

Declassified in Part -
Sanitized Copy Approved for
Release 2012/02/14 :
CIA-RDP85T00875R00170001

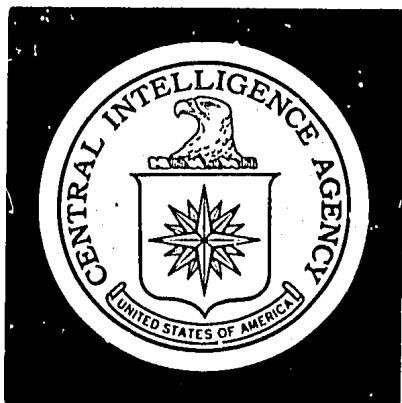
Declassified in Part -
Sanitized Copy Approved for
Release 2012/02/14 :
CIA-RDP85T00875R00170001

CIA/OSR/IM 71-142

Secret



25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Economic Situation In South Vietnam

**DOCUMENT SERVICES BRANCH
FILE COPY
DO NOT DESTROY**

Secret

ER IM 71-142
July 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
July 1971

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

1. South Vietnamese industrial production continued to increase at a rapid rate in 1970, and employment reportedly also increased substantially. New investment by existing firms appears to be steadily growing.
2. The Japanese government has agreed to soft loans totaling \$21 million for public utility projects in South Vietnam. Tokyo is telling Hanoi that North Vietnam can expect the same kind of assistance once the fighting dies down in the South.
3. In mid-July, Saigon retail prices were only 1% above the level of December 1970. The money supply remained virtually unchanged from January through May.
4. The black market price of dollars has been relatively stable since mid-May and was 372 piasters per dollar on 12 July.
5. Because of the rare opportunity it presents to compare current economic conditions in rural areas with those prevailing ten years ago, we have summarized an excellent State Department report on two villages in South Vietnam, one in Vinh Long Province in the Delta and the other in Quang Nam Province in Military Region 1. Developments in the two villages are in sharp contrast: the standard of living in the Delta farming village has improved tremendously, while living conditions in the northern coastal fishing village have changed very little.
6. Charts on foreign exchange reserves, money supply and prices, import licensing, gold and currency prices, and the government budget follow the text.

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

SECRET

25X1

SECRETIndustrial Gains

7. Industrial output in South Vietnam continued to grow at a rapid rate in 1970. The National Institute of Statistics' index of industrial production increased 14% in 1970, compared with an average annual rate of 11.5% during 1963-69. Increases in output of the most important products (see the tabulation, below) ranged from 4% for soft drinks to 54% for cotton yarn. Partial data for the first quarter of 1971 show continued large increases for most items. Output of only one major product - cigarettes - declined in 1970, probably as a result of competition from American cigarettes in the black market. According to a recent report [redacted] total PX sales of cigarettes in Vietnam indicate that every authorized PX customer buys about 39 packs per month, whereas in Okinawa and Japan the comparable figures are 24 and 13 packs per month, respectively.

25X1

<u>Commodity</u>	<u>Unit of Measure</u>	<u>1969</u>	<u>1970</u>	<u>Percentage Change</u>
Beer	Million liters	134.2	148.7	11
Soft drinks	Million liters	120.4	125.7	4
Refined sugar	Thousand metric tons	108.4	115.5	7
Cotton yarn	Thousand metric tons	7.6	11.7	54
Cotton fabric	Million meters	50.4	58.0	15
Cigarettes	Thousand metric tons	10.5	9.7	-8
Glass bottles	Thousand metric tons	16.5	18.8	14
Cement	Thousand metric tons	247.2	285.8	16
Paper and paperboard	Thousand metric tons	33.2	42.8	29
Electric power	Million kilowatt hours	1,045.4	1,134.2	8

SECRET

SECRET

8. Many industrial firms are expanding their facilities, and more are expected to follow. The rate of new investment is indicated by the value of machinery and equipment authorized for import under AID's Commercial Import Program, through which South Vietnam requires almost all such imports be financed. In 1969, authorized imports of machinery and equipment amounted to about \$10 million, most of which consisted of equipment to replace losses from the 1968 Tet and post-Tet offensives. Almost \$16 million worth of machinery imports were approved during 1970 and another \$8 million during the first quarter of 1971. US officials expect the total to reach \$50 million this year. Available data for 1970 and 1971 show imports ranging from \$105,000 for a monosodium glutamate company to \$5.7 million for the joint American-Vietnamese Vimytex textile firm. With few exceptions the projects approved have been for the expansion of existing firms and not for new enterprises.

