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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

The Economic Situation in South Vietnam

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March 1972

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1972

INTELLIGENCE MEMORANDUM

THE ECONOMIC SITUATION IN SOUTH VIETNAM

Highlights

1. More rice was shipped out of the Delta during January and February than in any comparable period during the last nine years. As a result, farm incomes increased dramatically. The increase should provide funds for a large increase in agricultural investment, but it also may encourage rice market speculation later in the year.

2. In early March the government once again enacted some stabilization measures - this time to dampen the demand for imports by reestablishing advance deposits on import orders and devaluing the piaster slightly.

3. The plastics industry is in many ways typical of much of manufacturing activity in South Vietnam. A significant portion of output is provided by handicraft enterprises, and the few large producers suffer from a shortage of skilled labor. The industry is dependent on imports to provide raw materials and requires foreign technical assistance. It has few prospects for exporting until the product mix is diversified.

4. Retail prices in Saigon rose nearly 2% during the first two weeks in March to yield an increase for the year to date (13 March) of about 6%.

5. Black market currency prices increased steadily from mid-February through mid-March under the influence of recent piaster devaluations and the rising world price of gold.

6. Charts on foreign exchange reserves, money supply and prices, import licensing, gold and currency prices, and the government budget (Figures 1-5) follow the text.

Note: This memorandum was prepared by the Office of Economic Research.

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7. The vagaries of the rice market in Vietnam have once again confounded those who are attempting to ensure its orderly operation. Only last fall a crisis developed largely because deliveries of surplus rice from the Delta were too small to maintain adequate stocks in the rice-deficit areas of the country. Recently, however, there has been a remarkable turnaround. Large government purchases and strong private demand at the start of 1972 generated the highest monthly level of Delta deliveries in nine years. In January -- and again in February -- almost 82,000 metric tons of rice were delivered to Saigon, compared with 32,000 tons in December and average monthly deliveries of 43,000 tons in January and February 1971.

8. With this phenomenal outpouring of rice from the Delta, farmers' income soared during January and February.⁽¹⁾ In these two months alone, farmers earned the equivalent of about 40% of their 1971 cash income from rice and more than three times the amount earned during the same months last year. The increase resulted not only from the extremely large amount of rice sold but also from the fact that paddy prices during January-February were 80%-85% above those for the same period last year. The tremendous increase in farm income should provide sizable funds for investment to allow major production gains. Along with the elimination of rents as a result of land reform, the solid gain in agricultural sales should enhance the political acceptability of taxing farmers, who have been virtually tax-exempt for many years.

9. The current extremely good cash position of the farmers, however, may bode ill for the rice market later this year. Speculation has been a continual factor in rice marketing, and, if farmers feel they can afford to sit on their rice for several months, shortages might recur in the northern part of the country. To forestall such a development and at the same time to reduce its role in the market, the government is revising its rice policy. Last year the government purchased rice periodically at steadily higher prices. This year, however, government purchases will not be unlimited and will take place only between now and the end of June. The government plans to buy only enough rice to maintain stocks at a comfortable level throughout the year, and the price will remain the same throughout the purchase period. Since there will be no government purchases after June, there will be no prospect of government intervention raising prices as in

1. It is estimated that rice probably accounts for about two-fifths of total income from sales of agricultural products.

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the past. Market reactions to the new purchasing policy, which is to be announced shortly, will indicate just how strong the farmers think their position is.

Stabilization Measures

10. The government recently took steps to keep import demand within the limits of projected foreign exchange availability for this year and to reaffirm its intent to make prompt economic policy changes as needed. On 2 March, advance deposits on imports, which had been eliminated last November, were reestablished at the rates of 25% for imports financed under the US Commercial Import Program and 100% for government-financed goods. This action was followed on 4 March by another small devaluation of the piaster. The exchange rate for US-financed imports rose from 280 to 285 piasters per dollar and the rate for government-financed imports from 405 to 410 piasters per dollar.⁽²⁾ Thus the rate for government-financed goods is now the same as the so-called financial market rate, which applies to exports, personal currency conversions, and most other invisible transactions.

11. Advance deposits and the devaluation were deemed necessary because the pace of import licensing during December-January indicated that the demand for imports might exceed the funds available this year. US and Vietnamese officials estimate that \$680 million will be available for import licensing during 1972, for a monthly average of about \$57 million.⁽³⁾ Actual orders for imports in December and January, however, averaged \$73 million.

Vietnam's Plastics Industry

12. Although Vietnam's plastics industry is small (probably accounting for no more than about 1% of the value of manufacturing output), its short history highlights some little-known, but fairly typical, facets of industry in South Vietnam. Certain problems in the development of plastics manufacturing also point up some of the constraints on future industrial growth.

