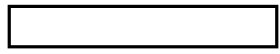


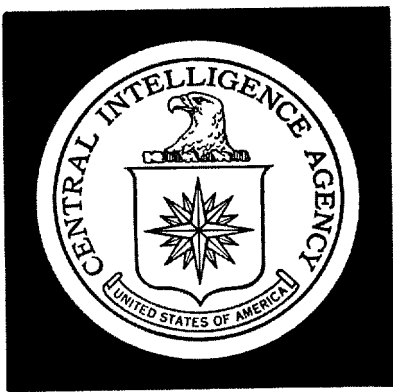
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DIRECTORATE OF  
INTELLIGENCE

# 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 Intelligence

The Economic Situation in South Vietnam  
(Biweekly)

Summary

Vietnamese importers, speculating on a future shortage of foreign exchange or a devaluation of the piaster, continue to place orders in excess of current demand.

There is considerable bad feeling among top Vietnamese officials concerning the proposed wage increase for government employees, and apparently no decisions have been made about the size or form of the increase.

An attempt of the lower house of the National Assembly to abolish the Ministry of Economy's authority to levy one of the major revenue producing taxes cannot succeed, but is symptomatic of the resistance to government fiscal initiative.

During the two weeks ending 2 June the USAID retail price index for Saigon continued to increase slightly to a level 12 percent above that prevailing on 14 April. In an effort to halt price increases, the government has ordered all businessmen to submit a list of their current stocks. All free market currency and gold prices increased during the two weeks ending 3 June with the price of gold leaf reaching its highest level since mid-March.

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

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Attitudes of the Import Community

1. Despite the extremely high level of import licensing during the last half of 1968 and the increase of tariff rates in February, Vietnamese importers have continued to place a large volume of orders. According to an embassy survey of various government officials and importers, sluggish consumer demand and the large inventories resulting from last year's orders have not deterred importers who are speculating on the possibility of a rationing of foreign exchange, a devaluation, and/or a reduction in US aid.

2. The value of import licenses financed both by the government's holdings of foreign exchange and by AID's Commercial Import Program (CIP) was at a high level during the last half of 1968 as business activity resumed following the recession that occurred in the wake of the Tet offensive. Consumer demand partly recovered and inventories were replenished. The level of licensing continued high during the first quarter of this year, as shown in the following tabulation (in millions of US dollars):

	<u>1967</u>		<u>1968</u>		<u>1969</u>
	<u>Jul-Sep</u>	<u>Oct-Dec</u>	<u>Jul-Sep</u>	<u>Oct-Dec</u>	<u>Jan-Mar</u>
GVN	71	80	105	176	100
CIP	<u>15</u>	<u>23</u>	<u>43</u>	<u>45</u>	<u>69</u>
Total	86	103	148	221	169

Apparently new licensing still exceeds current market demand, and several importers claim that orders will remain high. The reason for these high orders is apparently speculation. There is growing expectation of a future shortage of foreign exchange or a devaluation of the piaster.

3. This speculation is based on uncertainty concerning US intentions particularly on troop reductions and economic aid. The personal expenditures of US troops and the expenditures of the US Government to support the troops are the major sources of South Vietnam's earnings of foreign exchange. The 25,000-man reduction in US troop strength recently announced by President Nixon will



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have relatively little effect on South Vietnam's earnings of foreign exchange and no effect on US economic aid, but many Vietnamese will be projecting a trend into the future. The government has ample foreign exchange reserves to offset any shortfall in US funds, but it is unlikely to use its reserves for this purpose and the Vietnamese business community is aware of this. For example, in mid-April the government placed an embargo on the use of Vietnamese foreign exchange for the import of motorbikes and motor vehicle tires and tubes. Motorbikes and parts accounted for about 10 percent of the value of licenses issued during the last half of 1968 and 7 percent during the first three months of 1969.

4. At least part of the fear of a reduction in US aid may result from the knowledge that the US recently withheld CIP funds for several weeks in an effort to achieve an agreement with the Vietnamese Government on anti-inflation measures. According to a joint agreement signed early in 1969 the release of \$40 million for the CIP in the last quarter of FY 1969 was conditional on the signing of a US-Vietnamese stabilization agreement by 1 April. No agreement could be reached by 1 April, and USAID officials did not release the \$40 million. The funds were released in mid-May, however, after a compromise was reached whereby the two governments exchanged letters of understanding which called for the revival of the joint economic committee to review economic policies and which outlined US proposals for specific measures to combat inflation. The withholding of funds had little effect on the CIP, and most Vietnamese became aware of the suspension only after the funds had been released. Because of funds still in the pipeline, there was only one week during which no licenses were issued for imports under the CIP.

