

CIA OER IH 73-1 IH THE ECONOMY OF S. VIETNAM

CONF.

MAR. 73

01 of 01

*Doyle*

**Confidential**



DIRECTORATE OF  
INTELLIGENCE

# Intelligence Handbook

*The Economy of South Vietnam*

**Confidential**

ER H 73-1  
March 1973

## WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

Classified by 015319  
Exempt from general  
declassification schedule of E.O. 11652  
exemption category 5B(12),(2),(3)  
Automatically declassified on  
Date Impossible to Determine

CONFIDENTIAL

CONTENTS

	<u>Page</u>
Introduction . . . . .	1
Discussion . . . . .	1
General . . . . .	1
Population and Labor Force . . . . .	4
Land and Resource Base . . . . .	7
Transportation . . . . .	8
Domestic Trade and Finance . . . . .	11
Domestic Trade . . . . .	11
The Financial System . . . . .	11
Agriculture . . . . .	12
Industry . . . . .	15
Government Finance . . . . .	16
Foreign Trade and Aid . . . . .	19

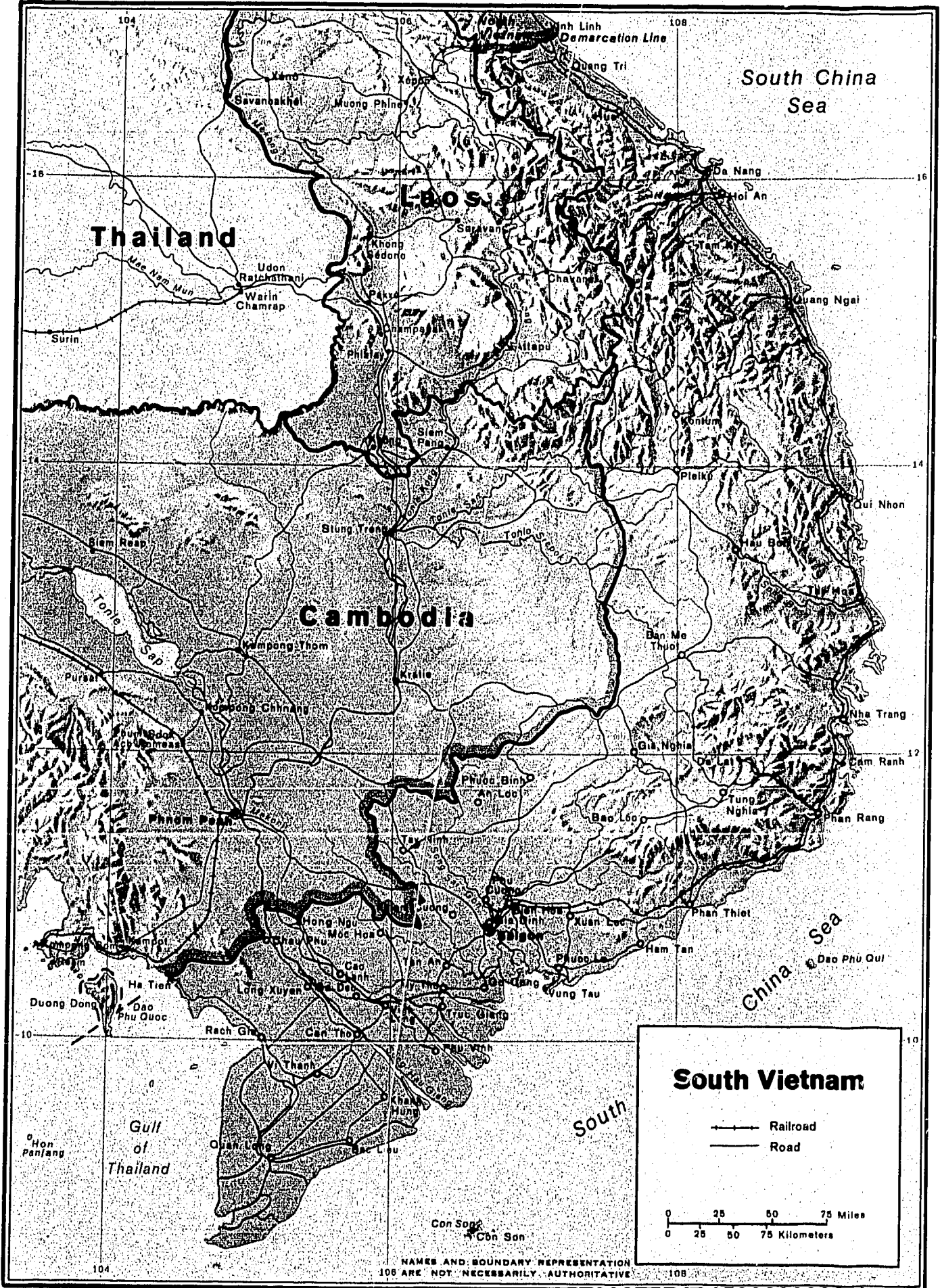
Tables

1. Labor Force, 1972 . . . . .	7
2. Output of Selected Agricultural Products . . . . .	13
3. Output of Selected Industrial Products . . . . .	16

Figures

1. Gross National Product . . . . .	2
2. Population . . . . .	5
3. Administrative Divisions and Military Regions . . . . .	6
4. Land Use, 1972 . . . . .	8
5. Land Utilization and Vegetation . . . . .	9
6. Production, Exports, and Imports of Milled Rice . . . . .	14
7. Yanmar Agricultural Machinery Plant in Bien Hoa Industrial Park and Yanmar Machinery for Sale in Ban Me Thuot, Darlac Province . . . . .	17
8. Government Budget . . . . .	18
9. Value of Foreign Trade . . . . .	20
10. Composition of Imports . . . . .	21

CONFIDENTIAL



CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
March 1973

INTELLIGENCE HANDBOOK

THE ECONOMY OF SOUTH VIETNAM

INTRODUCTION

1. This handbook is designed to serve as a reference for basic economic information on South Vietnam and complements one recently published on North Vietnam.<sup>1</sup> For easy comparison, some basic economic data for both countries are presented on the last page of this handbook. Most of the data included in this handbook are unclassified and are based on information released by the South Vietnamese government and the various US government agencies represented in South Vietnam. Estimates were made in instances where data were unavailable or incomplete.

DISCUSSION

General

2. With a per capita gross national product (GNP) of about US \$120, South Vietnam ranks above other countries of Indochina but significantly below most other less developed countries of Southeast and East Asia. Despite wartime destruction and disruption, South Vietnam's GNP has grown at a respectable rate since 1964. In large part, this has been the result of the growth of government services and construction associated with military activities. Agricultural production declined during the peak war years of 1965-68, while industrial output continued to expand until 1968,

1. See CIA ER H 72-2, *The Economy of North Vietnam*, December 1972, CONFIDENTIAL/NO FOREIGN DISSEM.

Note: Comments and queries regarding this publication are welcomed. They may be directed [REDACTED] the Office of Economic Research, Code 143, Extension 6202.

25X1A

CONFIDENTIAL

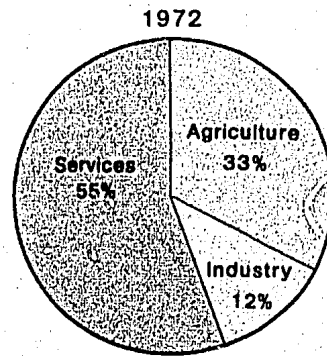
when plant damage from the enemy's Tet offensive caused a sharp decline. During 1969-71, there was substantial recovery and growth in both agriculture and industry, but the North Vietnamese offensive brought growth to a halt in 1972.

