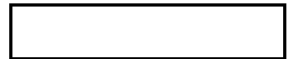


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Intelligence Report

DIRECTORATE OF
INTELLIGENCE

The Economic Situation in South Vietnam *(Biweekly)*

State Dept. review completed

USAID review completed

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24 August 1970
No. 0429/70

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

The Vietnamese Government plans to institute new procedures for marketing imported rice in Military Regions I and II where rationing and price controls have caused complex administrative problems and resulted in inequitable distribution of the rice. Abolition of rationing and price controls will mean higher rice prices for many urban consumers, who have long been paying less than Saigon residents.

The Viet Cong, as well as the government, are having difficulty collecting rice from farmers in government-held areas in the delta. Anticipating greater inflation or a devaluation, "contributors" to the Viet Cong prefer to give cash rather than rice.

Retail prices in Saigon increased 28 percent during the first seven months of the year, while the money supply increased only eight percent. On 17 August the black market rate for dollars reached 400 piasters, the highest since late April.

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

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New Rice Policy for MR I and II

1. Vietnamese officials, with US urging, have decided to change marketing procedures for imported rice in Military Regions (MR) I and II in order to eliminate subsidies, rationing, and abuses by province officials and rice merchants in their financial dealings with the central government. Management of the rice market in these rice deficit provinces--especially in urban areas where imported rice has become a significant part of total supply--has been characterized by excessive controls and inequities.

2. Although there is relatively little information on the rice market in MR I and II, the new regulations provide some indications of the way the market has functioned for the past several years. One new regulation already in effect, which applies to MR III as well, requires all province representatives and merchants to pay the central government for the imported rice upon delivery rather than taking it on consignment. Previously, officials and merchants had taken advantage of this free credit extension by the government as indicated by the fact that last February they owed the government 1.8 billion piasters (\$15.3 million at the official exchange rate). The government tried to impose a cash-and-carry policy in 1967, but was forced to back down. The Ministry of Economy reportedly again has been deluged by protests from the provinces, but US officials think the new policy will remain in effect this time.

3. The government also has decided to eliminate the current rationing system in MR I and II and allow free sale of imported rice to all persons at retail prices to be determined by market forces. The government, as the sole importer of rice, will continue to set the official wholesale price. The rationing system now in effect entitles holders of family ration cards to purchase about 15 kilograms of imported rice per person per month at a price set by the government. Rationing apparently has been in effect only in the urban areas, where all permanent residents are entitled to cards. Refugees and persons living in outlying areas have not

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been able to buy at the official price, which reportedly is 28 to 29 piasters per kilogram while the free market price is about 40 piasters and the market price of locally grown rice is even higher.

4. Along with the abolition of rationing the government will raise the official wholesale price for imported rice to the Saigon level, a move that US officials estimate will raise the price by about one third to those who have been using ration cards. Official prices for imported rice in MR I and II have been maintained at a lower level than those in Saigon for several years in order to cushion the impact of inflation on this poorer section of the country. Now, however, the government apparently believes that higher prices to many urban consumers there are less undesirable than a continuation of the rationing system, which has been almost impossible to manage and has resulted in great inequities. Moreover, officials have been concerned that the artificially low price of imported rice acts as a disincentive to local rice producers, discouraging the flow of domestic rice from surplus areas in the delta and maintaining too great a reliance on imports. The new price for imported rice still will be below the price of domestic rice, but the government believes the political impact of raising the price of imported rice any further would be too damaging at this time.

5. In order to meet the upsurge in demand for imported rice that could result from removing restrictions on sales, the US has agreed to provide another 150,000 metric tons of rice, most of which is scheduled to arrive this year. This additional rice would bring imports this year to about 580,000 tons compared with imports of 341,000 tons in 1969-- a development difficult to explain in view of the fact that the domestic rice crop already harvested this year was the largest in five years. But the rice market has been affected by a series of developments during past months that caused delta farmers to hold domestic rice off the market and reduced government stocks of imported rice to extremely low levels.