13. The processing and fabricating of plastic products was Vietnam's fastest growing industry during the peak years of the war, but production has fallen off considerably since 1969. Between 1964 and 1969, output of plastic products increased about 800% as the result of the rapid expansion of urban markets and the ready availability of foreign exchange to import

2. Exchange rates have been changed twice since the adoption of a flexible system in November 1971. Merchandise import rates were also raised five piasters in February.

3. Actual licensing during 1971 totaled \$683 million (see Figure 3).

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the necessary raw materials. The small capital investment required to start operations stimulated a large cottage industry in plastic products. From only three producers in 1960, the industry grew by 1969 to about 300, of whom three-fourths were classified as small handicraft enterprises. The domestic market apparently became saturated with the current mix of products by 1969, however, and production has declined steadily since then.

14. Located almost exclusively in the Saigon-Cholon area, the industry produces a wide variety of simple products ranging from dishes and raincoats for consumers to containers, drain pipe, and fish nets for commercial and industrial use.⁽⁴⁾ The largest firm, the privately owned Ufiplastic Company, produces almost 20% of total output. Many fabricators operate on a household enterprise basis, however. Typically, they invest a relatively small sum to set up one or two molding machines in a backyard shed or a home to make bowls or sandals. Four or five workers are employed, frequently family members, and the producer sells the product himself. It is estimated that this type of cottage or handicraft operation accounts for almost 15% of the total production of plastic products in Vietnam.⁽⁵⁾ The remaining 65% of output is produced by small and medium-size firms. Only 13 of these employed more than 50 workers in 1969.

15. The plastics industry is completely dependent on imported raw materials because none of the basic chemicals are manufactured in-country. Raw materials imports, mainly resins such as polyethylene and polyvinyl chloride (PVC), more than tripled during 1964-69. In fiscal year 1969, they reached a peak of about \$18 million, or 2.5% of total imports.⁽⁶⁾ By fiscal year 1971, imports had fallen to about \$10 million because of the slowdown in production. The only significant processing of imported materials is carried out by Ufiplastic and five other firms, which import PVC and mix it with plasticizers and other agents to sell to fabricators of such products as sandals and garden hoses. Ufiplastic is the only firm equipped to transform PVC powder into plastic sheeting, which it then sells to fabricators producing such finished items as handbags and tablecloths. According to recent estimates, raw materials costs (in this case, imports) account for about 70% of the value of plastics production, while the value added by domestic producers accounts for less than 20% - lower than in most other branches of industry.

4. Specialized, high-quality products must be imported, but these amount to less than a half million dollars a year.

5. Most handicraft output in Vietnam is not included in official production data, and thus the role of handicrafts in manufacturing output is generally understated. In the case of plastics, it can be seen that cottage industry contributes a significant portion of total production.

6. Data refer to import licensing for US fiscal years.

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16. Despite the current slump in production, the larger manufacturers predict a bright future for the industry. They see no prospects for exports of the plastic products currently being produced but believe the domestic market could expand significantly with better marketing and distribution. Consumer education also will help create demand for products, such as styrofoam for insulation. Diversification into such items as fiberglass products, furniture, and construction materials should also improve the outlook for the domestic market as well as provide possibilities for export. Ufiplastic already is trying to work out technical problems in developing plastic wall covering. In this effort it is getting advice from technicians employed by the foreign suppliers of resins.

17. In addition to technical assistance, the larger plastics firms need skilled workers as well as young unskilled males. Ufiplastic hires Taiwanese to operate its machinery. Because of the military draft, the average company worker is more than 40 years of age, and there is a shortage of young men for the jobs requiring heavy lifting.

18. Future plans also call for replacing imports with domestic production of low-density polyethylene and PVC. The basic chemicals will be much less expensive to import than the resins manufactured from them. A feasibility study completed for USAID in 1970 on the polyethylene project found all market factors favorable. It recommended, however, that the project be delayed until security improves because the necessary investment (about \$10 million) would be difficult to raise at this time, especially from foreign sources. A Vietnamese firm already is clearing a site at the Bien Hoa Industrial Estates north of Saigon for a PVC plant, but the start of operations reportedly is still several years off.

Prices

19. Following the usual post-Tet decline, retail prices in Saigon increased nearly 2% during the first two weeks in March. By 13 March the USAID index had increased about 6% since the beginning of the year and 22% since mid-March 1971. Recent increases in official prices -- the result of higher taxes, reduced government subsidies, or higher production costs -- have affected a large number of products including kerosene, rice, cigarettes, beer, sugar, fertilizer, and electricity. In addition, the two small devaluations of February and March have had an unsettling effect on the market.

20. Prices of imported commodities have risen somewhat faster than the overall price level. As of 29 February the price index for imports was up about 8% for the year, compared with 4% during the same period of 1971.

