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The Economic Situation in South Vietnam

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

Recent abnormally large withdrawals of rice from government stocks and the continuing high level of rice prices led Vietnamese officials to arrange for emergency imports during December. The arrival of additional imports, plus the deliveries that should begin this month from the bumper crop in the delta, are expected to alleviate the pressure on stocks and cause prices to decline.

The current government drive against black marketeering in Saigon apparently is having little effect. New US regulations on PX sales and the purchase of postal money orders should result in greater restrictions on black market activity, but it is too early to judge their effect.

Retail prices in Saigon were stable throughout November and declined slightly during the first week in December. As of 8 December the USAID index was 32 percent above the level of 6 January compared with increases of 36 and 30 percent during the corresponding periods of 1967 and 1968. Free market currency and gold prices fluctuated during the two weeks ending 9 December. The price of dollars closed at 294 piasters per dollar, two and a half times the official exchange rate.

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

Emergency Rice Imports

1. In order to quiet fears of a rice shortage, Vietnamese officials have arranged for emergency imports of rice during December. A seasonal shortage of domestic rice and recent high issuance of imported rice from government stocks reduced stocks at the end of November to the lowest level since February 1967. US officials in Saigon have maintained that stocks were adequate in view of scheduled imports during December and the fact that deliveries from the bumper harvest in the delta will begin to enter the market this month. Nevertheless, continuing demands for more rice from province and army officials and the sharply higher prices for domestic rice since the October increase in austerity taxes led Vietnamese officials to decide that additional imports were needed immediately in order to avert a rice panic. During the last week in November, therefore, the GVN used its own foreign exchange to purchase 40,000 metric tons of rice from Taiwan and the following week the US agreed to divert to South Vietnam 26,000 tons of rice destined for Indonesia under the Food for Peace Program (PL-480). These emergency imports plus a previously scheduled 40,000-ton shipment of US rice will arrive in South Vietnam during December. These shipments, along with increased deliveries of domestic rice from the delta, should alleviate the current pressure on government stocks.

2. The current low level of government stocks in Saigon is primarily the result of large purchases for private stocks rather than of real supply problems. Although deliveries from the delta fell off sharply in October and November as delta stocks from the 1968/69 harvest were depleted, deliveries during January-November were equal to total deliveries during 1968 and above those of 1967. Moreover, imports have been sufficient to maintain stocks at an adequate level based on past consumption patterns. The demand for imported rice, on the other hand, has risen significantly. As shown in the following tabulation of average daily issuances of rice (primarily imported) from government

stocks in Saigon, recent rates have been far above the norm established during the first seven months of 1969.

1 Jan - 31 Jul	392 metric tons (m.t.)
1 Aug - 28 Oct	687 metric tons
29 Oct - 12 Nov	1,780 metric tons
13 Nov - 27 Nov	706 metric tons

3. Apparently several factors are responsible for the large drawdown of official stocks. In an attempt to halt the rise in domestic rice prices which began in July, the government decided to narrow the market for domestic rice by ordering rice-deficit provinces in III Corps to buy all rather than one third of their rice needs from government stocks of lower priced imported rice. The government also began to release more imported rice to the retail market in Saigon as a means of depressing prices. Prices, however, continued to rise. As the differential between the free market price of rice and the subsidized price at which rice is sold to civilian government employees increased, government agencies began to draw more rice from stocks to meet the increased demand in their commissaries. Finally, following the austerity tax measure in late October military officials began commissary sales of rice to ARVN dependents, and other consumers hoarded rice for fear that the tax increases would start a runaway price spiral. The drop in issuances from stocks during the last half of November probably reflects both a decline in hoarding as the arrival of the new delta crop approaches as well as the fact that the army and the provinces drew their allotments early in the month.

4. A comparison of recent prices for imported rice, the most nearly comparable variety of domestic rice (No. 1/ 25 percent brokens), and a high-quality domestic rice (Nang Huong), shown below, clearly indicates why imported rice currently is the major component of the Saigon rice market.

Saigon Retail Rice Prices
(piasters per 100 kg)

	Sep Average	Oct Average	Nov Average	1 Dec
Nang Huong	6,040	6,583	7,542	7,800
No. 1/ 25 percent	3,680	4,283	4,984	5,200
US medium grain	N.A.	3,800	3,572	3,500

Because imported rice is the variety currently being eaten by a majority of Saigon residents, it also is a better cost-of-living indicator than domestic varieties. With the arrival later this month of more imports as well as the new crop of domestic rice, all rice prices are expected to decline.