#### Government Employees' Wage Increase

5. There is considerable confusion and dissatisfaction within the Vietnamese Government concerning the wage increase for government employees announced by Prime Minister Huong on 27 May. Top officials in both the ministries of finance and labor told US Embassy officers that they had not been consulted on the decision to increase salaries. Huong's assistants have indicated that, contrary to earlier reports, the pay increase will

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be granted to military personnel as well as civil servants but that there have been no decisions about the size or form of the increase. The sum to be allotted for the pay increase during the last six months of this year reportedly ranges from six to ten billion piasters, or five to eight percent of the government's original budget for all of 1969. The increase apparently will be granted in one or more of the following ways: a 1,000 piaster monthly payment to each employee, free distribution of certain foodstuffs, distribution of equity in government-owned industrial enterprises, an increase in the "rice bonus" granted in 1967, or a larger income tax exemption. Unfortunately, none of these proposals will alleviate one of the basic problems in the government's wage structure, which, because of the various allowances based on the size of one's family and the failure to change base pay rates, allows for too little differential in total pay between junior and senior level officials. Since it offers little reward for improved performance or an increased level of responsibility, the government loses senior officials to the private sector where pay differentials and salaries are larger.

#### Executive-Legislative Hassle Over Taxation

6. The lower house of the National Assembly has struck back at the executive branch for what it considers usurpation of legislative powers over taxation. In retaliation for the recent executive action revising the tariff schedule and increasing the perequation tax on imports of cement, wheat flour, and sugar, the lower house approved a bill on 27 May to abolish the 1964 decree law giving the Ministry of Economy authority to impose perequation taxes. Second in importance to customs duties as a source of government revenues, the perequation tax, a special levy on various imports and domestically produced goods, provided almost 20 percent of total tax revenues in 1967 and 1968. There is no prospect of the bill gaining senate and presidential approval, but the lower house action indicates how difficult it will be for the government to gain legislative approval for the revenue measures needed to combat inflation.

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Prices

7. During the two weeks ending 2 June retail prices in Saigon increased slightly. On 2 June the USAID index was 12 percent above the level of 14 April--an increase due almost entirely to higher food prices. Prices of all grades of domestic rice increased eight to ten percent during the seven-week period because of higher farm prices and because delta merchants, aware that stocks of imported rice in Saigon are dwindling, reportedly are holding their stocks as long as they can in order to get higher prices in Saigon. Prices of nearly all vegetables and most protein foods, except for lean pork and shrimp, also have increased considerably since mid-April. Embassy officials attribute part of this increase to the prolonged period of hot, dry weather since mid-April which has increased the amount of spoilage. The price of beer rose ten percent during May reportedly because of increased demand during the hot weather combined with an apparently chronic shortage of bottles. The price index for nonfood items rose only one percent between 14 April and 2 June.

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
19 May 1969	425	483	318
26 May 1969	429	486	322
2 Jun 1969	435	499	318

8. The USAID price index for selected imported commodities increased five percent between 15 April and 3 June but still is only 16 percent above the level of January 1968. Fertilizer prices rose as demand increased during the rice planting season. The price of US medium grain rice also increased slightly as stocks dwindled and new shipments had not arrived. The price of motorbikes increased 11 percent during May as the result of the government's recent embargo on imports of motorbikes.

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9. Although there is as yet no evidence of a sharp rise in retail prices since the announcement on 27 May of a pay increase for government employees, the government is concerned about this possibility. On 1 June Prime Minister Huong announced a price control program and ordered all firms to submit declarations of their inventories of raw materials and finished goods to local authorities by 12 June. In Saigon and other cities troops reportedly will be on hand to guard against attempts by merchants to avoid compliance by moving goods from one warehouse to another. Police are to check warehouses and shops to see that actual and declared inventories are the same. Deputy Prime Minister Khiem is chairing a central government committee to oversee the inventory control program, and local government committees are headed by mayors and province chiefs. It seems doubtful that the government will be able to control price movements by such means. For years the government has set official prices for imported and essential domestically produced goods but has been unable or unwilling to enforce them. Moreover, the readily apparent opportunities for graft in this new price control effort do not bode well for its success.