9. In May 1971 the capacity of the sugar refining industry was expanded by about 40% with the opening of a new sugar mill in Quang Ngai Province. Planning and construction of the government-owned mill began in 1964, but lack of security delayed both construction and installation of equipment. While Vietnam's two other sugar companies (both government-owned) have relied almost exclusively on imports of raw sugar for the past three or four years, the Quang Ngai mill will refine domestic sugar cane. The output of sugar cane has dropped sharply since 1965 largely because the government prohibited planting in many areas in order to deny the protective cover of the cane fields to the enemy. With improved security, however, the government now has launched a campaign to encourage the cultivation of sugar cane in Quang Ngai, which generally provides 10%-15% of total output.

10. Along with the growth of output and expansion of facilities, there was a sizable increase in industrial employment in 1970. A Ministry of Labor survey in Saigon among several branches of industry employing more than 1,000 workers shows increases in average monthly employment ranging from a low of 3% in tobacco manufacturing to a high of 64% in metal fabricating industries. Employment by beverage firms increased 8% in 1970, and the number of workers in the textile industry, South Vietnam's largest, rose 24%.

New Japanese Loans

11. The Japanese government has decided to provide two additional loans to South Vietnam amounting to \$21 million for the construction of a thermal powerplant at Can Tho in the Delta (\$16 million) and the installation of a telephone exchange in Saigon (\$5 million). Last fall the Japanese agreed to lend South Vietnam \$4.5 million to build a diesel

SECRET

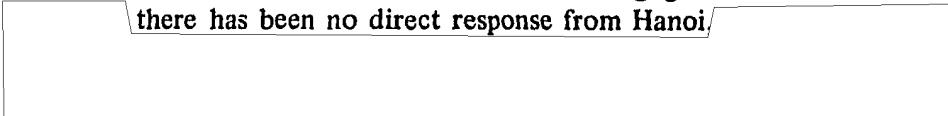
SECRET

generating plant in Saigon (the contract was signed in January 1971). The terms of the new loans are the softest yet given by the Japanese government - repayment in 25 years, including a seven-year grace period, with interest at 3% per year. The earlier loan for the Saigon power station called for repayment in ten years, including a three-year grace period, and interest at 6% per year. Final negotiations on the Can Tho loan are expected to be completed soon, after which Tokyo will give the go-ahead for the telephone loan.

25X1



12. Aware that the projects they are sponsoring are vulnerable to sabotage, the Japanese are trying to protect their investments by telling Hanoi that once fighting dies down in the South they will be giving North Vietnam the same kind of assistance now being given South Vietnam.



25X1

Prices

13. Saigon retail prices remained relatively stable during June and the first half of July. As of 12 July the USAID index had increased only 1% since the end of last year and only 3% since July 1970. The price index for imported commodities also was stable during June and was only 8% above the level of December 1970. The money supply has remained essentially unchanged from January through May.

Currency and Gold

14. The Saigon black market price for dollars has held fairly steady since it declined in mid-May as a result of the world monetary situation and the crackdown on smuggling at the Saigon airport. On 12 July the rate for dollars was 372 piasters per dollar, or 7% below the April level. The rate for MPC (scrip) was 266 piasters, 9 piasters below the legal rate. The price of a dollar's worth of gold leaf has declined since the middle of June and by 12 July had fallen 21 piasters to 488 piasters.

Ten-Year Update of Village Studies

15. The following article is a summary of an excellent State Department report of June 1971 (Saigon A-90) comparing economic conditions in two South Vietnamese villages, one in the Delta and one in Military Region 1, and reporting the changes that have occurred in these

SECRET

villages since they were studied by an advisory team from Michigan State University in 1960-61. The existence of the earlier studies provides a rare opportunity to see in detail how the lives of at least some villagers have been affected by the war and other factors during the past decade. The villages were not selected for study because they are considered "typical," but simply because they are two of the few for which there is some description ten years ago. In fact, the Delta village is not "typical" in several respects: (1) it is on the main commercial highway through the Mekong Delta; (2) it is a center for marketing; and (3) it houses the district administrative offices. The author demonstrates once again that generalizations about South Vietnam and the effect of the war on the countryside can be extremely misleading. There have been dramatic improvements in living standards in the Delta rice farming village, but conditions have changed very little in the fishing village on the northern coast.

