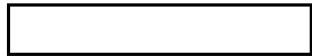


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DIRECTORATE OF INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam

(Biweekly)

State Dept. review completed

USAID review completed

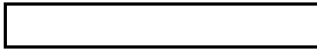
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CENTRAL INTELLIGENCE AGENCY
Directorate of IntelligenceThe Economic Situation in South VietnamSummary

The black market rate for dollars continued to rise sharply to a new high of 315 piasters per dollar on 16 December. Political uncertainty caused by US troop withdrawal and the government's recent tax measures have resulted in increased demand for dollars, while new US regulations on currency transactions have begun to reduce the supply.

Following several weeks of relative stability, the USAID retail price index for Saigon rose three percent during the week ending 15 December. Higher food prices probably were the result of a temporary shortage of some items due to Viet Cong sabotage of two bridges on Route 4 in the delta.

Employment in the US sector of the economy rose to a new high during the year ending 30 June 1969, but has since declined as US military units and US companies under contract to the military have begun a cutback in personnel. Employment of third country nationals continues at peak levels, but is scheduled to decline 80 percent during the next two years as more Vietnamese are trained to take over the jobs now held by skilled foreign workers.

ANNEX: Currency and Gold Prices (Graph)

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1. Black market prices of both dollars and gold jumped sharply to new highs during the week ending 16 December. The price of dollars rose 21 piasters to 315 piasters per dollar, and the price of a dollar's worth of gold leaf jumped 48 piasters to 415 piasters. The rate for MPC (script) increased less sharply--from 143 to 150 piasters per dollar. In addition to political considerations, particularly the impact of the US troop withdrawal, there apparently have been several economic factors operating during the past several weeks to place greater pressure on the market. On the demand side, the increased austerity taxes on imports have made the price of smuggled goods more attractive and thus increased the demand for black market dollars to pay for them. In addition, rumors of a currency exchange and/or devaluation are widespread, encouraging people to convert piaster holdings into dollars. Although it may not have a large impact on the monetary situation, it is interesting to note that the Viet Cong have been admonishing their cadre to reduce holdings of piasters in favor of goods and dollars for these same reasons. While the demand for dollars has increased, the new controls on postal money orders

apparently have begun to reduce the supply of dollars on the black market. As the demand for dollars increases and the supply is reduced, the black market price of dollars can only go up. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

Prices

2. Retail prices in Saigon rose three percent during the week ending 15 December, mainly because of higher food prices. The increase in food prices, which had declined steadily for several weeks, probably was related in part to the Viet Cong's destruction of two bridges on Route 4 near Can Tho on 12 and 13 December. Route 4 is the major commercial link between Saigon and the delta, and

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traffic delays may have caused temporary shortages on some foodstuffs. On 15 December the USAID index was 36 percent above the level at the beginning of 1969. The price index for imported commodities was unchanged during the week ending 16 December, at a level 75 percent above that prevailing at the beginning of the year.

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
1 Dec 1969	537	616	381
8 Dec 1969	529	609	382
15 Dec 1969	543	627	388

US Sector Employment

3. Employment of Vietnamese and third country nationals (TCNs), mostly Koreans and Filipinos, by US agencies and contractors in South Vietnam reached an all-time high at the end of June 1969, despite the fact that US military construction activity reached a peak near the end of 1966. As shown in the table below, US contractors laid off large numbers of Vietnamese between the end of 1966 and mid-1967. During the year ending 30 June 1968, however, total US sector employment rose, with the military categories accounting for most of the increase. The increase in hiring during that period was due primarily to the demand for services by the steadily growing US military establishment and to reconstruction activity following the 1968 enemy offensives.

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Employment in the US Sector
(in thousands)

	<u>31 Dec</u> <u>1966</u>	<u>30 Jun</u> <u>1967</u>	<u>30 Jun</u> <u>1968</u>	<u>30 Jun</u> <u>1969</u>	<u>30 Sep</u> <u>1969</u>
I. <u>Vietnamese</u>	<u>142</u>	<u>132</u>	<u>146</u>	<u>160</u>	<u>153</u>
US Civilian Agencies	3	4	5	4	4
US Military	81	81	89	99	96
US Contractors to the Military	57	45	50	55	51
US Contractors to Civilian Agencies	1	2	2	2	2
II. <u>Third Country</u>	<u>15</u>	<u>17</u>	<u>16</u>	<u>20</u>	<u>20</u>
III. <u>American</u>	<u>10</u>	<u>11</u>	<u>13</u>	<u>13</u>	<u>11</u>
<u>Total</u>	<u>167</u>	<u>160</u>	<u>175</u>	<u>193</u>	<u>184</u>

4. The reasons for the increase in employment during the 12 months ending 30 June 1969 are not clear, but there apparently were a number of contributing factors. US contractors have been involved in the repair and improvement of roughly 3,000 miles of South Vietnam's roads and rail lines and the modernization and improvement of Vietnamese military installations. During this period the demand for services and maintenance at US military bases probably continued to grow, and in some instances Vietnamese civilians took over jobs formerly filled by US military personnel. Finally, employment of TCNs, who are mainly skilled workers, reached a new high because mobilization reduced the supply of skilled Vietnamese labor.

