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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Report

## *The Economic Situation in South Vietnam* (Weekly)

State Dept. review completed

USAID review completed

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

Orders for imports financed from South Vietnam's own foreign exchange earnings reached an all-time high during the second half of 1968 as businessmen regained confidence and importers began to restock inventories. Japan continues to be by far the principal source of these imports.

Retail prices in Saigon again declined slightly. As of 13 January the USAID price index was at almost the same level that prevailed in mid-July 1968. Free market currency prices were down slightly during the week ending 13 January, but the price of gold leaf increased.

ANNEX: Weekly Retail Prices in Saigon (table)

Weekly and Monthly Currency and Gold  
Prices (graph)

South Vietnam Economic Indicators (charts)

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Vietnamese-Financed Imports

1. Following a slowdown during the first six months of 1968, orders for imports financed from South Vietnam's own foreign exchange earnings reached an all-time high during the second half of the year. The value of import licenses issued was almost three times that of the first half of 1968 and only slightly less than the total for 1967, as shown in the following tabulation.

Vietnamese-Financed Import Licenses  
(Million US Dollars)

	<u>1967</u>		<u>1968</u>
Jan-Jun	141.2	Jan-Jun	98.0
Jul-Dec	150.6	Jul-Dec	281.5
Total	<u>291.8</u>	Total	<u>379.5</u>

Licensing under AID's Commercial Import Program (CIP) also was substantially higher in 1968 than in 1967, especially during the second half of the year. Of the total value of import licenses issued during 1968, the Vietnamese financed 62 percent with their own foreign exchange, while the US financed the remainder through the CIP and the Food for Freedom program (PL-480).

2. Part of the striking increase in orders for imports during the second half of 1968 reflects a resumption of normal business activity following the recession that occurred in the wake of the Tet offensive. Orders for imports also were stimulated by the need to restock depleted inventories, and by speculation based on expectations of future price and tax increases and fear of a devaluation of the piaster. A USAID report on licenses financed from Vietnamese foreign exchange in November 1968, when orders reached their peak, showed that licenses issued for motorbikes and parts, pharmaceuticals, and industrial machinery and parts were unusually large. Orders for motorbikes were high in both October and November--\$10.3 and \$6.6 million--reportedly because of rumors of an increase in import taxes on this item and because dealers are

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gambling on a slowdown in the war which would open up a greater market in the countryside. Licensing of pharmaceuticals during November amounted to \$6.5 million, or more than the total for pharmaceuticals during the entire third quarter of the year. The increase reportedly reflects a buildup of inventories. In addition, the orders included drugs and vaccines for livestock, and a considerable quantity of these items were licensed in November as a result of the massive import of baby chicks in preparation for Tet. Licenses issued in November for imports of industrial machinery and parts were valued at \$6 million, up from \$2.4 million in October. According to USAID, much of this can be attributed to improved security which encouraged manufacturers to undertake reconstruction or expansion.

3. Although complete information is not available, licensing data for the third quarter of 1968 show that Japan continues to be by far the principal source of imports financed by the Vietnamese. During July-September, Japan was the source of \$58 million worth, or 55 percent, of the goods ordered, while the US ran a poor second with \$8 million, or 7 percent. In mid-1968 the Vietnamese agreed to spend at least \$50 million of their foreign exchange in the US during 1968--compared with an average of about \$7.5 million during 1965-67--in order to help reduce the US balance of payments deficit. The data cited above for the third quarter of the year as well as the low level of licensing during the first six months indicate that this goal will not be met. Almost all imports financed by the US always have come either from the US or from underdeveloped countries by special agreement with AID.

#### Prices

4. During the week ending 13 January the Saigon retail price index again declined slightly as lower food prices more than offset the continuing increase in nonfood prices. Food prices fell two percent despite increases of two to three percent in the prices of domestic varieties of rice. The price of imported rice, however, has remained stable since early December 1968. Fresh pork prices fell, reportedly as a result of renewed sales of low-priced frozen pork to military personnel and civil servants through the government commissary system. With the exception of some out-of-

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season vegetables, prices of most other items delivered from the delta declined as supplies were plentiful. Prices of nonfood items continued to increase slightly because of higher prices for charcoal and calico. As of 13 January the overall retail price index was at almost the same level that prevailed in mid-July 1968. The USAID price index for selected imported commodities was unchanged during the week ending 14 January at a level only 10 percent above that at the beginning of 1968. (A table of weekly retail prices in Saigon is included in the Annex. Also included are charts on the cost of living, money supply, and foreign exchange reserves.)

