thousand metric tons)	5,115	5,715
Cultivated area (thousand hectares)	2,430	2,510
Yield per hectare (metric tons)	2.10	2.28

13. Almost all of the increase in production and yields resulted from greater use of high-yielding varieties of seed. The area planted to new seeds more than doubled this year to 500,000 hectares, or one-fifth of total rice hectareage. There presumably was some reclamation of abandoned lands, but most of the increase in cultivated area was the result of increased double cropping using the new seeds. The average yield from the new seed varieties - IR 8, IR 5, and IR 20 - has not been reported, but even if it is no greater than the 4.7 tons per hectare of last year, the new seeds would have accounted for about 40% of the total output of paddy. The

- 4 -

SECRET

SECRET

data also show, however, that the average yield from traditional varieties declined slightly. Such a decline may have stemmed from the flooding that occurred in the northern coastal provinces last fall.

14. The average yield from the new seeds generally has been at least double that from the traditional varieties grown in South Vietnam. Much more spectacular results, however, have been achieved in isolated instances in the Delta. Three Delta farmers competing in a contest this past year each produced a total of 30 tons of rice in three successive crops from one hectare of land using the new seed.

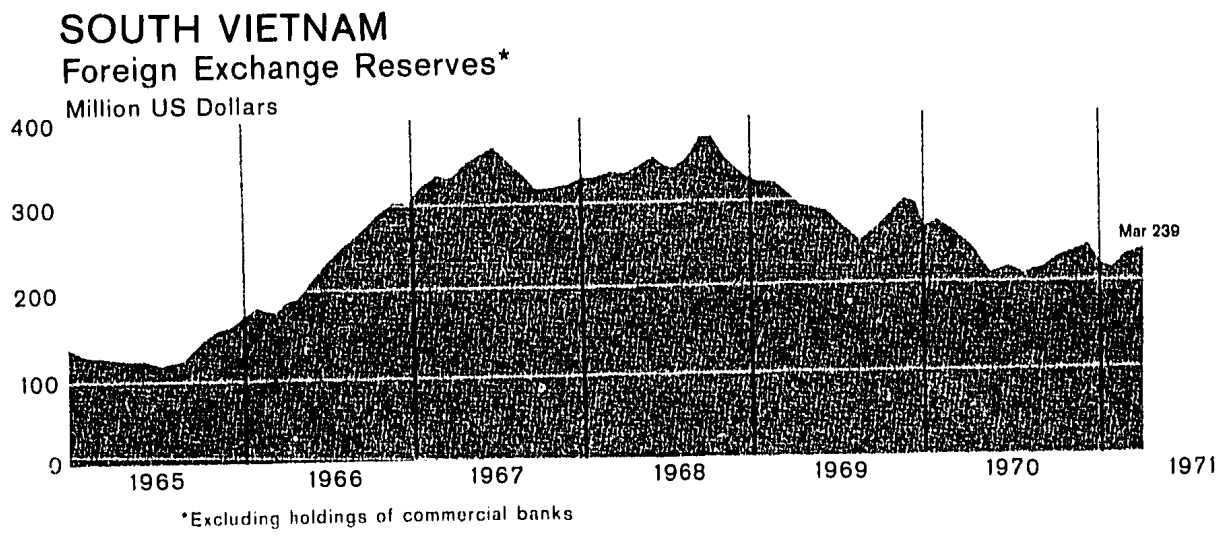
Rubber Production

15. South Vietnam's rubber production increased in 1970 -- the first annual increase since 1961. Output from the large plantations, which usually account for about 90% of total production, rose 8% from 25,200 tons to 27,100 tons. Total output (including smaller plantations) probably amounted to about 30,000 tons. Rubber production in 1970 still was less than two-fifths of the average level of output during 1960-63, but is expected to increase substantially again this year.