5. During the third quarter of 1969 employment in the US sector declined five percent as US contractors cut back both Vietnamese and American personnel. Employment of Vietnamese at US military installations also declined somewhat, probably as

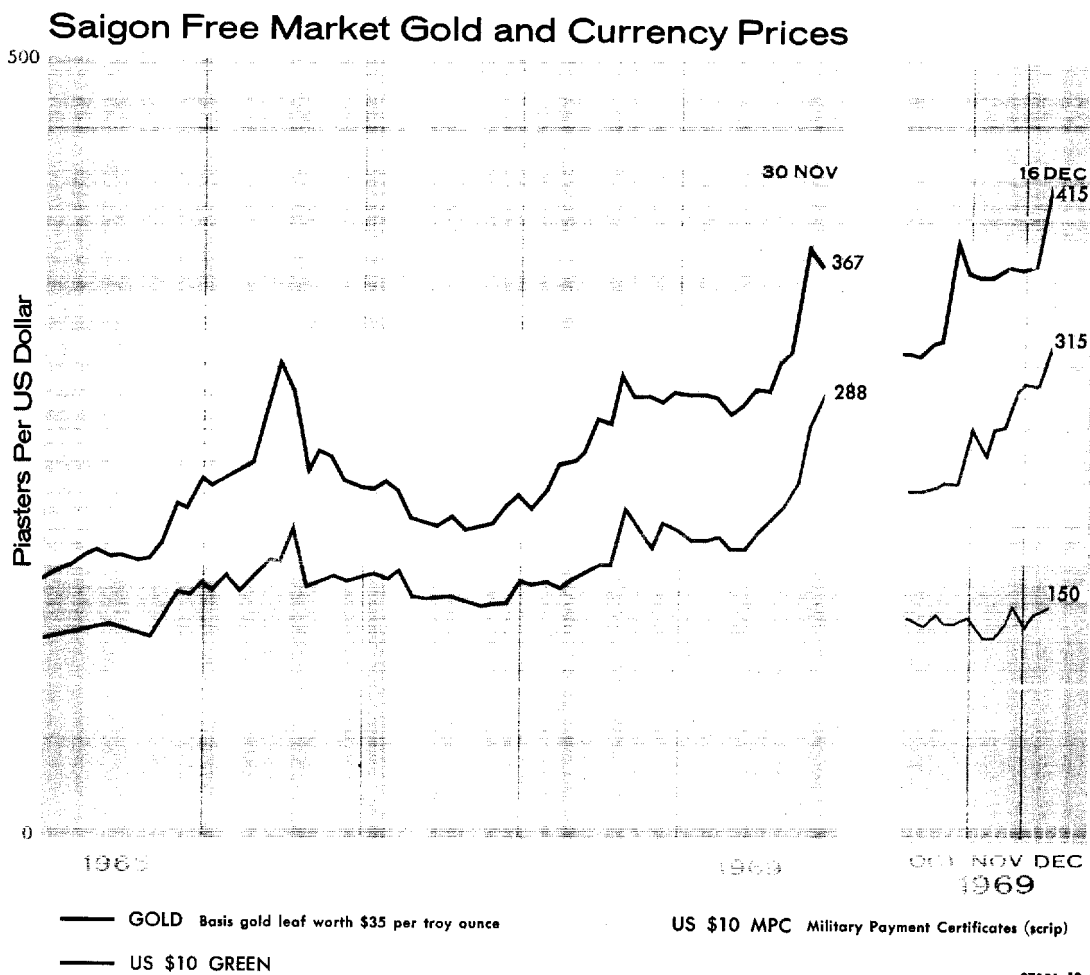
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a result of the initial reduction of US forces in South Vietnam. TCN employment remained stable, but is likely to decline during 1970 as US-Vietnamese discussions now under way probably will open up more employment opportunities for Vietnamese.

6. The Vietnamese have always resented the fact the TCNs had to be brought into the country to do work for which Vietnamese were not trained. In addition, the government has had difficulty regulating the entry of TCNs, many of whom are in the country without valid visas or work permits. To impress upon both US officials and contractors its displeasure with the growing number of TCNs, the Vietnamese Government periodically has allowed large numbers of applications for work permits and visas to pile up. In September, however, US and Vietnamese officials agreed to discuss ways of reducing the number of TCNs in South Vietnam, and in mid-December the South Vietnamese Government announced that foreign employees of US contractors will not be required to pay the permit fee. According to US officials, a plan is being considered which would reduce the number of TCNs to a maximum of 4,000 by the end of 1971.

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