3. As a result of the rapid expansion of government expenditures, the services sector of the economy currently accounts for more than half of national output in what is basically an agricultural country (see Figure 1). Agriculture, including fishing and forestry, contributes only about one-third to national output, although it employs more than 60% of the labor force. Industry runs a poor third, accounting for an estimated 12% of GNP and about 5% of the labor force.

4. The years of war have badly distorted resource allocation in South Vietnam's economy, but have also brought some important new assets. The growth of the private sector was buffeted by changing security conditions and constrained by the induction of large numbers of prime-age males into the armed forces. Exports were nearly wiped out, and dependence on imports increased greatly. The country shifted from a surplus to a large deficit in food. A greatly increased urban population had to be supported largely through imports, which in turn created an appetite for modern imported consumer goods. Because of the availability of relatively cheap imports, manufacturing became largely a matter of processing imported raw materials. On the other hand, gains to the economy included large-scale training of the population in new skills and a fairly elaborate infrastructure in the form of ports, airfields, and roads. Moreover, most of South Vietnam's productive facilities came through the war with little damage.

5. The war also had a dramatic impact on monetary developments. During 1965-72, consumer prices in Saigon increased nearly 900% and the money supply more than 600%. The growth of demand, fed by massive defense spending, greatly outstripped the productive capabilities of the South Vietnamese economy. Even with large-scale foreign aid, there were many goods and services for which the increase in demand could not be met by imports. As a result, inflationary pressures were severe, although not nearly so severe as in South Korea during the Korean War.

Figure 1  
Gross National Product



515431 3-73

CONFIDENTIAL

6. Although many of these pressures are still present, there has been a significant slowdown in the rate of price increases since 1970. This has been due in large part to various economic reforms, including the adoption of realistic—and fairly flexible—exchange rates and higher interest rates and the relaxation of controls on domestic and foreign trade. Compared with annual increases ranging from 30% to 55% during 1965-70, consumer prices rose 14% in 1971 and 24% in 1972.<sup>2</sup> Although the 1972 performance shows some deterioration, it nonetheless should be considered quite good in view of the many supply disruptions caused by the offensive and the increasing cost of imports with successive devaluations and higher world market prices.

7. Inflation and certain government policy decisions have effected a major redistribution of income in South Vietnam since 1965. The real incomes of some groups have declined substantially. Military personnel and civil servants, who once were the top salary earners, have fallen well behind their counterparts in the private (non-agricultural) sector, and they have suffered an absolute decline in real income in recent years as their wages failed to keep pace with rising prices. Income from other family members helped to offset the decline for several years, but opportunities for increased family employment have diminished with the withdrawal of US forces. While urban households in general have either held their own or suffered a decline in real income, the income of farmers, at least in the Mekong Delta, has risen substantially since 1969. Farmers have benefited from rising yields, low fertilizer prices, generally good procurement prices, and a near absence of taxation. There are, of course, thousands of rural inhabitants who, as refugees, have not shared in this relative prosperity.

8. Despite the upheavals and distortions caused by the war, South Vietnam has potential for rapid private sector growth. The basic questions are how to expand production, stimulate exports, and reduce dependence on imports without severely depressing per capita private consumption. In the past year or so the government has begun to cope with some of these issues by offering general incentives such as devaluations, an attractive investment law, tax reform, and broad planning guidance to private-sector interests. The government, however, probably will continue to be heavily involved in many activities usually reserved for the private sector. Some investment projects will be too large for private interests to undertake, and there is considerable prejudice against the ethnic Chinese community, the largest and most dynamic element in the private sector.

9. For the foreseeable future, South Vietnam will be heavily dependent on foreign capital (principally in the form of official aid) to sustain its present living standards. Some 95% of its imports in 1972 were

2. Price data are for Saigon, but they are generally representative of trends elsewhere in the country.



CONFIDENTIAL

financed either by US payments for local transactions or by outright US assistance. Other countries have shown a growing interest in providing economic support to South Vietnam, but there is likely to be an enormous gap between their support and South Vietnam's requirements.

### Population and Labor Force

10. South Vietnam has never had a national census. Sample surveys over the years indicate that the population is about 19 million and has been growing about 3% annually. Probably about three-fourths of the population is below the age of 40, and females slightly outnumber males.

11. Almost two-thirds of the population lives in the flat southern half of the country. Most of the remainder is concentrated along the narrow coastal strip running from north of Saigon to the Demilitarized Zone (see Figures 2 and 3). Saigon is the largest urban center, with a population estimated at about 3 million for the entire metropolitan area. With more than 400,000 persons, Da Nang is the second largest city, and there are several cities throughout the country with populations of roughly 200,000.

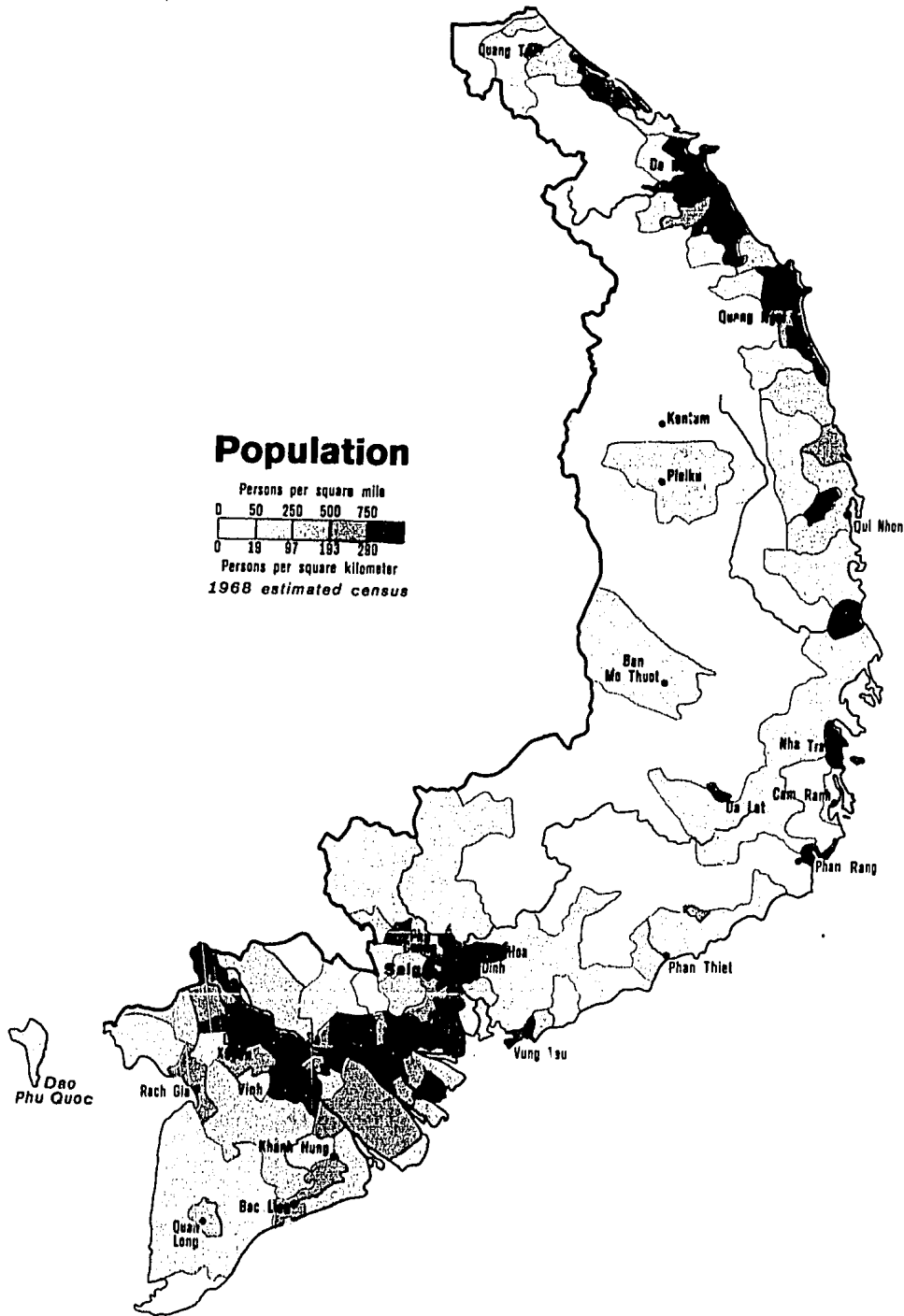
12. Although the population is still predominantly rural, there has been a fairly large migration from rural to urban areas since 1964. This movement stemmed largely from the intensification of military operations in the countryside and the job opportunities created by the US military buildup. In addition, the expansion of the armed forces was accompanied by a flow of military dependents to the cities. As a result, a larger share of the population is located in urban areas than is true for most other less developed countries.