My Thuan Village

In 1960, a Michigan State University (MSU) team visited My Thuan Village, Binh Minh District, Vinh Long Province, and found that agricultural practices were not highly developed, the standard of living was low, and incentives to improve were lacking. In 1971, with slightly less favorable security conditions and fewer hectares under cultivation, the village is prosperous, rice farming has been modernized with capital inputs, and the population has aspirations similar to those of Saigon's citizens. The MSU team described the dirt footpaths along the canals in front of widely separated, thatched-roof houses. Many of the footpaths are now paved with concrete, and many primitive wooden bridges have been replaced with concrete or steel footbridges. Because of insecurity, many people moved from the outer hamlets into the areas along National Route 4, with the result that houses are now built close together. A majority of the houses now have tin or tile roofs and many of them are built of concrete and brick. Hondas are in evidence, all the sampans have long-shaft boat motors, almost every house has a radio, and many farmers, when not working, can be seen in slacks and western-style shirts.

Now almost everyone lives the way the old landlords did, according to the old man who was the village chief in 1960. Most farmers now finance their operations out of their own capital. The old cycle of debt to finance a crop, harvest to pay off the debt, and then debt again to finance the next crop has been broken. Day-labor, which was once abundant and cheap, has become scarce and expensive. The number of business establishments now total 232, up 42% from 1960. Most stores are now two- and three-story brick buildings instead of the one-story wooden or thatch

SECRET

houses the MSU team saw. New types of business activity include radio and TV sales and repair shops, beauty parlors, ice cream stores, and bakeries.

The increase in material wealth apparently has altered some social patterns. Because farming has been mechanized and farmers are better off, older children are more free to pursue an education. All children now complete the first three grades, half continue through elementary school, and about one-fourth complete high school. There are now 30 classrooms compared with 15 in 1960, and there is now a public high school, a private Hoa Hao high school, and a Catholic elementary school. Another shift in social patterns is that farmers now work their fields and stay in the village most of the year. In 1960, they farmed about half the year and then sought work elsewhere for the remaining five or six months.

The prosperity found in My Thuan stems from changes in agricultural production that have lifted farmers out of subsistence farming and allowed them to produce a surplus each year which can be used for capital improvements or higher levels of consumption. The first noticeable improvement occurred in the mid-1960s as paddy prices began to increase much faster than the cost of living. This development, however, did not affect the majority of families who produced only enough rice to feed themselves. Not until the introduction of IR-8 rice seed and its accompanying technology did most farmers begin to produce a surplus enabling them to take advantage of the high prices. According to one group of farmers, the price of paddy in 1971 was ten times the 1960 level, while the cost of living rose much less. The price structure and the available inputs, especially since the introduction of IR-8 in 1968, have interacted to modernize agriculture. The water pump made by adding a sleeve to a long-shaft boat motor, allows for better water control and has substituted for improvement of irrigation systems. The water pump, therefore, has permitted double cropping where none existed in 1960. Fertilizer is available at reasonable prices, and tractors and rototillers plow fields earlier, more efficiently, and more cheaply than water buffalo. Thus, since the mid-1960s, higher prices for paddy have allowed farmers to buy or use some of the new technology that generated a much higher return, which then allowed even more investment.

Much of the economic progress in My Thuan, especially in recent years, has been the result of GVN- or US-sponsored programs and policies. IR-8 was introduced in 1968 by the GVN agricultural extension service, although the US-sponsored Village Self-Development Program and the private market were mainly responsible for the widespread use of the new seed. The government's Agricultural Development Bank has helped some farmers acquire the more expensive elements of the new technology. In addition, the government policy of providing both luxury goods for consumption

SECRET

SECRET

and cheap inputs such as fertilizer has stimulated investment for increased production. Finally, the government's decision to let the price of rice increase permitted the trend of a higher return for agricultural investment to continue, allowing the new prosperity to work its way down to the poorer families.

The MSU report on My Thuan in 1960 concluded that little innovation in agriculture could be expected unless security improved and land tenancy ended. In My Thuan today, however, the security situation is roughly the same as it was then, if not worse, and land tenancy has declined dramatically only since the land reform law was passed in 1970. The village is at the base of a famous VC staging area known as the "Y" in Sa Dec Province. In 1960, people lived and farmed throughout the village, even though officials rarely ventured far from the area along Route 4. At present, the northern two-thirds of the village is more or less deserted except for some Popular and Regional Forces outposts. The area planted to rice is 20% smaller than in 1960, and between 1965 and 1969 it was smaller yet. Economic progress has occurred only in the more secure part of the village along Route 4. Yet, even in the secure area there is considerable VC taxation.