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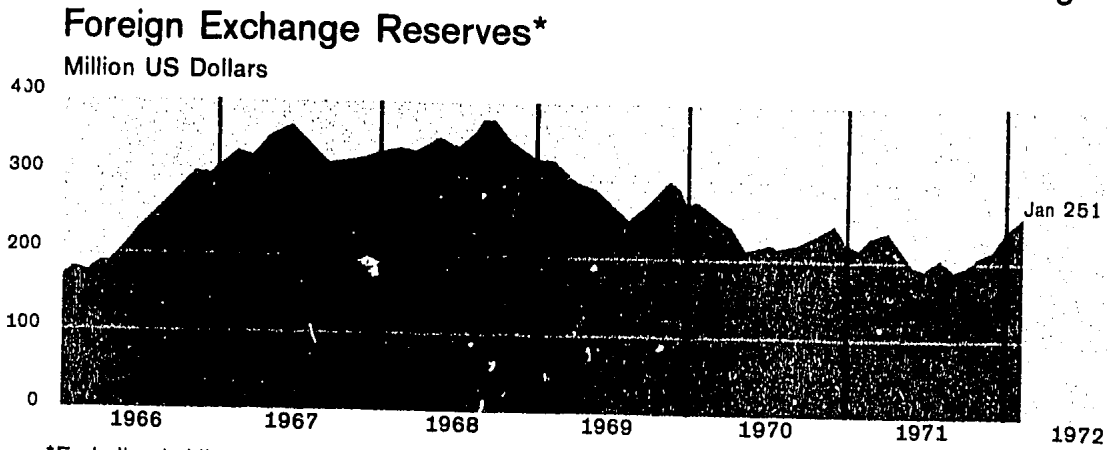
Currency Black Market

21. Influenced by the recent devaluations as well as the rising world price of gold, black market currency prices in Saigon increased steadily from mid-February through mid-March. The price of dollars reached 442 piasters per dollar on 13 March, up almost 7% from the 1971 yearend level. A dollar's worth of gold leaf was selling for 694 piasters, up almost 17% for the year to date. The rate for MPC (scrip) also has shown a gradual upward trend, but, at 392 piasters per dollar on 13 March, it was still below the legal rate of 410 piasters per dollar.