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6. Ultimately, the objectives of Vietnamese-US rice policy are to free the market of government controls and eliminate imports, possibly by mid-1971. These objectives cannot be achieved easily, and probably not so quickly, but US officials are convinced that changes in the rice market in MR I and II, described as the biggest rice management problem in the country, are a first step in the right direction. President Thieu has agreed to the new rice policy for MR I and II, but has decided to delay enactment of higher prices and abolition of rationing and announce them as part of a series of economic reforms, including a government wage increase and changes in the exchange rate. Thieu still is hoping that the Senate will pass the "program law" he requested to enable him to act by decree in economic matters, but has indicated that he intends to move without their approval if the Senate does not take action by early next month.

VC Also Have Rice Problems

7. The Viet Cong (VC), as well as the Government of Vietnam (GVN), apparently are having difficulty getting rice from farmers in government-held areas in the delta. Because of inflation, the VC have had greater success in collecting "contributions" in the form of cash rather than rice. According to a VC report, during an unspecified period ending in August 1970 the VC collected "contributions" amounting to more than 90 million piasters (\$763,000 at the official rate of exchange) and only about 1,600 metric tons of paddy rice valued by the VC at about 21 million piasters. "Contributions" in both paddy and cash generally account for roughly 20 percent of VC revenues; the remainder consists of taxes on agriculture (usually paddy), transportation, and business. "Contributions" generally are collected from businessmen and other residents in areas outside VC control.

8. Five VC provinces, which include most of the GVN provinces in the lower part of Military Region IV, were singled out for their successful collection efforts. One "compatriot"--probably a businessman--in the city of My Tho reportedly contributed 250,000 piasters (about \$2,000). These provinces form parts

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of VC Military Regions 2 and 3, the latter being the largest source of VC revenues within South Vietnam. The 1970 budget for MR 3 reportedly totals about 2.7 billion piasters, and the budget for MR 2, although unknown, perhaps amounts to about two thirds of that for MR 3. Using MR 3 revenue goals as a basis for comparison, the cash and paddy "contributions" reported for MR 2 and MR 3 indicate that paddy collections are falling far behind while cash collections are progressing satisfactorily. The cash "contributions" recently reported amount to 90 percent of the goal for MR 3, but paddy "contributions" amount to only four percent of the 1970 goal (see Table).

	1970 MR 3 Budget	MR 2 and 3 Collections	Collections as Percent- age of MR 3 Goals
	(million piasters)		
Total	2,700	NA	NA
Taxes	2,100	NA	NA
Contributions	600	111	18
Paddy*	500	21	4
Cash	100	90	90

*Valued by the VC at about 13,400 piasters per ton. The VC allow "contributors" the option of paying either in paddy or cash and have been crediting paddy payments at the rate of only 13,400 piasters per ton whereas the market price of paddy in the delta has been averaging about 25,000 piasters this year. Thus, there has been an obvious incentive for payments to be made in cash. Captured documents indicate, however, that the Viet Cong recently readjusted the price of paddy to equal the current market rate.

9. The difficulty reported by the Viet Cong in collecting paddy tends to reinforce the belief of GVN and US officials that farmers have been holding rather than selling their paddy in expectation of greater inflation or a devaluation of the piaster. Deliveries of rice from the delta to Saigon during the first seven months of 1970 were five percent

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below the 1969 level despite the fact that production in the delta was 18 percent above the level of the previous year.