The concentration of population in the secure area of the village has put a real premium on land. Landlords have rented land to refugees from the northern hamlets on the condition that they do not ask for title under the Land-to-Tiller law. Tenant farmers who have always lived in the secure area, however, are asking for ownership, and 515 titles have been distributed during the past year. It is cheaper to rent land in the secure area (20%-25% of the crop) than to farm land under VC surveillance (30% and even more for IR-8 growers). Most families who farm out where the VC can contact them work only enough land to pay the tax and feed themselves. VC tax policy is designed to keep the farmers at the subsistence level and thus prevent them from acquiring bourgeois attitudes which will tie them closer to the government.

After 11 years, My Thuan is not the same village. The economy, at least, has been transformed even in the midst of war. Prosperity has become general, not just for the few, and it has changed social attitudes and patterns of behavior as well.

SECRET

Cam An Village

In striking contrast to the history of My Thuan during the past decade, a return visit to the northern coastal fishing village of Cam An, Hieu Nhon District, Quang Nam Province, revealed that the standard of living has not improved for most of the population. The impact of the war has been heaviest in Military Region 1 and Cam An has not escaped its effects. One of its four hamlets has been abandoned, curfews restrict the fishing, and the influx of refugees has doubled the population. The only part of the village where people's lives have improved is the island hamlet of Tan Hiep, which is .17 kilometers out to sea. The mainland part of the village is located on sand dunes at the mouth of the Thu Bon River about four kilometers from the province capital of Hoi An. As in 1961, when the Michigan State University group studied Cam An, 90% of the households are engaged in fishing. The only farming in the village is conducted on a few hectares of rice land on the island.

The fishermen of Cam An appear to be on a treadmill. Motors and nylon nets have allowed them to work longer, go farther out to sea, and expand their catch, but the increase in the cost of living has held profit margins substantially unchanged. In Cam An the price of rice has increased almost 800% during the past ten years, while fish sells for only 200% more than it did in 1961. The fishermen complain that they are more heavily in debt than ever before and that the risk of motor breakdowns is very serious, adding a major new element of anxiety. Boats, which should be new every five years to avoid rot and worms, are old and worn and must be bailed out constantly when sailed. The increase in the number of fishermen also has kept profit margins down. In 1961 there were 369 boats registered in the village, and now there are over 700. With so many fishermen and an increase in the catch, middlemen are under no pressure to bid high prices for fish. Moreover, the once major market of Da Nang now has a large fishing community of refugees itself. Local demand, however, has increased because of the refugee camps near Hoi An.

The people of Cam An believe the curfew restrictions on entering and leaving the estuary are a major obstacle to improving their well-being. They point out that fishermen on the island hamlet are not restricted by curfews and are relatively well-to-do. Removal or reduction of the curfew, however, probably would not help much, because the boats are so small that a few more hours of fishing would not increase the size of the catch sufficiently to increase profit margins substantially.

The stagnation in Cam An can be seen in many other ways. Most houses are still thatch and very small. Schools have not been expanded,

