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Intelligence Report

The Economic Situation in South Vietnam, March 1975

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**The Economic Situation
in South Vietnam,
March 1975**

SUMMARY

The rapid and disorderly South Vietnamese withdrawal from all of Military Regions 1 and 2 and parts of 3 has resulted in severe economic costs. The principal costs include:

- the loss of considerable national resources, including timber, rubber, and commercial agriculture;
- support for large and growing numbers of refugees;
- heavy capital withdrawals from the banking system and, in some instances, from the country; and
- sharp declines in business activity, most notably on the part of foreign businessmen.

Although the rice-abundant Delta, which for the present remains under South Vietnamese control, could feed the remaining population both locally and in Saigon, the Communist offensive could disrupt rice trade at any time.

Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

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DISCUSSION**The Changing Economic Scene¹**

1. President Thieu's strategy of ceding major but indefensible portions of the northern and central highlands to the Communists in order to concentrate South Vietnamese defenses anticipated limited economic cost. The affected territories were sparsely populated and had yielded only slight gain to South Vietnam's output for some time. Although they contained substantial forest resources, inadequate security had long hampered exploitation. If anything, this area had been a drain on the economy, requiring large defense and administrative commitments and a steady supply of foodstuffs from the south to supplement the meager agricultural base.

2. The badly bungled execution of this strategy led to the collapse of government control in all of Military Regions (MR) 1 and 2 and a large part of MR 3 and has had a serious impact on national resource availabilities. The timber reserves of the central highlands and rubber plantations in MR 3, which together provided one-third of South Vietnam's exports in 1974, were substantially forfeited. Major sugarcane and tobacco plantations in MR 1 were lost, as were the important commercial farms of Dalat, which supplied much of Saigon's vegetables.

3. At the moment, Saigon maintains control over most of the critical Delta rice-growing region, which can supply the food needs of the remaining population under South Vietnamese control, including refugees. The 1974-75 rice harvest was a record high. Shipments of rice and vegetables continue to flow into Saigon unhampered by the Communists. Much of South Vietnam's southern fishing industry, which supplies Saigon and export markets, also remains intact. This could change rapidly, however, if the Communists mount a major effort to interdict food shipments to Saigon or the government is forced to withdraw military units for defense of the capital.

Key Economic Problems***Refugees***

4. The most immediate economic problem facing the government is provision for large numbers of refugees. Officials estimate that at least some 2 million people in MRs 1 and 2 tried to escape the Communists; but as of 8 April,

1. This report is based on information available to 14 April 1975.

only several hundred thousand had been evacuated by air and boat to secure areas in the south. Additional people have been displaced by Communist assaults in MRs 3 and 4. Starting from about 35,000 in early March, the population of refugee camps grew to more than 350,000, as shown on the table. Perhaps as many more again are outside camps and not yet registered.

**Registered Refugees in Camps
as of 8 April 1975**

Total	356,400
Military Region 3	246,900
Binh Duong	43,600
Bien Hoa	20,000
Binh Tuy	92,000
Phuoc Tuy	12,200
Saigon	600
Tay Ninh	48,900
Vung Tau	29,600
Military Region 4	109,500
Chau Doc	11,300
Kien Giang	3,200
Kien Tuong	6,600
Phu Quoc Island	20,000
Vinh Binh	61,400
Vinh Long	2,000

5. A new facility is being set up on Phu Quoc Island in the Gulf of Thailand which is expected to become the government's largest single refugee center. The government plans to send to the island at least 100,000 refugees, and 40,000 either have been registered already or are being offloaded from ships there. The island is sparsely populated, and officials can isolate refugees there to take pressure off of Saigon and the Delta. Food, medical, and building supplies are being shipped to the island, but conditions are primitive at best. It is not known what plans, if any, the government has for development of the island or for refugees' transshipment elsewhere.

6. For the moment, South Vietnam appears to have sufficient food supplies to support the current refugee population. The government has generally provided its standard rice rations for most refugees of 500 grams per day,² but some administrative difficulties in distributing rice have caused sporadic shortages.

