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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

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CENTRAL INTELLIGENCE AGENCY
Directorate of IntelligenceThe Economic Situation in South VietnamSummary

The USAID retail price index for Saigon rose 13 percent during the two weeks following the 23 October announcement of higher taxes on imports, but had declined somewhat by 10 November. Prices of some items that were not affected by the tax increase, such as rice, milk, and sugar, rose 15 to 30 percent as merchants took advantage of the opportunity to raise prices of all goods--imported and domestic. The government has acknowledged some errors in categorizing goods for the new tax rates and has indicated that the tax increase on kerosene for cooking, for example, may be abolished because it is an unjust burden on the poor. During the week ending 6 November black market dollar and gold prices declined from the peaks reached at the end of October, but still were at a high level.

The government has announced several additional measures affecting imports, most of which are designed to allow consumer demand rather than government controls to determine the volume and type of goods to be imported.

Output of most of South Vietnam's important industrial products during the first eight months of 1969 indicates that industry has completely recovered from the disruption caused by the enemy offensives in 1968.

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

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Prices

1. Retail prices in Saigon have declined, at least temporarily, following some sharp increases in the wake of the higher austerity taxes on imports decreed on 23 October. From 20 October to 5 November the USAID retail price index rose 13 percent, but by 10 November had declined to a level 10 percent above that prevailing on 20 October. Prices of several items increased as much as 15 to 30 percent between 20 October and 7 November. Among the goods registering such price increases were some such as rice, condensed milk, and sugar, that were not affected by the higher taxes. These products had been subject to speculative price fluctuations for several weeks prior to the tax increase, and merchants were quick to take advantage of the uncertainty in the market to raise prices of these goods as well as those of goods directly affected by the higher taxes. Prices of domestic rice increased 16 to 20 percent between 20 October and 7 November, while the price of imported rice, supplies of which are adequate, rose only 5 percent. The bulk of the rice currently being consumed in Saigon, however, is imported rice. Domestic rice supplies are at a seasonal low and the new crop will not be available until December.

2. A sizable increase in the price of kerosene, widely used as a cooking fuel, has been strongly criticized by several legislators who maintain that kerosene is a basic necessity and therefore should have been exempted from the tax increase. The government already has announced a 60 percent increase in the official retail price of kerosene as a result of the higher taxes, but the Minister of Economy has said he would consider abolishing the tax increase for this product. The government has acknowledged that other errors were made in drawing up the new austerity tax rates and has indicated that adjustments will be made. There almost certainly will be no changes made, however, in the new tax rates for gasoline, which also were attacked by members of the National Assembly. The higher taxes on POL are expected to account for almost 10 percent of the total increase in revenue resulting

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from the new austerity tax rates. Gasoline prices in South Vietnam have been among the lowest in the world with regular gasoline selling for about 30 cents per gallon (or about 35 piasters at the official rate of exchange). The new official price of regular gasoline now has been set at about 62 cents per gallon.

Currency and Gold

3. Black market dollar and gold prices, which jumped sharply following the 23 October announcement of increased taxes on imports, declined somewhat during the week ending 6 November but remained at very high levels. The price of dollars fell from 275 piasters per dollar on 31 October to 250 piasters on 6 November--still 25 piasters above the average price for September. The price of a dollar's worth of gold leaf fell 19 piasters to 362 piasters compared with an average of 309 piasters for September. The rate for MPC (scrip) declined from 146 piasters per dollar on 31 October to 130 piasters per dollar on 6 November, the lowest price reported since the new series of scrip was issued in August. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

Additional Import Measures

4. Following the increase in austerity taxes on imports the Vietnamese government has announced several supplementary measures affecting imports. Most of these are designed to allow the market to operate more freely with consumer demand rather than government controls determining the volume and type of imports.

5. During the past several months the Ministry of Economy has issued lists of goods for which import license applications would be considered. Import of goods not on the lists, such as motorbikes, have been temporarily suspended. The government now has announced that there no longer will be any restrictions on the types of goods that may be imported. In addition to liberalizing licensing, the government has said it will make \$40 million of foreign exchange

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available for imports during both November and December, or almost double the monthly average value of import licenses approved during the first eight months of this year. The government probably hopes that these two measures will dampen any speculation that shortages of imported goods will develop as a result of the austerity measure.

6. Government officials should be able to judge quite rapidly the degree to which the new, higher tax rates will affect the demand for imports. In order to obtain a quick indication of this effect, the government decided to allow importers to cancel or amend without penalty the import orders they had placed prior to the tax increase. Preliminary indications from US officials supervising the US-financed Commercial Import Program (CIP) are that possibly ten percent of the applications for imports financed under the CIP had been withdrawn because of the tax increase by the end of October. During the first week in November, however, there have been some requests for reinstatement, reportedly reflecting an improvement in business confidence since President Nixon's speech on 3 November.