#### Currency and Gold

5. Saigon free market currency prices were down slightly during the week ending 13 January, while the price of a dollar's worth of gold leaf increased five piasters to 289 piasters. The prices of dollars and MPC (scrip) declined two piasters each to 198 and 148 piasters per dollar, respectively. (A graph on weekly and monthly currency and gold prices is included in the Annex.)

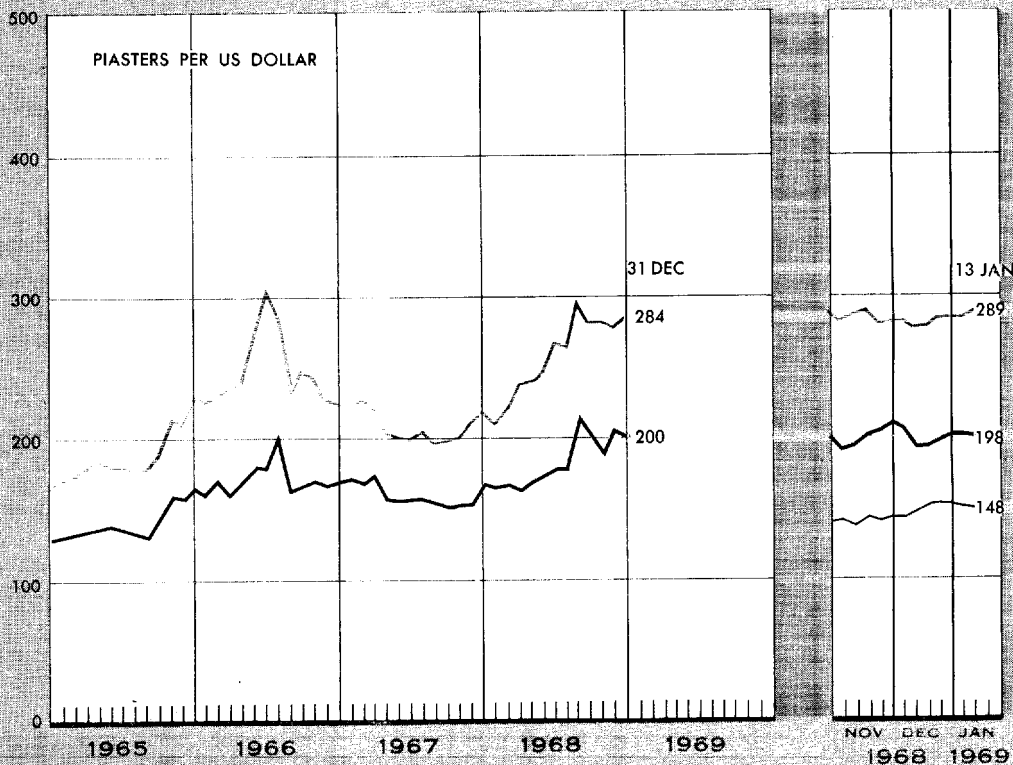
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TABLE  
Weekly Retail Prices in Saigon<sup>a/</sup>

	3 Jan 1967	2 Jan 1968	23 Dec 1968	30 Dec 1968	6 Jan 1969	13 Jan 1969
Index for All Items	<u>225</u>	<u>308</u>	<u>398</u>	<u>408</u>	<u>400</u>	<u>394</u>
Index for Food Items	<u>242</u>	<u>344</u>	<u>447</u>	<u>458</u>	<u>443</u>	<u>434</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	1,700	2,500	3,000	3,100	3,100	3,200
Pork Bellies (1 kg.)	130	220	280	280	260	230
Fish-Ca Tre (1 kg.)	150	230	310	320	310	300
Nuoc Mam (jar)	90	150	220	220	220	220
Index for Nonfood Items	<u>195</u>	<u>241</u>	<u>307</u>	<u>315</u>	<u>319</u>	<u>321</u>
Of Which: (In Piasters)						
Firewood (cu. meter)	560	600	760	780	800	800
Cigarettes (pack)	14	14	22	22	22	22
White Calico (meter)	33	52	70	80	82	85
Kerosene (liter)	10.5	9	10	10	10	10

a. Data are from USAID sources. For indexes 1 Jan 1965 = 100.