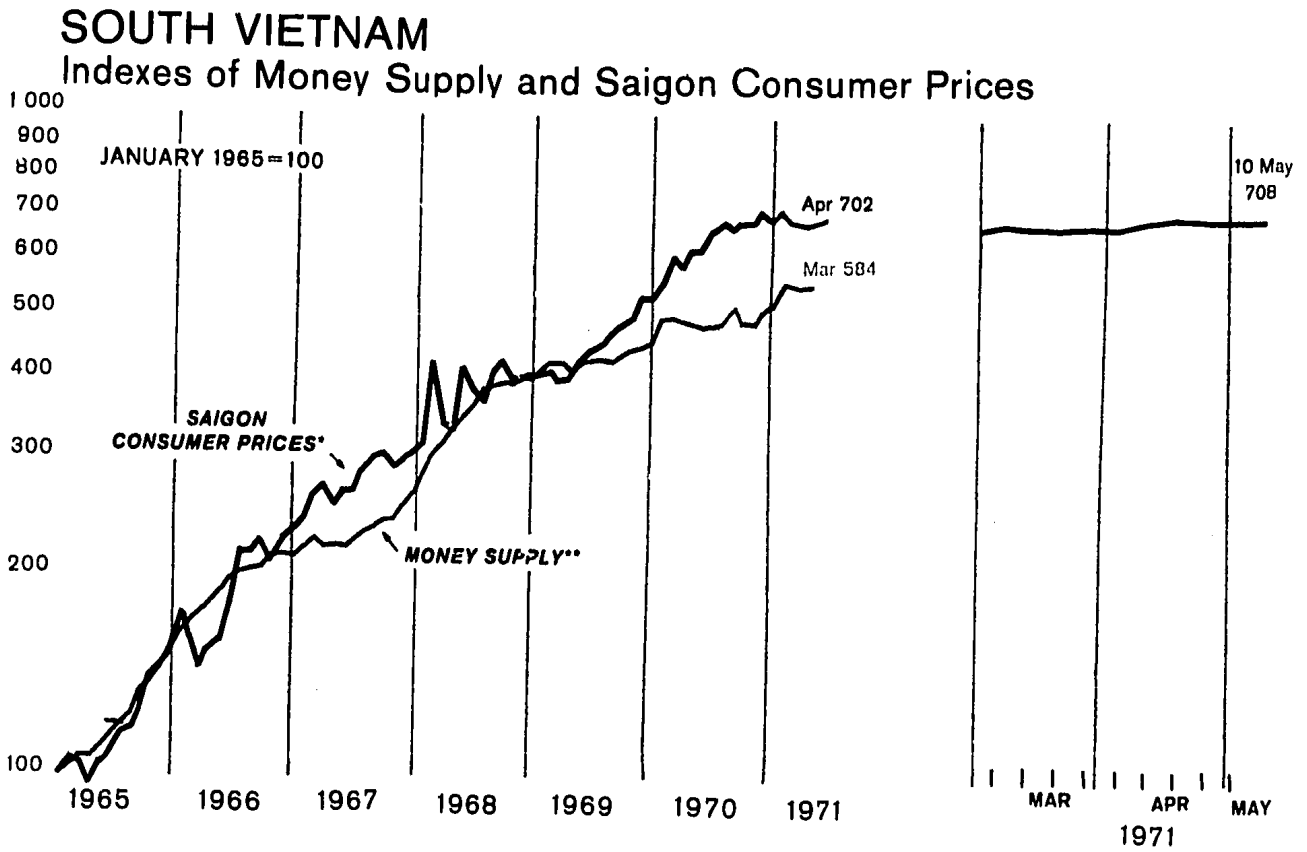
16. Improved security was the major reason for increased output in 1970. Better security in Military Region 3, where rubber plantations are concentrated, has permitted the reopening of plantation roads and the reexploitation of some abandoned tree stands. Some of the increase probably came from more intensive tapping on particular plantations.

17. An additional stimulus to production was provided last October by the establishment of the parallel market exchange rate for exports, which take up about 90% of output. Prior to the introduction of the parallel market rate of 275 piasters per dollar, rubber was exported at the rate of 138 piasters per dollar, or the official exchange rate of 118 piasters plus an export subsidy of 20 piasters. Planters believe the new exchange rate not only will put operations in the black again but also will allow them to expand. According to representatives from the large French-owned plantations, Vietnamese rubber still is in great demand in the world market.