13. The largest movements of people in South Vietnam have involved those driven from their homes by the fighting. Since the war began, more than 7 million Vietnamese have been refugees at one time or another. In 1972 alone, more than a million persons became refugees, and more than half of these still are in government camps waiting to be returned to their villages or to be resettled elsewhere.

14. These large-scale population movements make it particularly difficult to trace changes in the labor force in recent years. Currently, the labor force is estimated at about 7 million people, with employment grouped as shown in Table 1. The major shift has been the increase in military and civilian government employment, which has roughly doubled since 1964. Manning the fourth largest army in the world caused a considerable drain on the agricultural labor force and a tight labor market in general. Labor participation rates have increased for women, the young, and the aged, but this has tended to reduce the productivity of the civilian labor force. The

CONFIDENTIAL

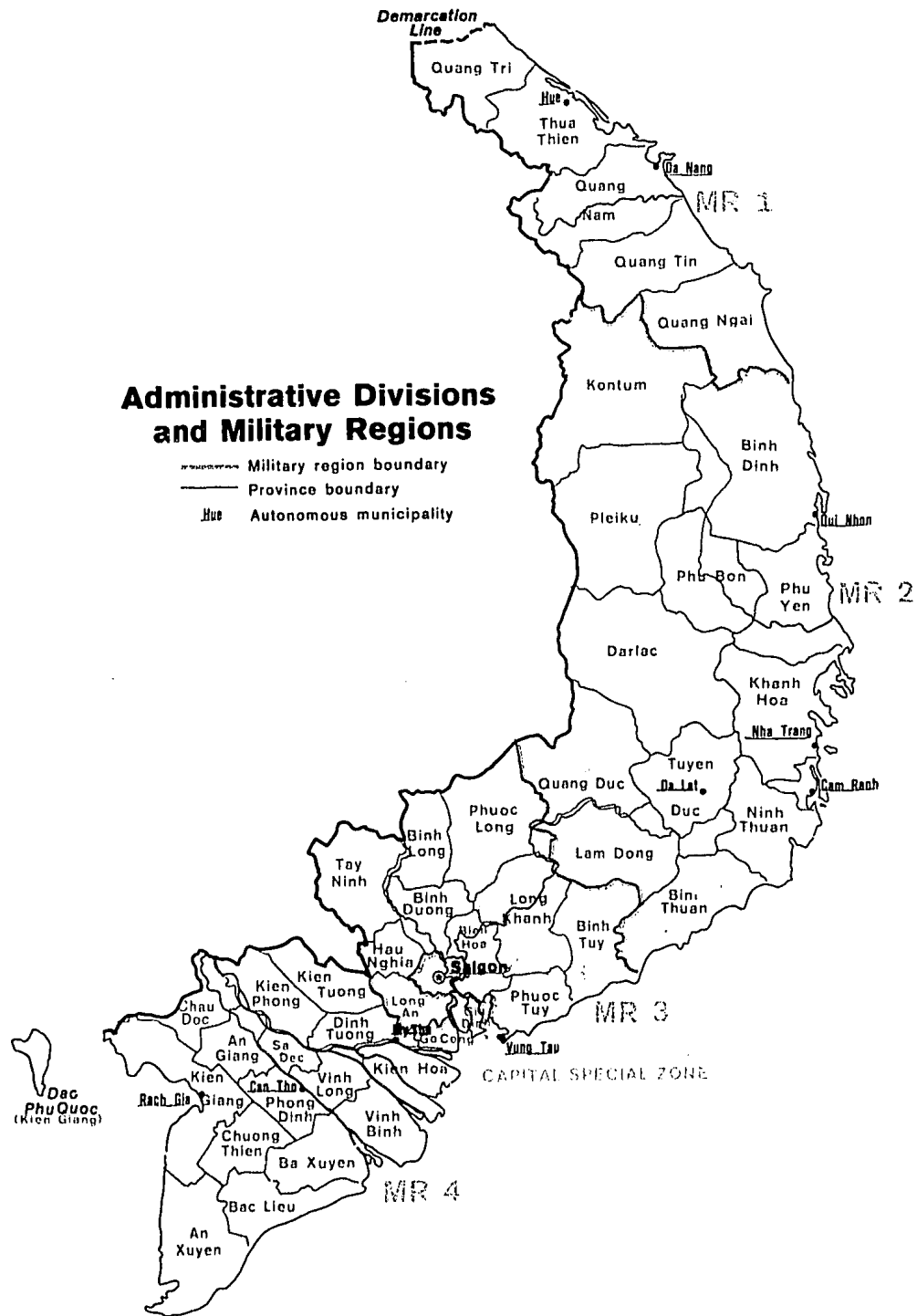
Figure 2



501630 2-73

CONFIDENTIAL

Figure 3



501833 2-73

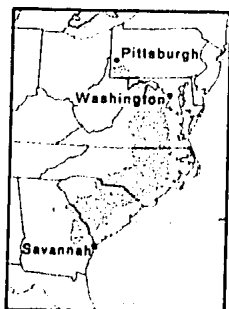
CONFIDENTIAL

**Table 1**  
**Labor Force, 1972**

	<i>Million Persons</i>	<i>Percent of Total</i>
<b>Total</b>	<b>7.0</b>	<b>100</b>
Government sector	1.4	20
Military	1.1	16
Civilian	0.3	4
US sector	0.1	1
Private sector	5.5	79
Agriculture	4.0	58
Forestry and fishing	0.4	6
Manufacturing and construction	0.4	6
Commerce	0.3	4
Domestic servants	0.1	1
Other	0.3	4

labor market has eased somewhat during the past two years with the accelerated US withdrawal. Although the resulting unemployment has caused problems in some urban areas, these have been minimized by a number of factors, including assistance from the traditionally strong family system and the fact that more than half of the jobs created by the US presence have been held by women, many of whom have again dropped out of the labor force.

**Land and Resource Base**

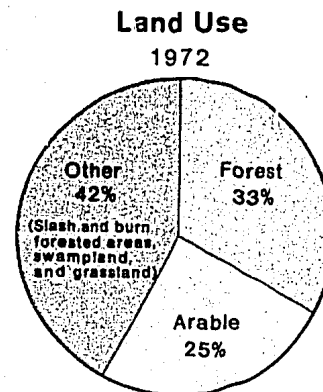


15. South Vietnam, with an area of about 66,000 square miles, is about 700 miles long and ranges in width from about 40 miles in the north to 120 miles in the south. Most of the northern two-thirds of the country consists of sparsely populated mountains and hills, while the southern third is a densely populated flat plain consisting of the Dong Nai and Mekong River Deltas.