² This would amount to about 50 metric tons of rice per day for each 100,000 persons.

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Commercial Reaction

7. Rapidly declining business confidence in the future of non-Communist South Vietnam portends a general disintegration of commercial and industrial sectors. Within the important Chinese business community, the feeling is one of dismay, fear, and distrust of the government and the army. Many Chinese are planning to get out of the country. Most Saigon-Cholon businessmen also are upset over the ever-longer curfews, which they feel contribute little to security and severely limit business activity.

8. Foreign businesses have been the first to phase down. Many have already sent dependents out, and some are evacuating principals as well. The small US business presence – about 330 businessmen and dependents – has been halved. The Bank of America, First National City Bank, and the Chase Manhattan have taken out expatriate executive staffs, a move that has engendered a particularly bitter reaction among native Saigon bankers as being psychologically ruinous.

9. The two international oil companies – Pecten Vietnam (a Shell subsidiary) and Mobil – that have been drilling in South Vietnam's offshore concessions discontinued exploration and development the first week of April in the face of deteriorating security conditions. They have abandoned their wells for the time being and have moved their personnel and drilling rigs to other sites in Southeast Asia. Other companies that expect to begin drilling later this year have also set their plans aside. Mobil and Pecten hope to return if the military situation stabilizes and a functioning government is assured.³ Both have already made promising oil discoveries that may be commercially exploitable.

Money Markets⁴

10. As the military situation has deteriorated, consumers and merchants alike have tended to convert assets into cash. The move toward greater liquidity has also been apparent in the relatively slow increase in most commodity prices in Saigon thus far. Merchants are unloading many of their goods at reduced prices, largely to avoid losing inventories to the Communists. Farmers around Saigon and in the Delta are trying to sell unusually large amounts of rice, livestock, and other

3. In the event that a coalition or Communist government comes to power in South Vietnam, drilling rights would have to be renegotiated for work to begin again. The Communists have gone on record as not recognizing any contracts with the oil companies signed by the Thieu government.

4. Charts showing selected economic indicators follow the text.

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goods for similar reasons. Consumers, for their part, are avoiding purchases of unnecessary goods in order to be able to cope later with as yet unidentified emergency needs.

11. Nervous depositors -- especially the Chinese in Cholon -- have been withdrawing large sums from banks. The National Bank of Vietnam has managed so far to keep a lid on the potentially explosive situation by promising to guarantee all commercial bank deposits while warning of the vulnerability of large cash holdings. Banks are calling in loans to offset shrinking deposits and have sharply reduced new lending. They reportedly have also penalized withdrawals by refusing to pay accrued interest.

12. The rush for increased cash holdings has also been an important outgrowth of the recent surge in demand for dollars and gold. Some of this demand has undoubtedly been associated with capital flight, while some probably reflects the views of many Vietnamese that these monetary assets would be quite valuable for emergency transactions (such as bribes, transportation out of the country, and food) should the country fall entirely into the hands of the Communists. The black market exchange rate for dollars, which was near 820 piasters before the mid-March turn of events, climbed to 900 on 31 March and to nearly 2,000 early in April.⁵ Gold prices climbed to more than US \$235 an ounce in the first week of April, compared with \$195 an ounce as late as 24 March.

13. A lull in the money markets has temporarily replaced the initial early April surge in both black market dollar rates and gold prices. By 9 April the dollar rate had dropped to 1,300 piasters and gold prices had softened slightly to \$229 an ounce. Additional market momentum appears to be awaiting further military developments.

Commodity Markets and Supplies

14. Relatively modest movements in aggregate price indices have reflected a variety of offsetting factors. In the first two weeks of March, Saigon consumer prices rose a little more than 1%. As some of the impact of President Thieu's strategic decision was revealed, prices moved forward another percentage point in the third week, fell slightly near month's end, and were about 2% above mid-March levels in the first week in April. Even the overall gain may overstate inflation somewhat because it masks dumping of goods not normally covered by the index (such as secondhand manufactures or family heirlooms) as people seek cash.