### Saigon Free Market Gold and Currency Prices

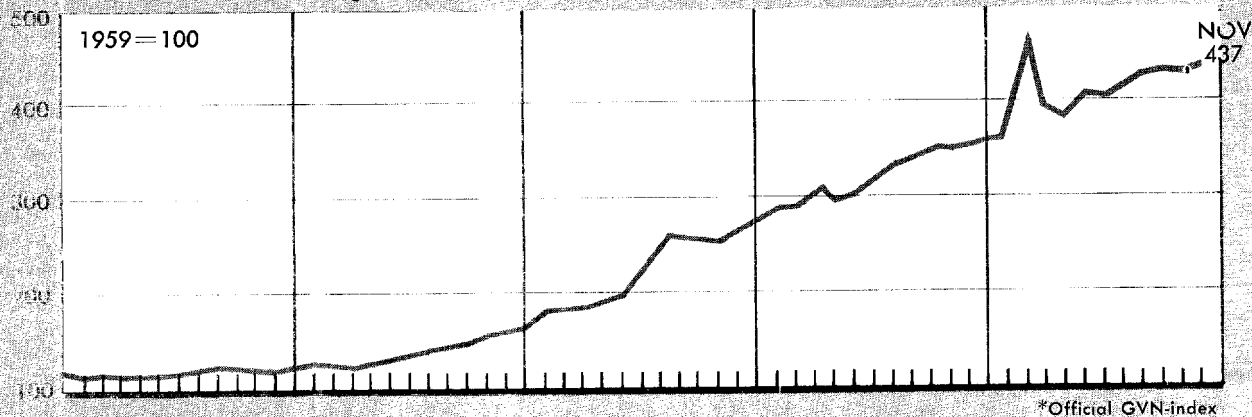


- GOLD Basic gold leaf worth \$35 per troy ounce
- US \$10 GREEN
- US \$10 MPC Military Payment Certificates (scrip)

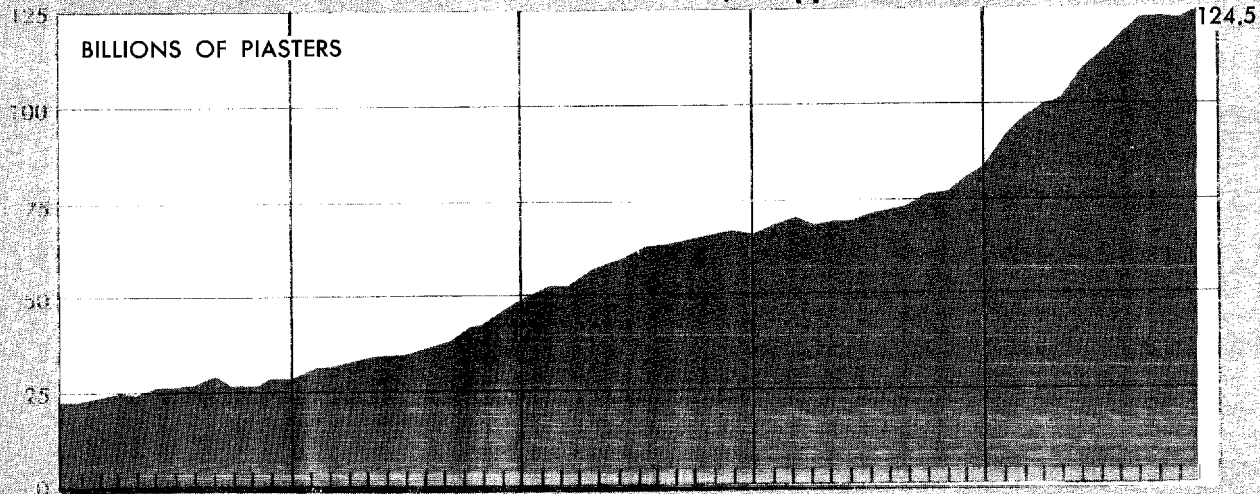
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### Saigon Cost of Living Index\* (For Working Class Family)



### South Vietnam Money Supply



### South Vietnam Foreign Exchange Reserves