16. South Vietnam's major natural resource is relatively abundant and fertile farmland. At present, only about 60% of the arable land—about 15% of the country's surface area—is under cultivation. Hardwood and pine

forests, which make up one-third of the land area, as shown in Figure 4, also represent a largely untapped resource with significant potential. South Vietnam's metal and mineral resources are relatively unexplored. The only minerals being exploited commercially are limestone, silica sand, clay, and salt. Recent surveys have indicated a potential for offshore oil reserves, but test drilling has been delayed by the uncertain political and military situation.

Figure 4



515432 3-73.

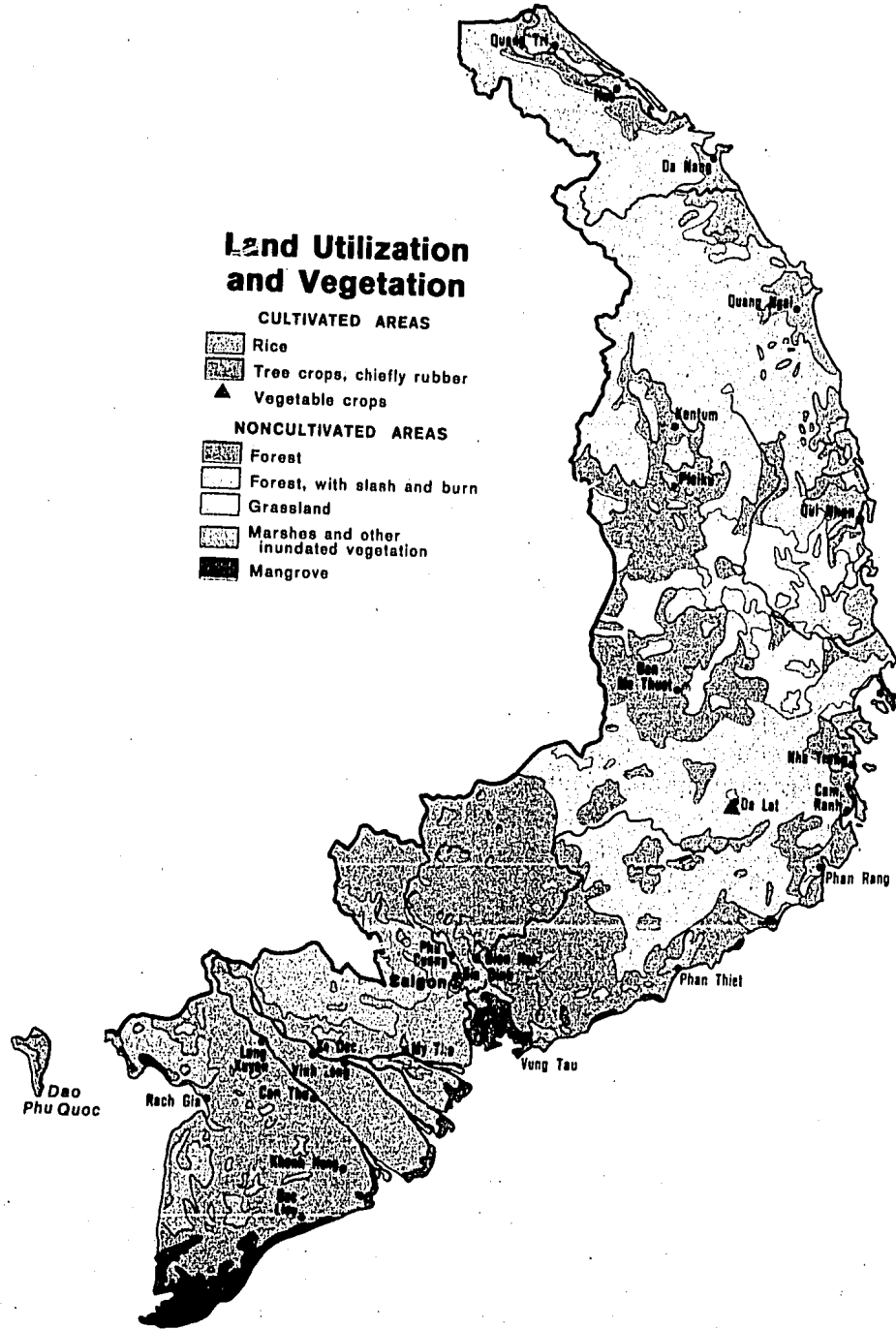
17. Security conditions have affected the exploitation of other potentially valuable resources as well. This is especially true for farming, forestry, rubber production, and, to a lesser extent, for fishing. The escalation of the war in 1965 caused a decline in cultivated area of about one-half million hectares (more than 15% of the total cultivated area shown in Figure 5) during 1965-67, but some of this land has since been brought back into cultivation. The primary development in land use in recent years has been the increased amount of double-cropping with both rice and vegetables. This has been made possible by the fairly widespread introduction of small water pumps that enable farmers to irrigate their plots in the dry season. Most of the large-scale water control systems in existence prior to the war have either been damaged or neglected. Although construction of new systems is under way in some areas (both for irrigation and to prevent salt water intrusion), South Vietnam is far behind many other Southeast Asian countries in terms of the amount of cultivated land subject to water control.

### Transportation

18. The mainstay of the transportation system is the 12,500-mile road network. The basic network was developed under the French and extended and rehabilitated with US aid. Highways provide access to more regions of the country than any other mode and carry most of the freight moved by the transport system. Data are not available on tonnage carried by motor carriers, but the increased use made of the road network is reflected in truck registrations, which climbed from 37,000 in 1966 to 90,000 in 1970.

19. The basic highway network is generally laid out in a north-south pattern centered on Saigon, the major port and hub of economic activity. From the standpoint of commerce and the number of people served, the most important roads are Routes 1 and 4, which link Saigon with the northern part of the country and the Mekong Delta, respectively. Although

Figure 5



501832 2-73

the road network is an important asset for future economic development, the cost of maintaining it will be quite high.

20. The railroad system in South Vietnam was built by the French during the colonial period and consists primarily of one line paralleling Route 1 along the coast. Before World War II the system linked Saigon and Hanoi and also connected with the Chinese rail network. Currently consisting of 780 miles of meter-gauge single-track lines, only about half of the main rail network is available for service because of war damage. This system, which has no international connections or electrified lines, is operated by the government-owned South Vietnam National Railway. During 1965-71, use of the rail system declined from 127 million metric ton-kilometers to only 38 million ton-kilometers.

21. The Vietnamese have always made extensive use of natural waterways and man-made canals, most of which were built by the French during 1915-30. South Vietnam has almost 3,000 miles of navigable inland waterways, 80% of which are located in the Mekong Delta. Water transport declined during the peak war years because of insecurity and lack of canal maintenance. Improved security in the past three years, however, has permitted increased use of waterways, and it is likely that waterways will once again become the chief means of transporting produce, especially rice, out of the Delta.

22. South Vietnam's long coastline and good harbors in the northern half of the country give it an excellent natural base for expansion of coastal and ocean-going shipping. During the late 1960s, ports underwent rapid development as a result of growing military logistical requirements. In 1959, South Vietnam had one major port, Saigon, with a rated capacity of 8,400 tons per day. The only other port of any size was Da Nang, which was rated at 2,000 tons per day. By 1972, Saigon's daily capacity had climbed to 14,800 tons and Da Nang's to 12,250 tons, and new facilities had been built at Cam Ranh Bay (6,700 tons per day), Qui Nhon (6,300 tons per day), Vung Tau (2,550 tons per day), and Vung Ro near Nha Trang (2,000 tons per day). The capacities of all ports except Saigon are being reduced to some extent by the removal of some of the portable piers and other structures erected by US forces.