Drive Against Black Market

5. During the past several weeks the US and Vietnamese governments have taken steps to curtail black market activity in both goods and currency. On 27 November Vietnamese national police in Saigon began a series of raids on currency exchange establishments and on vendors and stalls selling PX goods. Within a week, however, it became apparent that this drive against black marketeers was following the pattern of similar drives in the past--namely, success in closing down only small-time operators for a short period of time. During 27 November - 3 December the police confiscated about 11,000 items ranging from TV sets to liquor valued at 2.8 million piasters ($24,000 at the official rate of exchange or $10,000 at the November average black market rate). They also confiscated $12,700 worth of dollars, money orders, checks, and MPC(scrip). According to the US Embassy, most of the people arrested were small-time operators such as sidewalk vendors, bar girls, taxi drivers, and small shopkeepers. The few raids made on know large-volume currency traders produced little or no evidence.

6. Measures enacted by the US Government promise to be more effective, although it is too early to evaluate the results. Among the steps taken to reduce the black market in commodities are the allocation of goods to certain PXs throughout the country on the basis of troop strength being served and the discontinuation of PX sales of high-priced items such as diamonds and furs. Such measures should eliminate disproportionately large purchases of goods at PXs, especially those serving Third Nation Forces, and reduce the supply of goods available to the black market. In addition, accounting and control procedures at PXs have been tightened.

7. In order to cut down the volume of black market currency exchange, new procedures were instituted in October regulating the sale of postal money orders, which are a major source of funds entering the black market and are used as a means of transferring funds out of South Vietnam illegally. Sales of money orders at US military postal and banking facilities in South Vietnam averaged about $25 million per month during 1967-69, and embassy officials in Saigon estimate that 25 percent or more of this amount has entered the black market. Under the new procedures, all purchasers of money orders, bank drafts, or cashier's checks must present a currency control card and an envelope preaddressed to an addressee located in the US or US possessions or to an APO or FPO outside South Vietnam. The postal clerk or bank teller must fill in the name of the payee and deposit the money order or check in a US mail box in the presence of the purchaser.

8. These controls along with new restrictions on the use of MPCs by Third Nation Forces should curtail the black market trading in MPCs, a large volume of which are used to purchase postal money orders. Prior to the new restrictions, a series of black market transactions involving MPCs and money orders might have proceeded as follows: A soldier pays his Saigon bar bill with MPCs. (MPCs are officially on a par with the dollar at 118 piasters to one dollar and are legal exchange only in US installations for authorized personnel.) The bar owner then sells the MPCs to a money changer for 150 piasters per MPC. The money changer takes the MPCs to a US serviceman or civilian authorized to

buy US postal money orders in Vietnam. The serviceman cashes in the MPCs for money orders, keeping a percentage for himself and giving the remainder to the Vietnamese money changer. The money changer then either sells the money orders to a wholesale currency dealer for 180 piasters per dollar, making a 20 percent profit, or he mails the money orders to his or a client's bank account outside South Vietnam.

9. The new restrictions on money orders and MPCs probably have contributed to the relatively greater stability of the black market rate for MPCs during the past six weeks (130 to 150 piasters per dollar) as compared with the high and widely fluctuating rate for dollars (250 to 298 piasters per dollar). Nevertheless, the rate for MPC remains considerably above the official rate of 118 piasters, indicating that there still is a black market in scrip. No matter what measures are taken to tighten controls, the black market in currency cannot be eliminated until the Vietnamese Government establishes a realistic exchange rate for the piaster.

Prices

10. Retail prices in Saigon, as measured by the USAID index, were stable throughout November and declined two percent during the first week in December. Prices of nonfood items increased during the period, but these increases were offset by lower prices for food products. As of 8 December the USAID index for all items was 32 percent above the level prevailing at the beginning of the year. During the corresponding periods of 1967 and 1968 prices in Saigon increased 36 and 30 percent, respectively.