SECRET

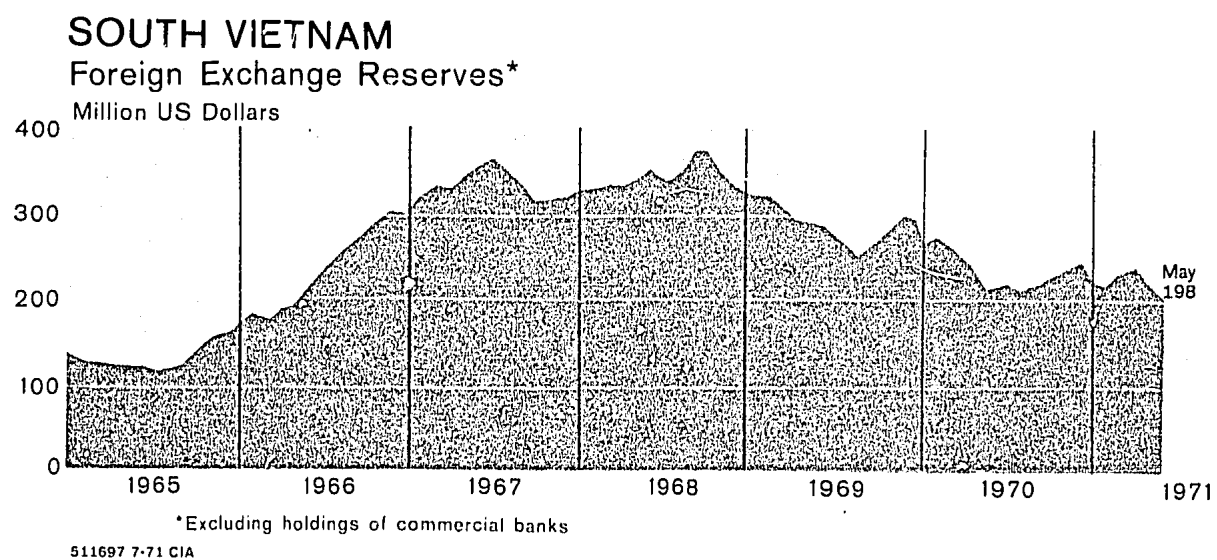
SECRET

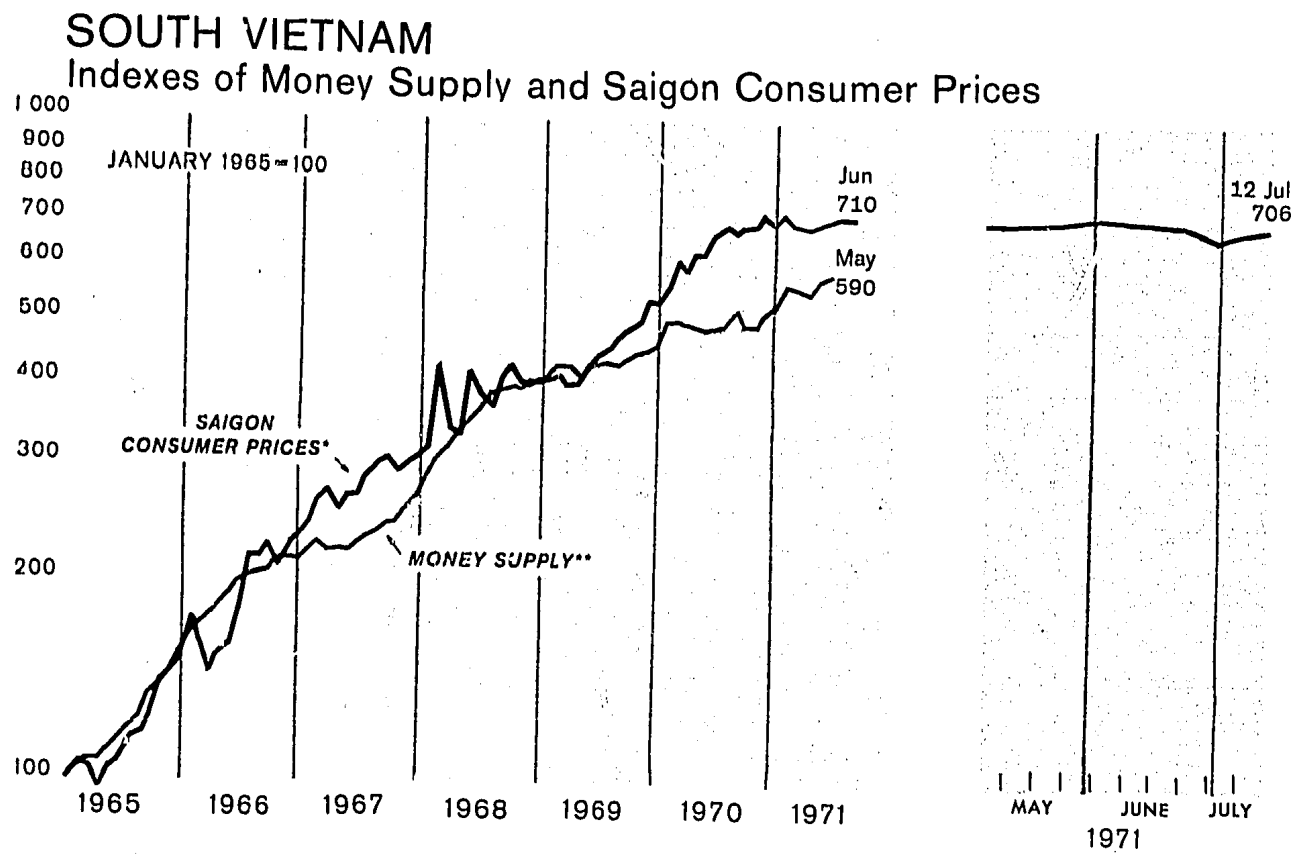
teachers have not been provided, and the wealthier families have moved out. The boat builders who worked in Cam An in 1961 have all moved to Da Nang. There are no buses between the village and the province capital. The village office, destroyed in 1967, has not been rebuilt. A large fish market, built at provincial insistence, is not used because of VC sniper fire from across the canal.