Industrial Production

7. During the first eight months of 1969 output of most of South Vietnam's important industrial products was well above output during the corresponding period of 1968. There was, of course, considerable disruption of production in 1968 because of the damage resulting from the major enemy offensives, but industry apparently has recovered completely and, as shown in the following tabulation, output in most cases surpassed the record of January-August 1967.

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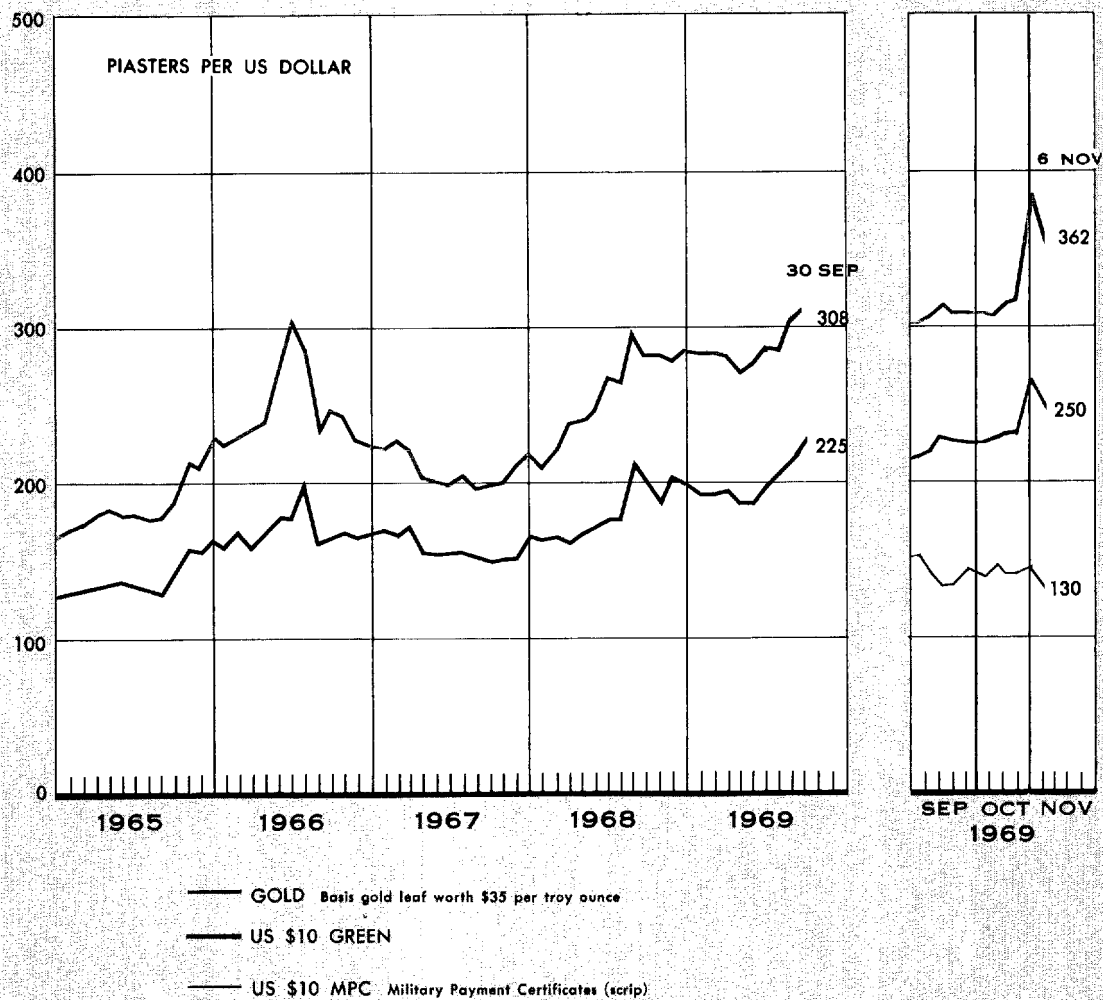
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| | <u>Unit of Measure</u> | <u>Jan-Aug 1967</u> | <u>Jan-Aug 1968</u> | <u>Jan-Aug 1969</u> |
|---------------|------------------------|---------------------|---------------------|---------------------|
| Cotton Yarn | (000 m.t.) | 4.6 | 2.7 | 4.7 |
| Cotton Fabric | (mil mtrs) | 28.9 | 13.8 | 31.7 |
| Glass Bottles | (000 m.t.) | 8.6 | 5.0 | 10.9 |
| Cement | (000 m.t.) | 109.7 | 65.2 | 114.7 |
| Beer | (mil ltrs) | 99.0 | 76.1 | 92.0 |
| Soft Drinks | (mil ltrs) | 85.8 | 58.2 | 87.5 |
| Cigarettes | (000 m.t.) | 6.4 | 6.9 | 6.4 |

8. Overall industrial output fell 9 percent in 1968, the first decline in output reported since the government began publishing an industrial production index in 1962. From 1962 through 1967 industrial output increased at an average annual rate of 9.6 percent.

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Saigon Free Market Gold and Currency Prices



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