USAID Retail Price Indexes for Saigon
(1 January 1965 - 100)

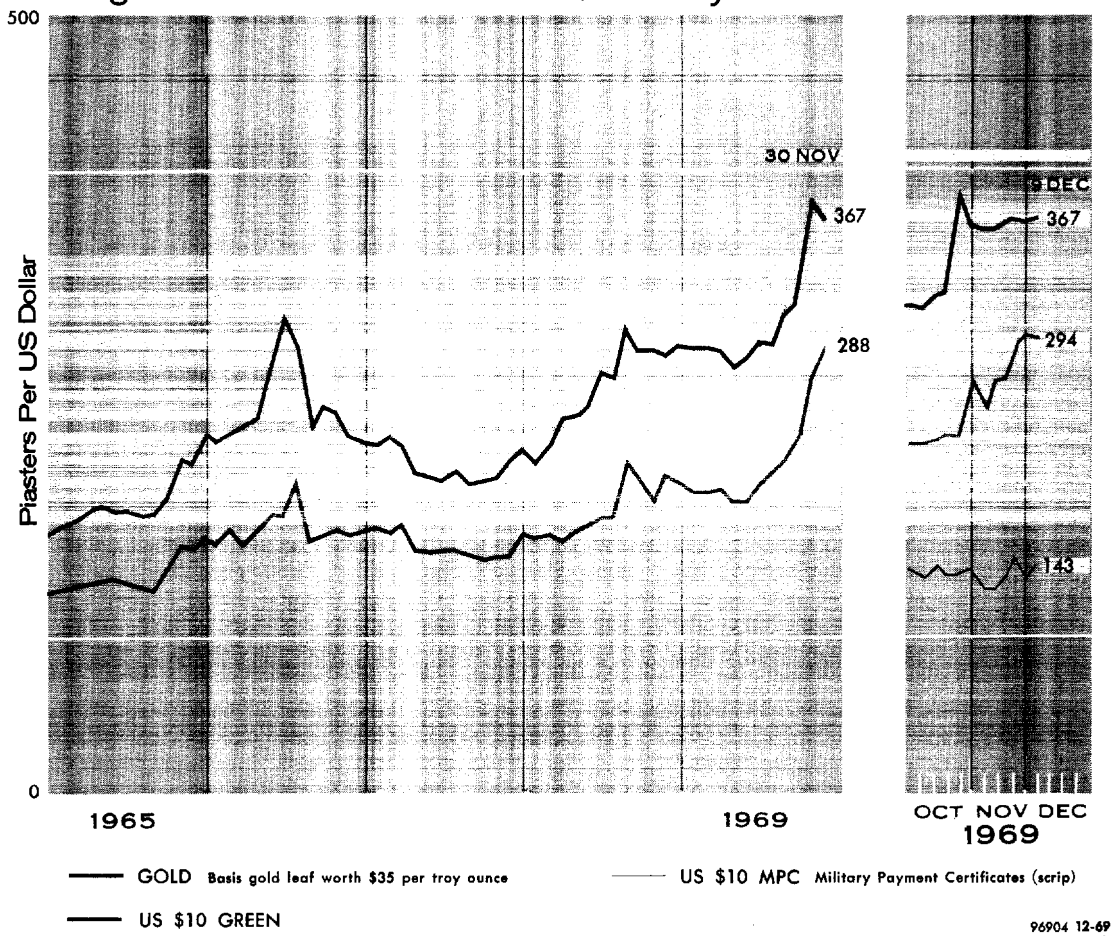
	All items	Food items	Nonfood Items
2 Jan 1968	308	344	241
6 Jan 1969	400	443	319
17 Nov 1969	539	628	373
1 Dec 1969	537	616	381
8 Dec 1969	529	609	382

11. The index for prices of selected imported commodities increased slightly each week during the five weeks ending 9 December, reaching a level 75 percent above that prevailing at the beginning of the year. About two thirds of this increase occurred following the higher austerity taxes levied on imports in late October.

Currency and Gold

12. Black market currency and gold prices fluctuated during the two weeks ending 9 December. The price of dollars rose six piasters to 294 piasters per dollar, while the rate for MPCs (scrip) fell seven piasters to 143 piasters per dollar. The official rate for both dollars and scrip is 118 to 1. Several explanations have been offered for the extremely high rate for dollars, including the recurring rumors of devaluation and issuance of new piaster notes, but the new restrictions on MPCs and money orders (see Paragraphs 7-9) and general uncertainty about price trends probably also are contributing factors. The price of gold leaf fluctuated during the two weeks ending 9 December, but closed at the 25 November level of 367 piasters per dollar. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

Saigon Free Market Gold and Currency Prices



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