5. The official exchange rate is 725 piasters to the dollar.

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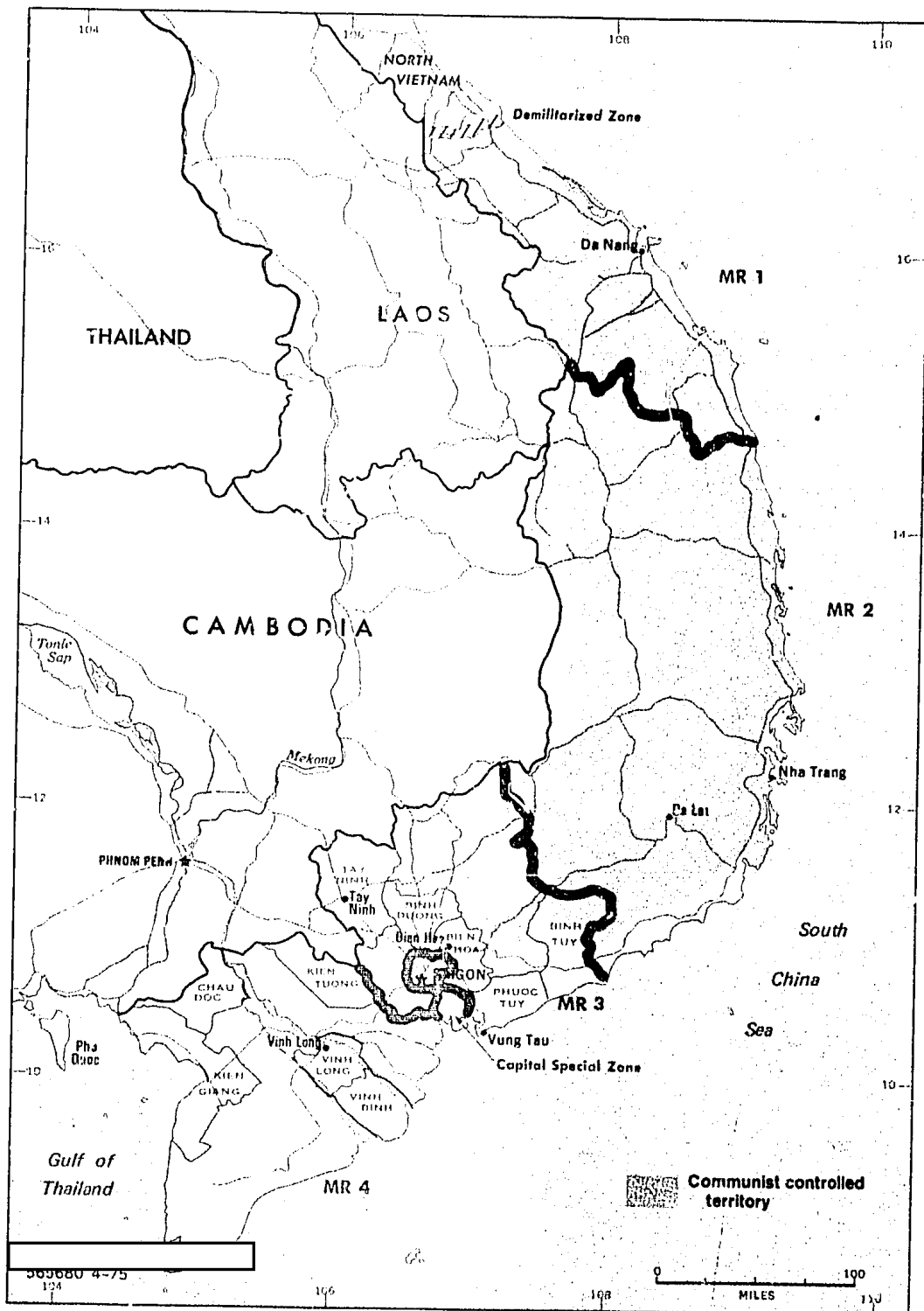
15. Individual commodity categories reflected both disruptions from the war and the widespread dishoarding. Fish prices were boosted by a government roundup of draft-dodging fishermen in the Delta; yet meat and poultry prices are down as farmers sell off stocks to avoid losing them to the enemy. Similarly, vegetable prices are up because of loss to the Communists of the Dalat farming area; but the availability of rice at reasonable prices probably leads to considerable substitution. Rice prices remained unchanged despite rapidly growing refugee needs because of sharply decreased direct demands for the lost northern provinces and dumping of paddy by Delta farmers.