Prices

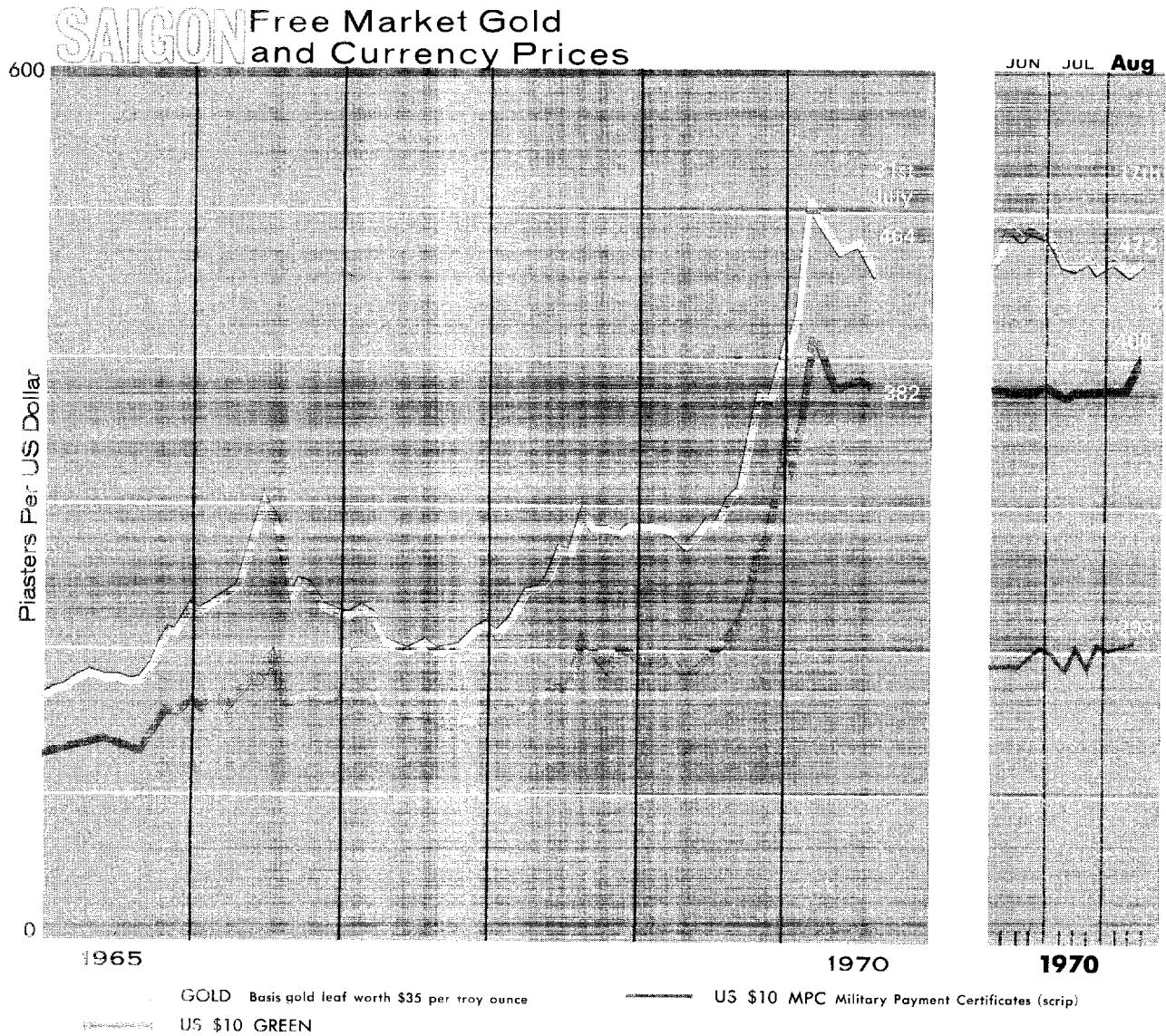
10. According to the monthly average USAID index for Saigon, the over-all retail price level increased 28 percent during the first seven months of the year. Food prices rose 28 percent and nonfood prices increased 26 percent. During the same period the index for prices of imported goods rose 21 percent. Money supply, however, increased only eight percent during January-July.

11. On a weekly basis, the USAID retail index declined each week during the three weeks ending 10 August, but then increased slightly the following week. As of 17 August, however, the index still was slightly below the average price level for July.

Currency and Gold

12. On 17 August the black market price of dollars in Saigon rose to the highest rate since late April--400 piasters per dollar compared with the official exchange rate of 118. During May-July the price of dollars was relatively stable averaging 382 piasters per dollar. The prices of MPC (scrip) and gold leaf also increased slightly on 17 August to 208 and 472 piasters per dollar, respectively. Embassy officials attribute the higher rates to growing rumors that the government plans to change the exchange rate soon after the 30 August Senate elections. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

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