18. As a result of the improved earnings, planters reportedly were able to give workers a 40% wage increase as well as a larger bonus for each kilogram of latex collected. The plantations expect the higher wages and improved security situation to enable them to hire several thousand additional workers. Employment on the rubber plantations reached about 30,000 at its peak in the early 1960s, but has since declined to about 10,000 workers, most of whom are women. With sufficient manpower, the planters estimate that the exploited area -- and production -- can be increased by almost 50% in 1971 simply by tapping existing tree stands more completely and more efficiently.



511291 5-71

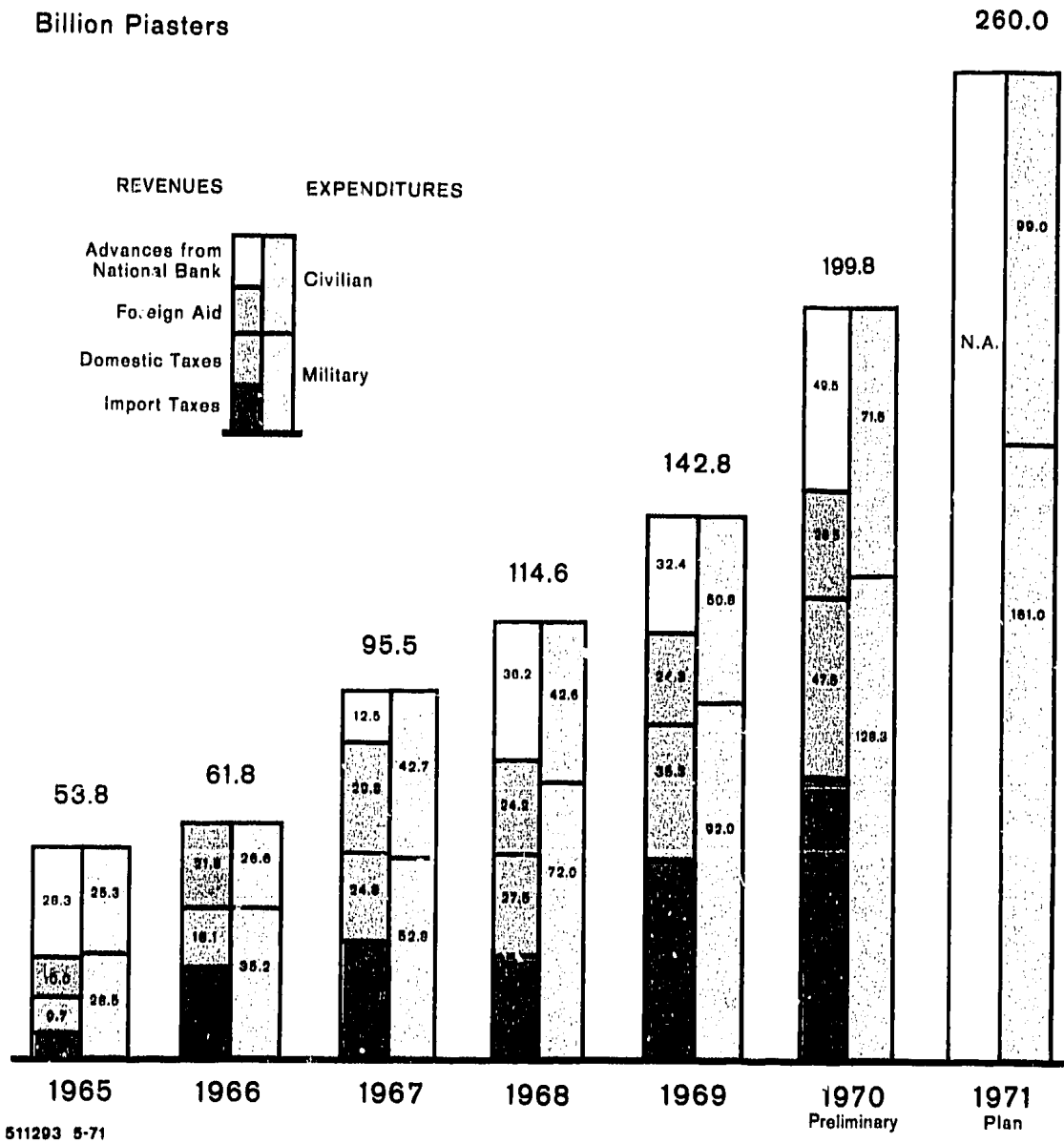


*USAID monthly average retail price index for Saigon
**Data are for end of month

51/292 5-71

GOVERNMENT BUDGET *