23. The merchant fleet of South Vietnam is small, consisting of six freighters of more than 1,000 deadweight tons. Coastal shipping expanded considerably (with the use of leased vessels) when the railroad and roads were interdicted in the northern part of the country. Improved security and expansion of facilities in the northern ports for ocean-going vessels, however, have resulted in a decline in coastal shipping since 1969.

## CONFIDENTIAL

24. War requirements spurred development of air transport. South Vietnam's civil air service now includes both domestic and international operations by the national airline—Air Vietnam—and by nine foreign carriers. Air Vietnam connects Saigon with 23 other cities in South Vietnam. There are over 140 weekly domestic flights of DC-3s and DC-4s, ranging from two to more than 20 flights per week between individual cities. Air Vietnam also has routes extending to Laos, Cambodia, Taiwan, Japan, the Philippines, Singapore, Malaysia, Hong Kong, and Thailand. Its aircraft inventory consists of three Boeing 727s, two DC-6s, 16 DC-3s and DC-4s, and four smaller planes.

**Domestic Trade and Finance***Domestic Trade*

25. Despite war disruptions, the free market distribution system in South Vietnam has continued to function relatively effectively. The major effect of hostilities has been the periodic shortage of basic commodities as a result of temporary road interdiction. However, some traditional market patterns have changed because of the war. Rice marketing, for example, is now handled partly by the government, which sets the prices of imported rice and distributes it and frequently purchases domestic rice in the Mekong Delta for shipment to the northern rice-deficit provinces. The government also attempts to influence domestic trade by maintaining price controls on almost all commodities. These controls are difficult to administer, and prices vary widely from permissible limits. In addition, the government periodically attempts to control the flow of goods throughout the country—and thus limit Communist supply sources—by its operation of control checkpoints on roads and waterways.

*The Financial System*

26. South Vietnam's financial system is still relatively small and immature, but its operations and efficiency have been much enlarged and improved by recent reforms. The banking system consists of the National Bank of Vietnam (the central bank), several commercial banks (the largest of which is government-owned), and several public credit institutions. The major institutional sources of credit are the commercial banks; noninstitutional lenders (such as moneylenders, pawnshops, informal credit pools, employers, landlords, friends, and relatives) still provide a major share (probably more than half) of the credit to the private sector.

27. The organized financial system is only just beginning to play an influential role in the economy. Until a few years ago there were virtually no institutional sources of credit in rural areas. Now, private rural banks



(approximately half of their capital provided by the government) are springing up throughout the country. Combined with the provincial branches of the government's Agricultural Development Bank, the organized financial system is providing a growing—although still small—share of the credit needs of the rural population.

28. Two other recent developments also have contributed to the improvement in South Vietnam's financial system. They are the increasing size and activity of public credit institutions and interest rate reform. With increased funds and more vigorous leadership, development lending institutions sharply increased investment loan authorizations in 1972 despite great uncertainty resulting from the offensive. The increase in hostilities did, however, cause the postponement of the spending of most of these authorized funds.

29. The interest rate reform in late 1970, which approximately doubled both lending and deposit interest rates, was a major factor in the relative economic stability in both 1971 and 1972. By making interest rates more accurately reflect inflation and real risk, the banking system was able to attract a much larger share of people's money incomes. This slowed the rate of growth of money supply, reduced speculative consumer purchases, and improved popular attitudes toward the banking system. During the 1972 Communist offensive, for example, savings and time deposits rose substantially.

#### Agriculture

30. Agriculture is the major economic activity in South Vietnam and supplies nearly all of the country's exports. Most resources are devoted to rice production, although in recent years increasing emphasis has been given to other crops—particularly vegetables—and to livestock production. Fishing and forestry combine to make up about 15% of the total value of agricultural output, a share likely to rise fairly rapidly with the increasing development of these resources for the export market.

31. Decreases in cultivated area and dislocation of the farm labor force resulted in a decline in agricultural production of about 12% during the peak war years. Starting in 1969, however, improvements in security, adoption of new technology, and generally favorable price incentives for farmers brought about a rapid recovery. By 1970, output had surpassed the 1963-64 level, with annual growth averaging about 9% during 1969-71. Production probably did not increase at all in 1972 because of disruption from the enemy offensive and bad weather.

## CONFIDENTIAL

32. Rice is grown in all 44 provinces and on roughly 80% of the cultivated area of South Vietnam. Most crops (see Table 2) are raised on small family farms. Only a few crops such as rubber, tea, and coffee are grown commercially on plantations, many of which have been damaged or

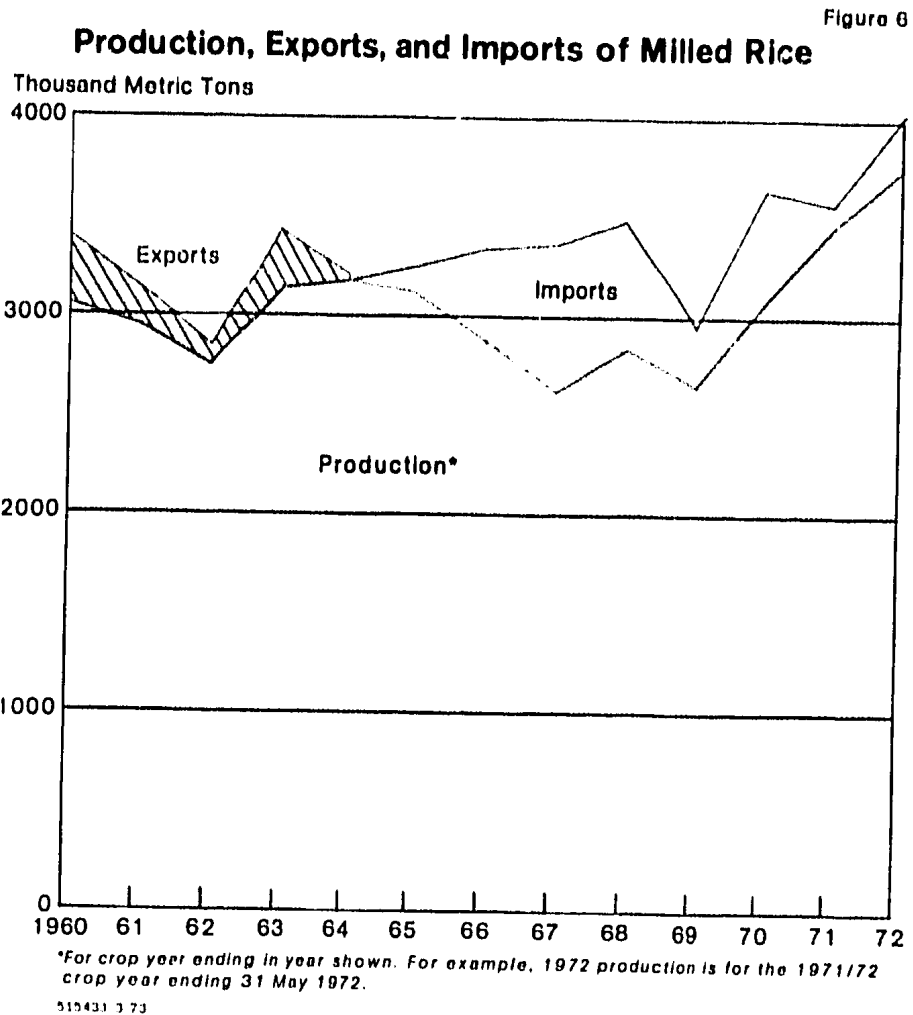
Table 2  
Output of Selected Agricultural Products

	1964	1968	1969	1970	1971
<i>Thousand Metric Tons</i>					
Coffee	3	3	4	4	4
Corn	46	32	31	31	34
Fruits	526	420	440	473	498
Manioc	289	260	234	216	270
Peanuts	36	32	34	32	37
Rice (paddy) <sup>a</sup>	5,327	4,688	4,366	5,115	5,715
Rubber	74	34	28	33	38
Sugar cane	1,055	426	321	336	340
Sweet potatoes	301	235	226	220	230
Tea	5	5	5	5	6
Tobacco	7	8	8	8	9
Vegetables	108	193	235	218	244
<i>Million Nuts</i>					
Coconuts	141	111	98	118	125

a. For crop year ending 31 May of years shown.

abandoned during the war. The Mekong Delta produces three-fourths of the annual rice output, and the major harvest occurs during December-January. Most of the country north of Saigon produces less rice than it consumes and consequently relies on imports from the Delta or outside sources. Prior to 1965, South Vietnam exported rice, but has since had to import large quantities each year (see Figure 6). During 1965-69, production generally declined, and the rapid gains since then have not been sufficient to meet increased consumption requirements.<sup>3</sup>

3. The wide fluctuations in rice availability indicated by Figure 6 are largely the result of sizable changes in government stock levels, which, for example, reached a record high level in 1968.