16. The many more refugees and soldiers that will likely find their way into Saigon in coming weeks will increase pressures on supplies of food and other necessities. The drawdown of private merchants' stocks that has been taking place the past several weeks will compound supply problems. Those pressures could become especially acute if the Communists cut off access to rice from the Delta and imported supplies up the Mekong and Saigon Rivers.

Foreign Exchange Reserves

17. Saigon's dwindling foreign exchange reserves limit the extent to which goods can be imported to ease civilian - or military - supply shortages. Reserves were already down from \$195 million at the start of the year to \$160 million by the third week in March.

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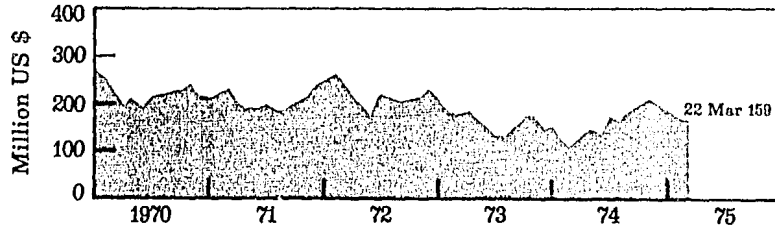


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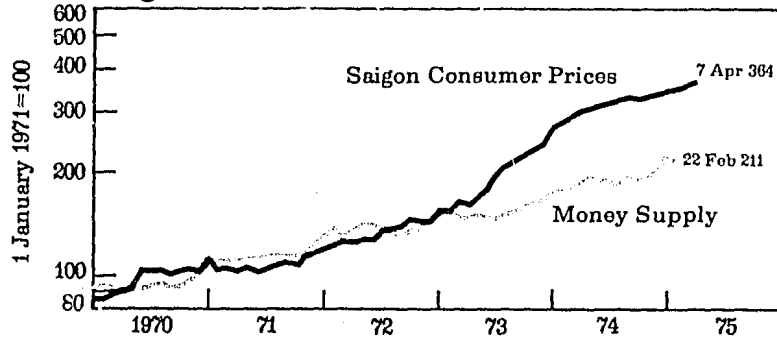
South Vietnam: Economic Indicators

Unless otherwise indicated, data are as of the end of the month.