Billion Piasters

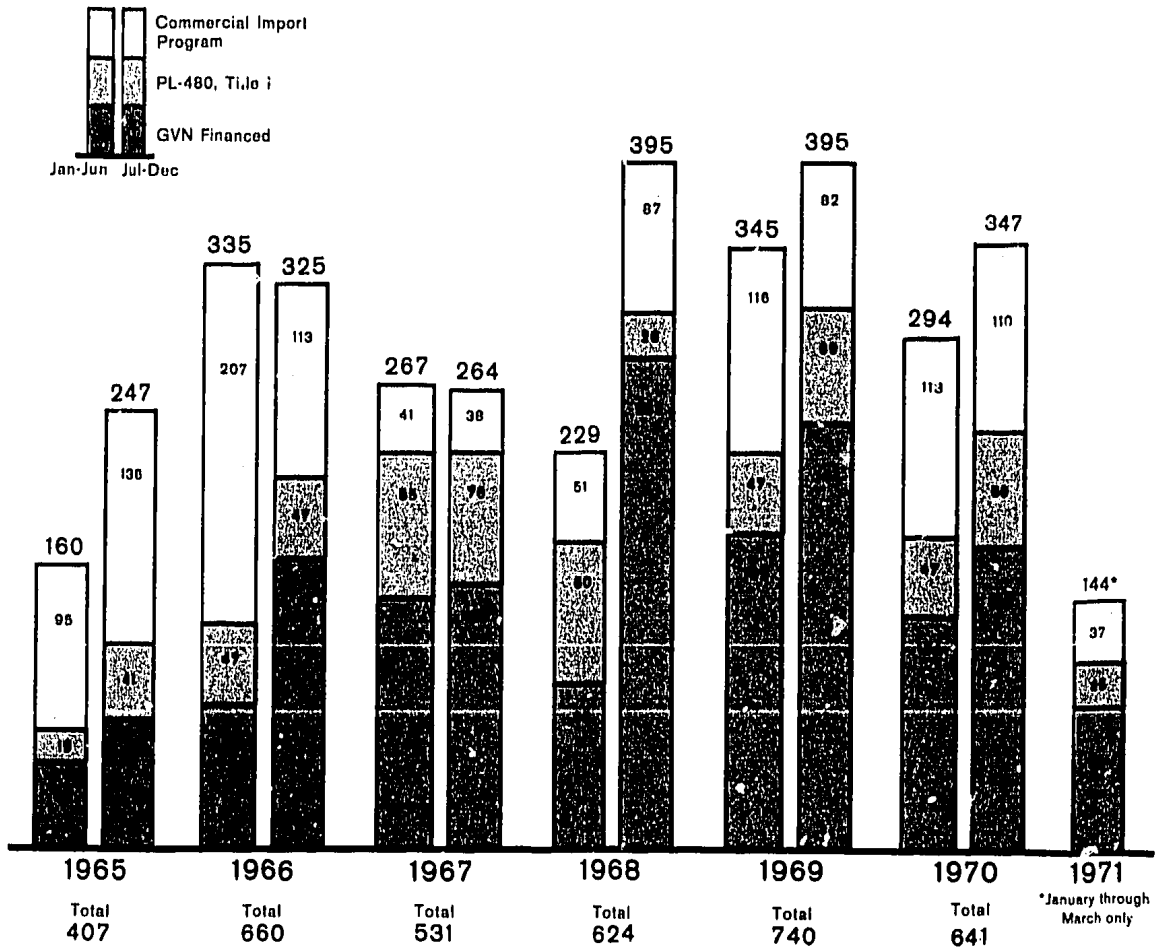


511293 5-71

*Data include extrabudgetary revenues and expenditures

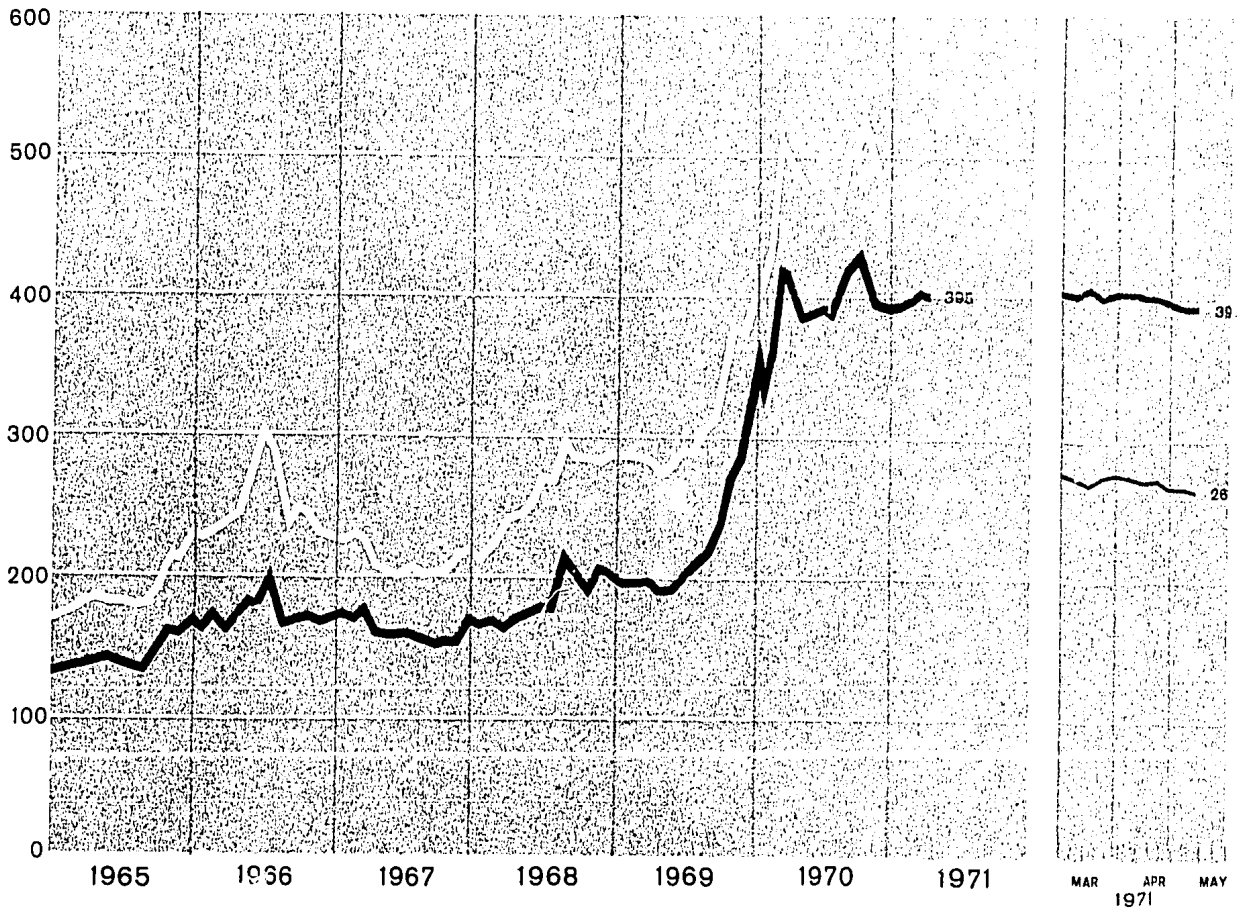
IMPORT LICENSING

Million US Dollars



511204 5-71

SAIGON Free Market Gold and Currency Prices Piasters Per US Dollar



GOLD Basis: gold leaf worth
\$35 per troy ounce

— US \$10 GREEN

— US \$10 MPC Military Payment
Certificates (scrip)

511295 5-71