33. Although farming in many areas is still carried on by traditional methods, changes in production practices since 1968 have lifted many farmers out of subsistence farming and allowed them to produce a surplus. The introduction of high-yield rice varieties in 1968 was the turning point. The new seed required more inputs such as fertilizer, pesticide, and water control mechanisms, all of which were available at reasonable cost. The increased return from these varieties—resulting from generally higher paddy prices and yields—permitted substantial modernization in agriculture. High-yield rice is now grown on about one-fourth of the riceland and has been largely responsible for pushing average yields from the pre-war level of about 2.0 tons per hectare to the current 2.5 tons per hectare. Water pumps have

CONFIDENTIAL

permitted a much greater amount of irrigation and thus double cropping; and tractors and rototillers plow fields earlier, more efficiently, and more cheaply than water buffalo.

34. Another significant wartime development was the adoption in March 1970 of a radical land reform program to give tenant farmers and squatters free title to the land they are cultivating. Within three years, ownership of about one million hectares (or more than one-third of the total cultivated area) was to be transferred at government expense to more than 500,000 farm families. By the end of 1972, new titles had been issued for about 700,000 hectares and applications had been approved for an additional 225,000 hectares.

Industry

35. South Vietnam has a very small industrial sector with virtually no heavy industry. Manufacturing consists primarily of small-scale consumer industries processing imported raw materials and some local agricultural products. Four industries—foodstuffs, beverages, tobacco, and textiles—account for about 70% of manufacturing output, and a handful of firms produce the lion's share. The remainder consists mainly of paper and paper products, plastics and other chemicals, cement, glass, and the output of a variety of smaller industries and handicraft enterprises. Almost all non-handicraft industry is concentrated in the Saigon metropolitan area because of the availability of power, the large market, and greater security. Most of the large firms are owned by the government or by local Chinese businessmen. Table 3 presents output from the most important branches of industry in recent years.

36. With the exception of 1968, when some manufacturing facilities were damaged during the Tet offensive, industry has grown at a fairly rapid rate throughout the war. Manufacturing and electric power output combined rose at an average annual rate of about 8% during 1965-71, and construction activity (including US construction) probably grew somewhat more rapidly. The 1972 enemy offensive, however, led to a substantial decline in industrial output. Uncertainty over security conditions caused a decline in demand for durable goods and forced production cutbacks in most large firms and closure of many small ones. Increased local procurement by Vietnamese and US military forces was the only thing that kept some firms in operation.

37. During 1970-71, security and economic conditions stabilized sufficiently to attract a number of inquiries from private foreign investors. The government approved about a dozen proposals from foreign businessmen—mostly Japanese—to invest jointly with Vietnamese partners in assembly plants for farm machinery, radio and television sets, light trucks,

Table 3  
 Output of Selected Industrial Products

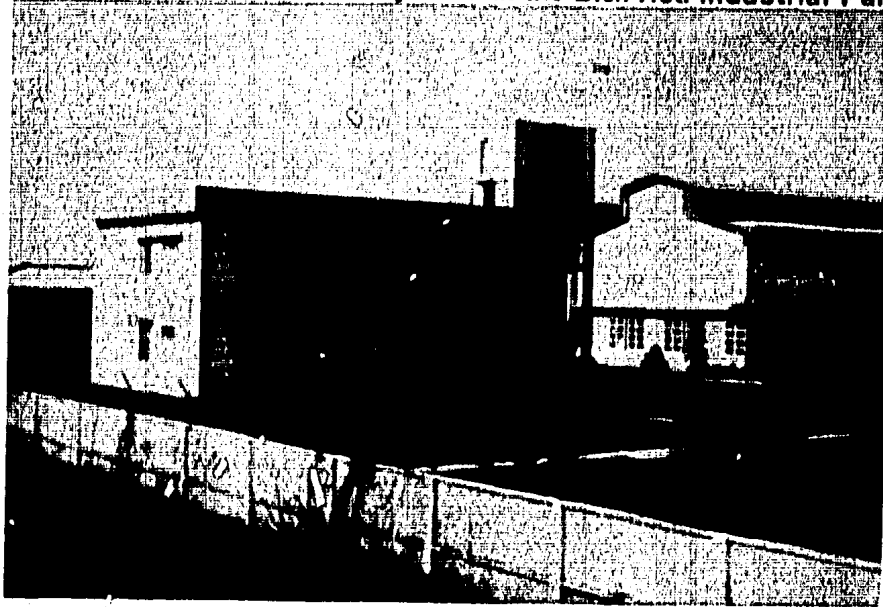
<i>Commodity</i>	<i>1964</i>	<i>1968</i>	<i>1969</i>	<i>1970</i>	<i>1971</i>
<i>Million Liters</i>					
Beer	95.7	119.4	134.2	148.7	146.9
Soft drinks	54.3	92.3	120.4	125.7	118.5
<i>Thousand Metric Tons</i>					
Cement	75.3	144.7	247.2	285.8	263.3
Cigarettes	6.1	10.3	10.5	9.7	12.2
Cotton yarn	7.8	5.0	7.6	11.7	13.4
Glass bottles	11.0	10.1	16.5	18.8	20.8
Paper and paperboard	18.2	19.6	33.2	42.8	48.5
Refined sugar	56.4	96.1	108.4	115.5	202.1
<i>Million Linear Meters</i>					
Cotton fabric	51.7	28.5	50.4	58.0	64.1
<i>Million Kilowatt Hours</i>					
Electric power	469.6	715.2	1,045.4	1,134.2	1,342.8

and sewing machines. To date, only a few of these, such as the Yanmar agricultural machinery plant shown in Figure 7, have come to fruition. Domestic investors have continued to plan for new enterprises or the expansion of existing ones, but security and business conditions in 1972 stopped most of them from going beyond the planning stage.