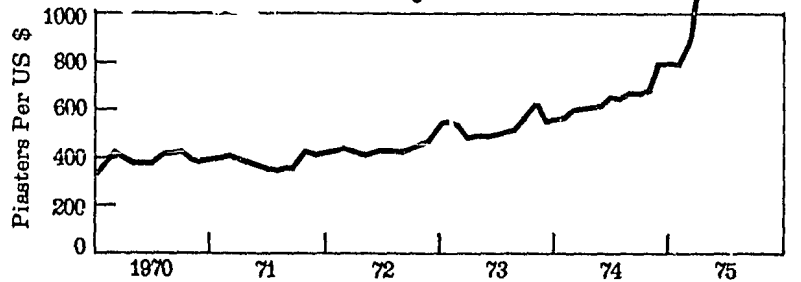
Foreign Exchange Reserves



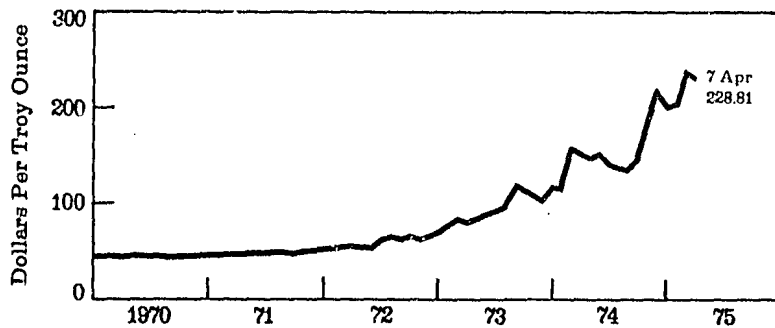
Indexes of Money Supply and Saigon Consumer Prices



Free Market Currency Prices



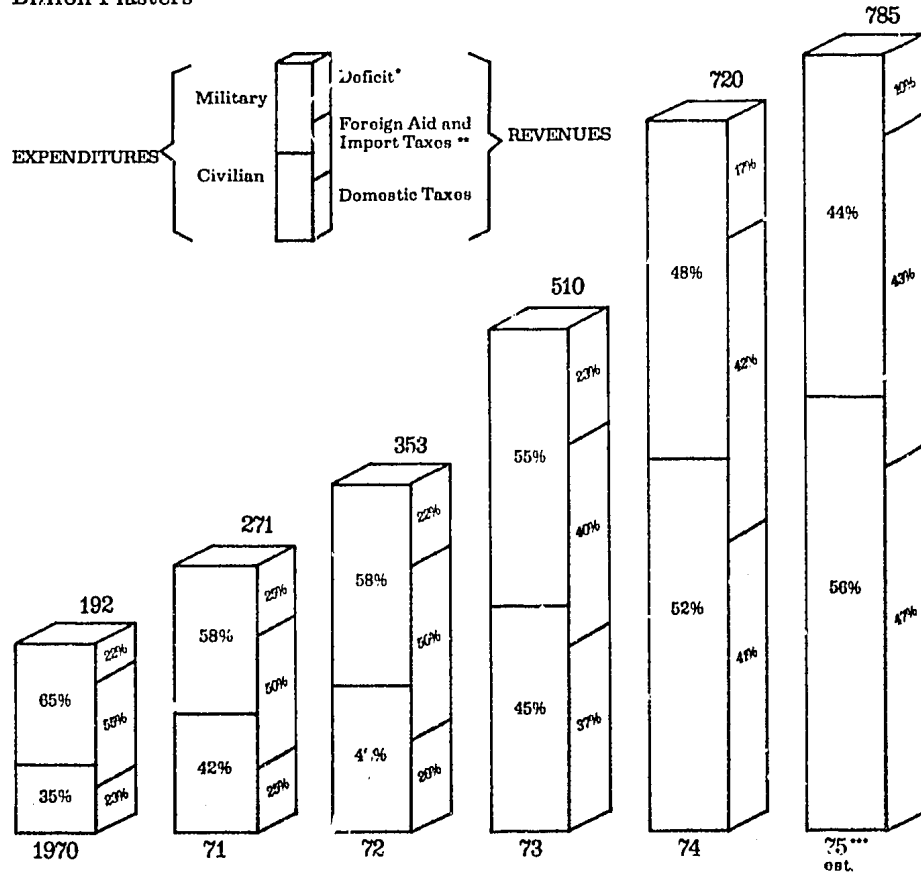
Free Market Gold Prices



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South Vietnam: Government Budget

Billion Piasters



* Residual. Financed primarily by borrowing from the National Bank.

** Includes customs duties and other import taxes, counterpart funds generated by US and other countries' import programs, and profits from foreign exchange transactions.

*** Does not include rice, fertilizer, and export subsidies, which may add as much as 100 billion piasters to 1975 expenditures.

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