Conditions on the island hamlet of Tan Hiep provide the one exception to the story of Cam An's hardships. People who moved to the island to avoid the fighting on the mainland have prospered in fishing. Since 1961 the population has grown from 325 to almost 4,000 and the number of fishing boats from 14 to 250. Houses are substantial, many with concrete floors and wooden walls. Radios and sewing machines are in abundance (there are several generators), and people are better dressed. Ten large trawlers work off the island, and buyers come to the island to purchase the fish. There are many little shops handling a variety of goods and even two new houses of ill-repute.

Other than on the island, the standard of living in Cam An has not changed during the past decade. New profits from technical innovations have gone to maintain a low standard of living in the face of rising costs. As in 1961, the people still aspire to a life with better houses, less debt, and more luxuries.

SECRET



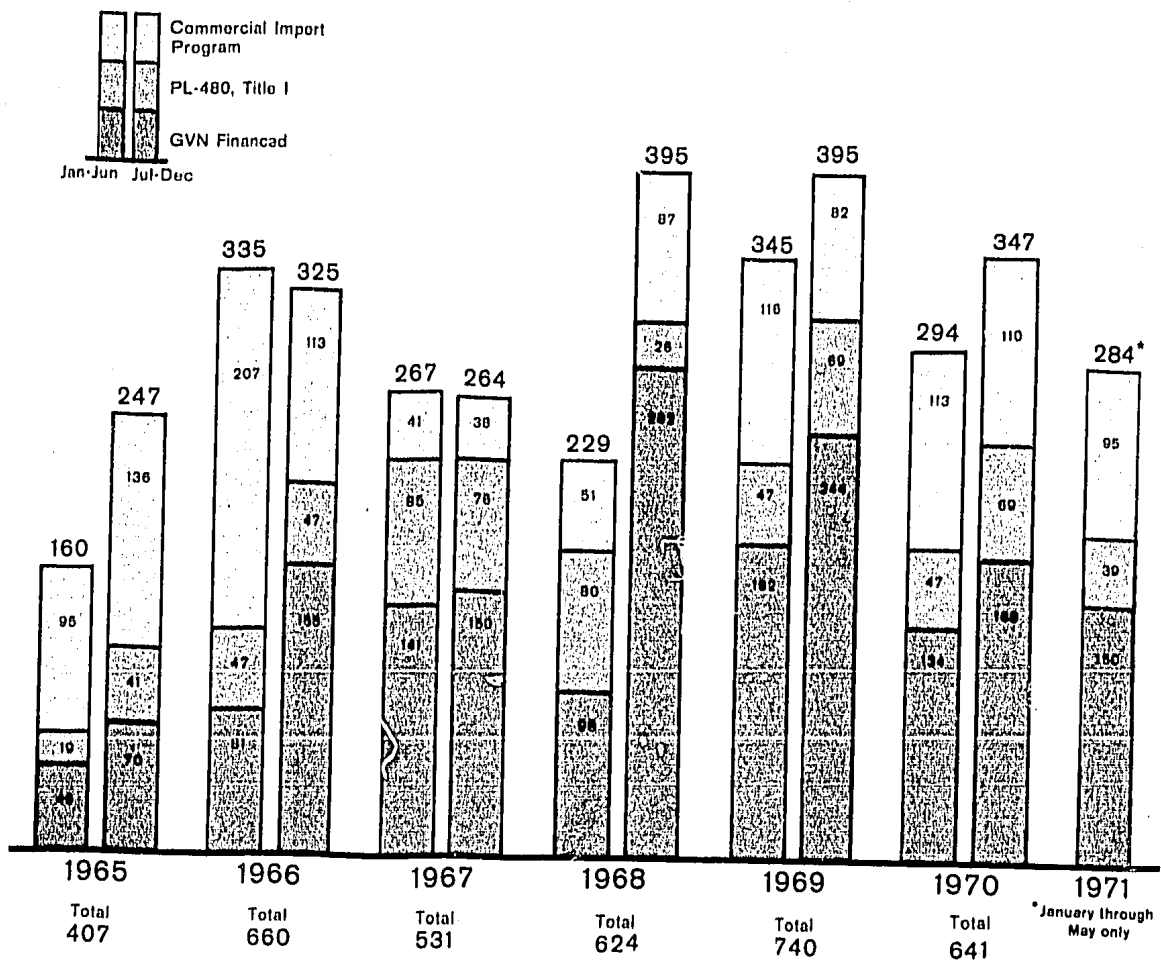