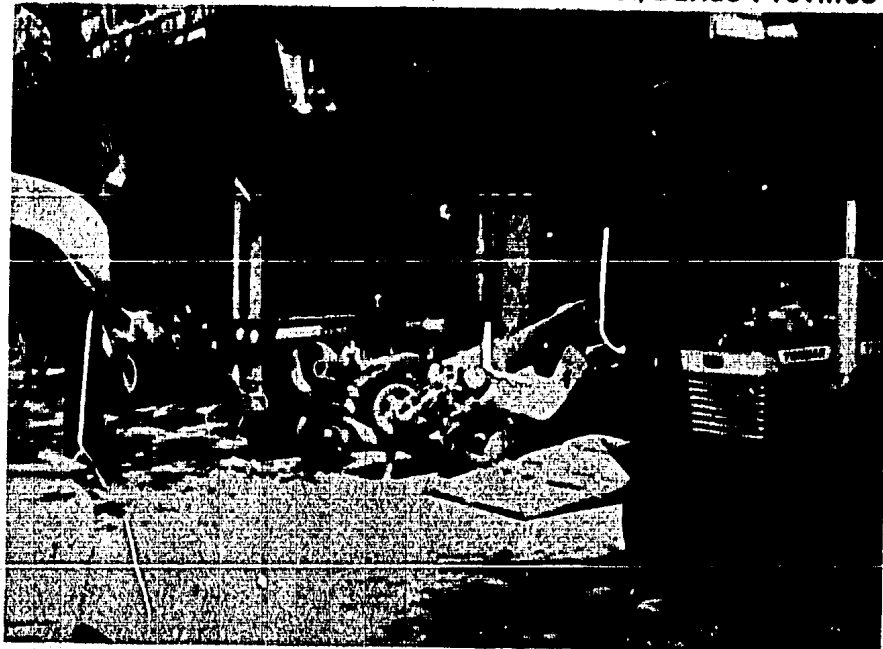
#### Government Finance

38. Government expenditures in South Vietnam have risen rapidly since 1965, reflecting the radically increased domestic costs of goods and services, larger defense expenditures, and expansion of the civil service. Spending by the government in 1972 amounted to about 365 billion piasters, or almost seven times the 1965 level (see Figure 8). The budget planned for 1973 calls for an increase in spending levels of nearly 20% in current prices over those of 1972. The most outstanding characteristic of the

Figure 7  
Yanmar Agricultural Machinery Plant in the Bien Hoa Industrial Park



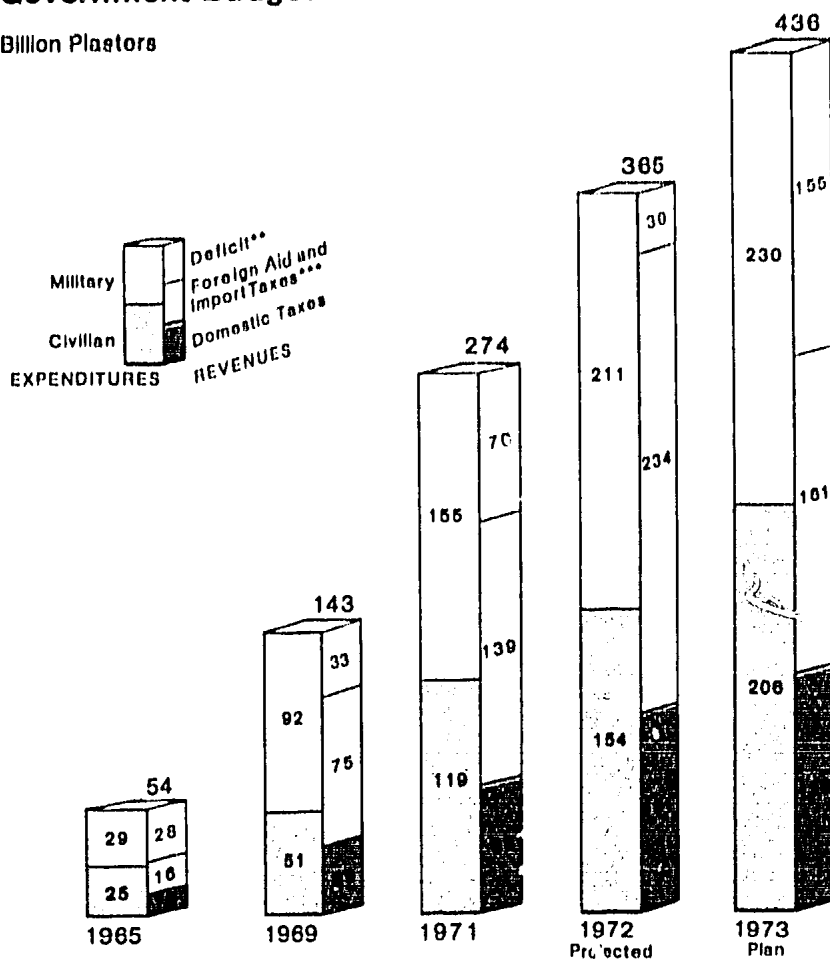
Yanmar Machinery for Sale in Ban Me Thuot, Darlac Province



815564 3-73

### Government Budget\*

Billion Piasters



\*Data include extrabudgetary revenues and expenditures.  
 \*\*Residual. Financed primarily by borrowing from the National Bank.  
 \*\*\*Includes customs duties and other import taxes, counterpart funds generated by US-financed import programs, and profits from foreign exchange transactions.  
 A major result of the November 1971 reforms was to make explicit a greater share of US aid to the budget that earlier took the form of high customs duties on aid-financed imports.

516451 3-73

South Vietnamese budget has been the preponderance of military spending. Between 1965 and 1972, civilian expenditures increased more than 500% while military expenditures rose by more than 600%. In recent years, roughly 75%-80% of total military expenditures has been accounted for by military salaries and allowances. The level of civilian expenditures has been affected not only by the expansion of civil service employment but also by

CONFIDENTIAL

implementation of programs which include pacification, police training, construction and development, and education and health.

39. Government expenditures are financed by a combination of foreign aid, borrowing from the National Bank of Vietnam, and national tax revenues. The foreign aid program is particularly important as a source of revenue. The national tax base has traditionally been highly dependent on revenues derived from imports. The main sources of domestic revenues have been taxes of the sales and excise types, most of which have been derived from areas of urban and commercial concentration. Direct taxation of personal income and property has been minimal, accounting for only a small fraction of total revenues.

40. Government measures taken in late 1972 indicate serious efforts to exploit the potential domestic tax base. The tax system as it evolved in South Vietnam consisted of myriad rates and forms, was poorly designed to achieve compliance, and was not uniformly applied throughout all sectors of the economy, including particularly rural areas. The new tax reforms provide *inter alia* for (1) the complete restructuring of the property tax on agricultural lands; (2) new income tax provisions to encourage compliance and broaden coverage; and (3) a new value-added tax to be applied in mid-1973 to all goods and services in the economy except exports and government services.

#### Foreign Trade and Aid

41. In the face of rapidly rising demand and inadequate domestic output, South Vietnam has imported massive quantities of goods to stem inflation and—to a lesser degree—to repair or increase productive capacity. During the period since 1965, commodity imports have ranged between \$625 million and \$735 million, compared with average annual exports of only \$16 million (see Figure 9). The large import deficit has been financed by US aid and US purchases of services within South Vietnam.

42. The largest share of South Vietnam's imports, both now and before the war, has consisted of such intermediate goods as textiles (raw cotton and yarns), raw materials for the foodstuffs industry, vehicle engines and parts, and chemicals. During the height of the war, however, imports of food predominated, as shown in Figure 10 for 1967. Finished consumer goods make up the third major category of imports, generally accounting for 15% to 20% of total commodity imports.