#### Currency and Gold

10. Free market currency prices moved up during the two weeks ending 3 June, but still were below the level prevailing on 8 April. The prices of gold leaf, however, increased sharply, reaching its highest level since mid-March. On 3 June the price of dollars was 189 piasters per dollar, or eight piasters above the price of 20 May, and the rate for MPC (scrip) was up nine piasters to 148 piasters per dollar. The price of a dollar's worth of gold leaf jumped 21 piasters to 284 piasters during the two-week period. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

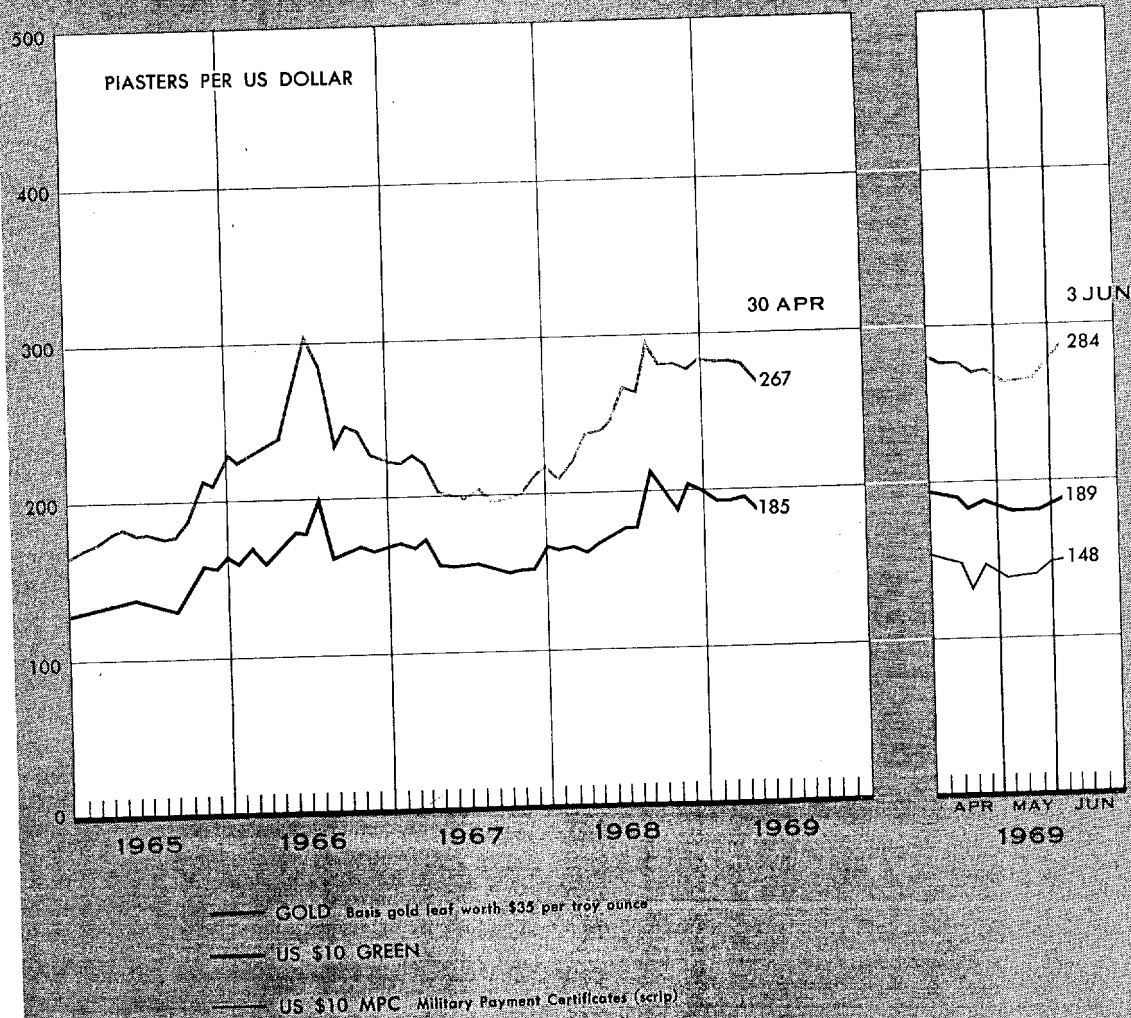
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### Saigon Free Market Gold and Currency Prices



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