*USAID monthly average retail price index for Saigon
**Data are for end of month

511698 7-71 CIA

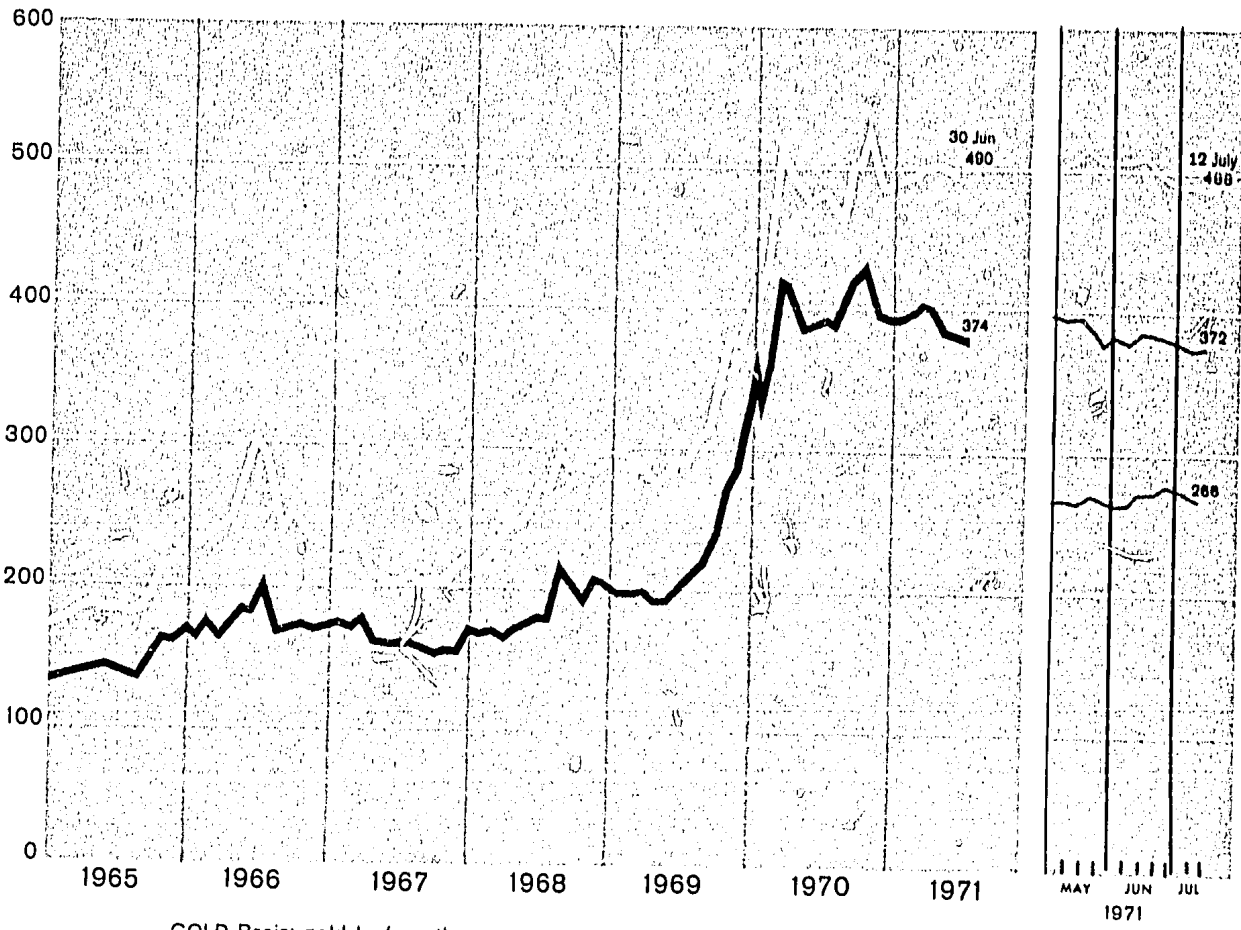
IMPORT LICENSING

Million US Dollars



511699 7-71 CIA

SAIGON Free Market Gold and Currency Prices Piasters Per US Dollar



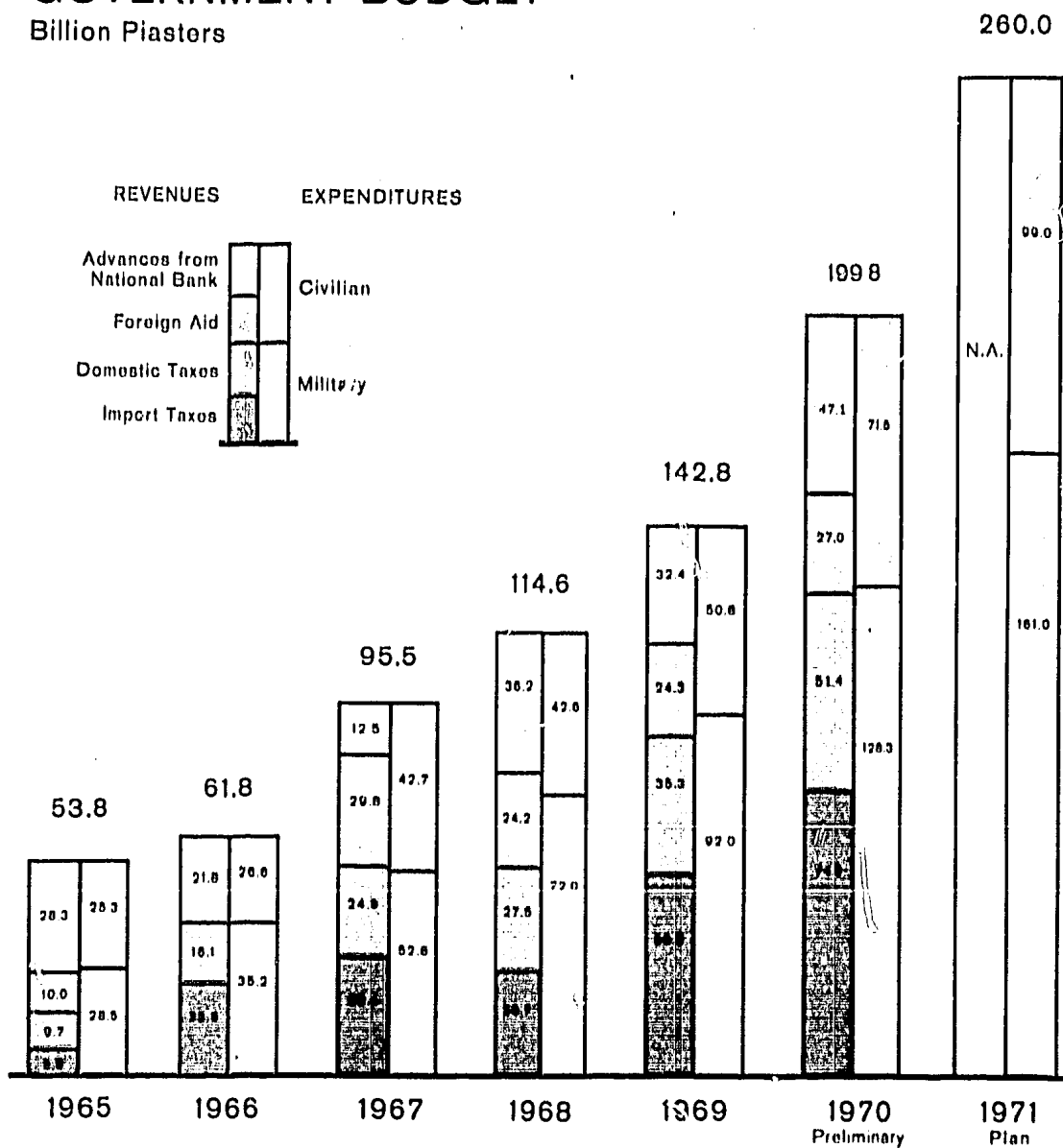
GOLD Basis: gold leaf worth \$35 per troy ounce

- US \$10 GREEN
- US \$10 MPC Military Payment Certificates (scrip)

511700 7-71 CIA

GOVERNMENT BUDGET*

Billion Piasters



511701 7-71 CIA

*Data include extrabudgetary revenues and expenditures