43. Throughout the war, commodity exports consisted almost entirely of rubber. In 1972, however, the combined exports of shrimp and logs, each of which was virtually nil in 1971, made up more than one-third of total

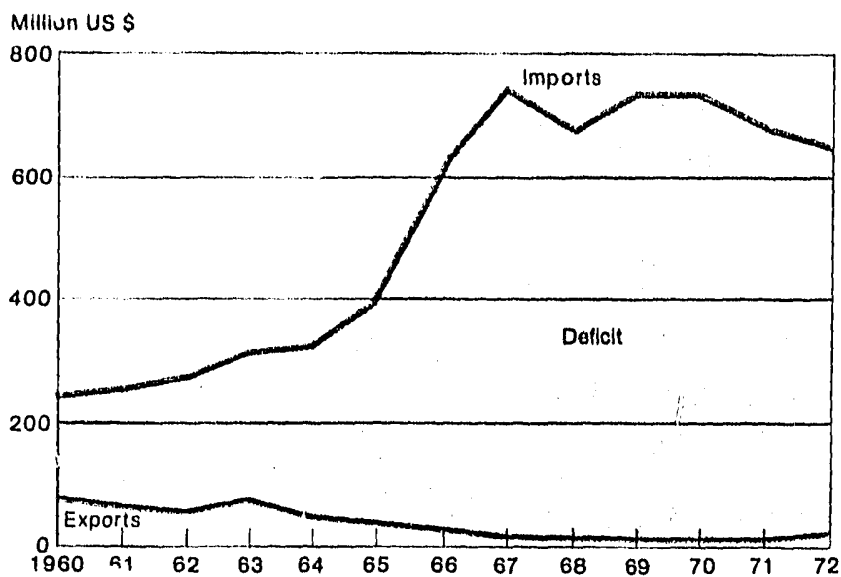
CONFIDENTIAL



## CONFIDENTIAL

Value of Foreign Trade\*

Figure 9



\*Commodity trade reported on the basis of actual shipments and arrivals.

15434 3 73

exports. These two items together with rubber accounted for about 70% of total exports last year. As a result of the change in commodity composition, Japan replaced France last year as South Vietnam's major export market. The United States and Japan continue to be the major sources of imports.

44. South Vietnam has a flexible, dual exchange rate system. The rate structure underwent major revisions in November 1971, and since then there have been periodic small rate adjustments—thus far only upward. The most recent devaluation in January 1973 brought the official exchange rate to 475 piasters per dollar and the special rate for US-financed imports to 330 piasters per dollar. All transactions except US-financed imports take place at the 475 rate, but exporters receive subsidies ranging from 100 piasters to 125 piasters for every dollar's worth of foreign exchange earned. In addition to the official exchange market, there is a black market that flourished for several years until the 1971 exchange rate reform. Now that the official exchange rate is more realistic, black market activity has been greatly reduced.

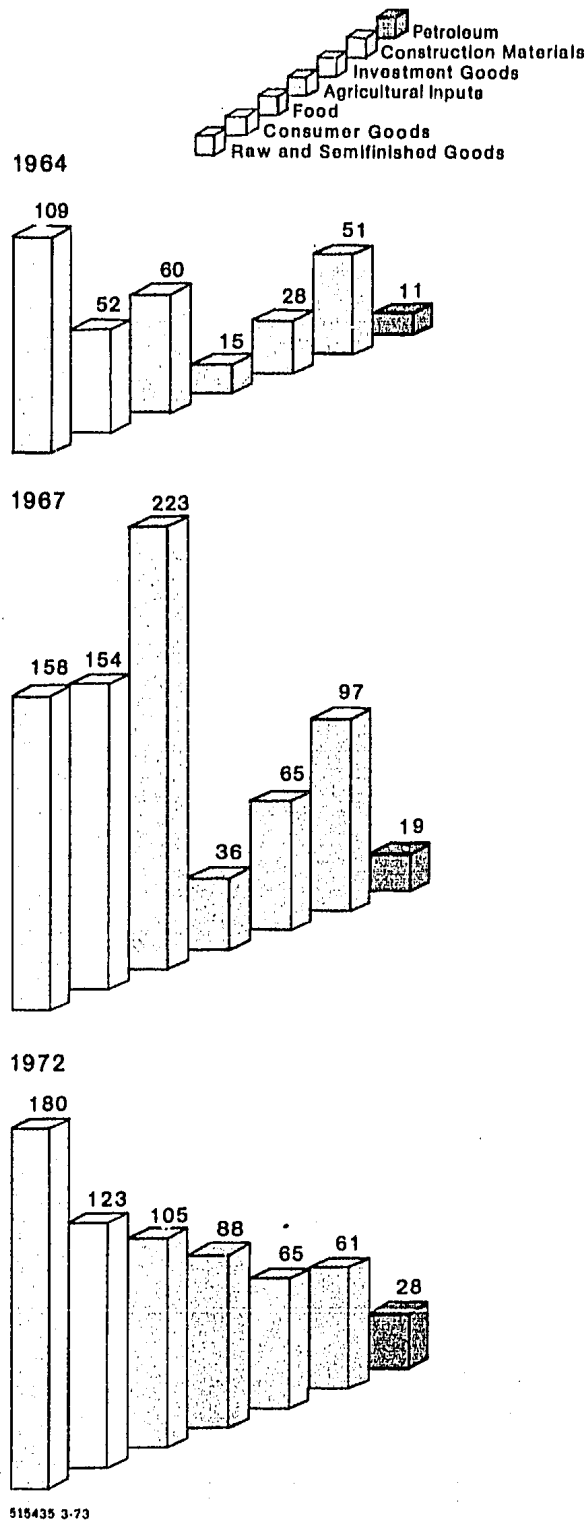
45. The United States is the major contributor of foreign aid to South Vietnam, providing grant funding under various commodity import programs of the Agency for International Development and surplus agricultural

CONFIDENTIAL

**Composition of Imports**

Million US \$

Figure 10



commodities under the Food for Peace Program (PL-480) of the Department of Agriculture. In addition, South Vietnam has gained substantial foreign exchange from US government purchases of piasters for official and personal use in-country. Although the Vietnamese provide goods and services in return for the dollars, there has nonetheless been a substantial element of "aid" in these piaster purchases because the piaster was overvalued for so many years. During US fiscal years 1954-72, total US economic aid amounted to more than \$6 billion, over half of which has been provided since fiscal year 1965. US government purchases of piasters amounted to another \$2 billion during calendar years 1964-72.

46. More than 40 other nations and several international organizations have provided grant economic, technical, and humanitarian assistance valued at about \$200 million since the South Vietnamese appealed for aid from other countries in 1964. Significant contributors include West Germany, France, Australia, Japan, Canada, and the United Kingdom, all of which have continuing aid programs in South Vietnam. In 1970, South Vietnam received its first loan commitments in many years; since then Japan,

## CONFIDENTIAL

the Asian Development Bank, the United Kingdom, and West Germany have made soft-term loans totaling about \$45 million.

## The Vietnams: Key Economic Statistics

	<i>South Vietnam</i>	<i>North Vietnam</i>
Land area	66,000 square miles	61,300 square miles
Cultivated area	15%	14%
Population (1972)	19 million	20 million
GNP (1972 estimate)	\$2.3 billion	\$1.9 billion
GNP per capita	\$120	\$95
Rice production (1972) (milled equivalent)	3.7 million metric tons	3.0 million metric tons
Imports (1971) (major commodities)	\$683 million Machinery and transportation equipment, textile fabrics and yarns, petroleum, rice, fertilizer, chemicals, medicines	\$655 million Petroleum, steel products, railroad equipment, vehicles, machinery and equipment, chemicals, medicines, raw cotton, fertilizer, grain
Exports (1971) (major commodities)	\$12 million <sup>a</sup> Rubber, shrimp, feathers	\$70 million Agricultural and handicraft products, coal, minerals, ores
Major industries	Small-scale, light manufacturing and processing of local products, textiles, beer and soft drinks, cigarettes, glass, tires, sugar, paper, cement	Food processing, textiles, machine building, mining, cement
Electric power (1971)	1.3 billion kilowatt hours	560 million kilowatt hours
Cement (1971)	263,300 metric tons	345,000 metric tons
Economic aid	\$576 million (fiscal year 1971)	\$585 million (calendar year 1971)

a. Rose to \$23 million in 1972 as the result of greatly increased shipments of shrimp and logs.

CONFIDENTIAL