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Figure 1



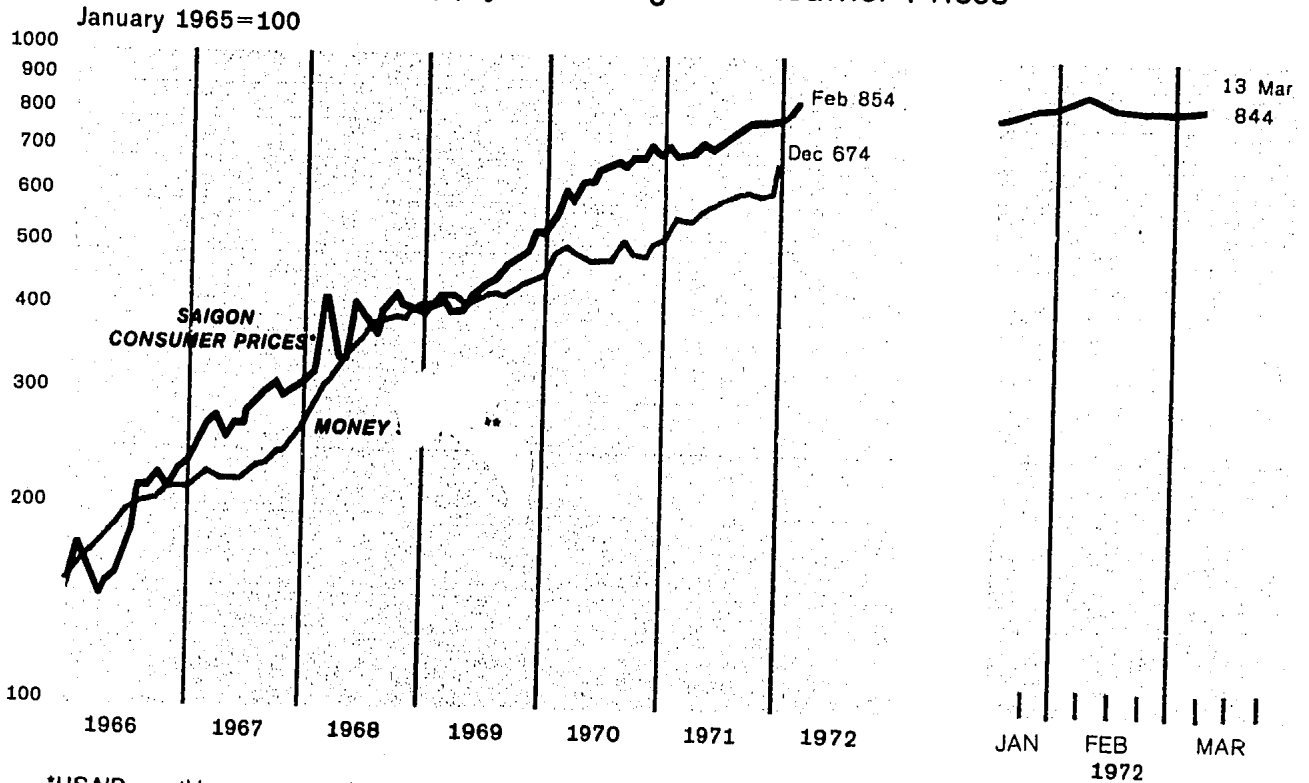
*Excluding holdings of commercial banks

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Figure 2

Indexes of Money Supply and Saigon Consumer Prices



*USAID monthly average retail price index for Saigon

**Data are for end of month

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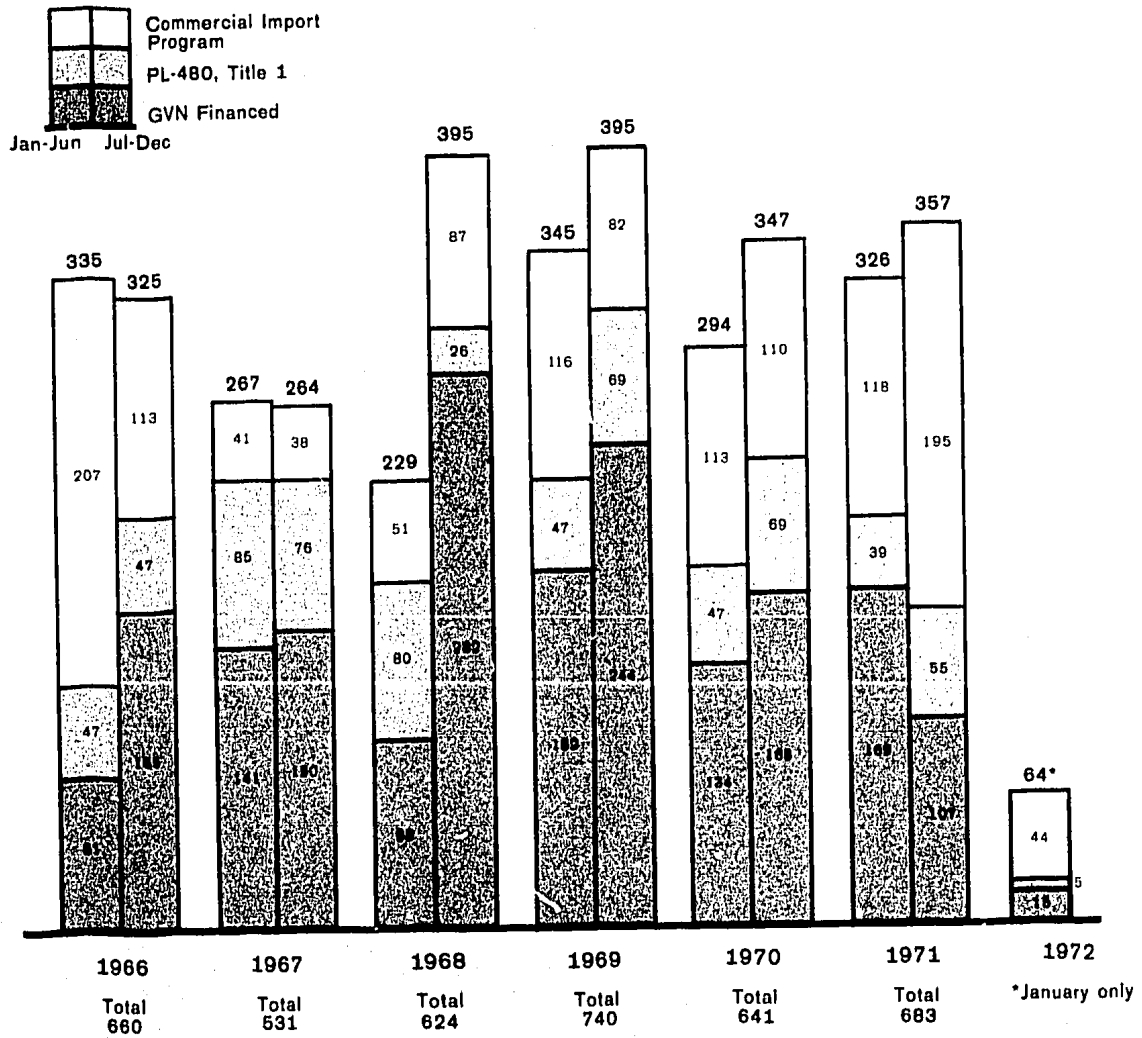
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Figure 3

Import Licensing

Million US Dollars



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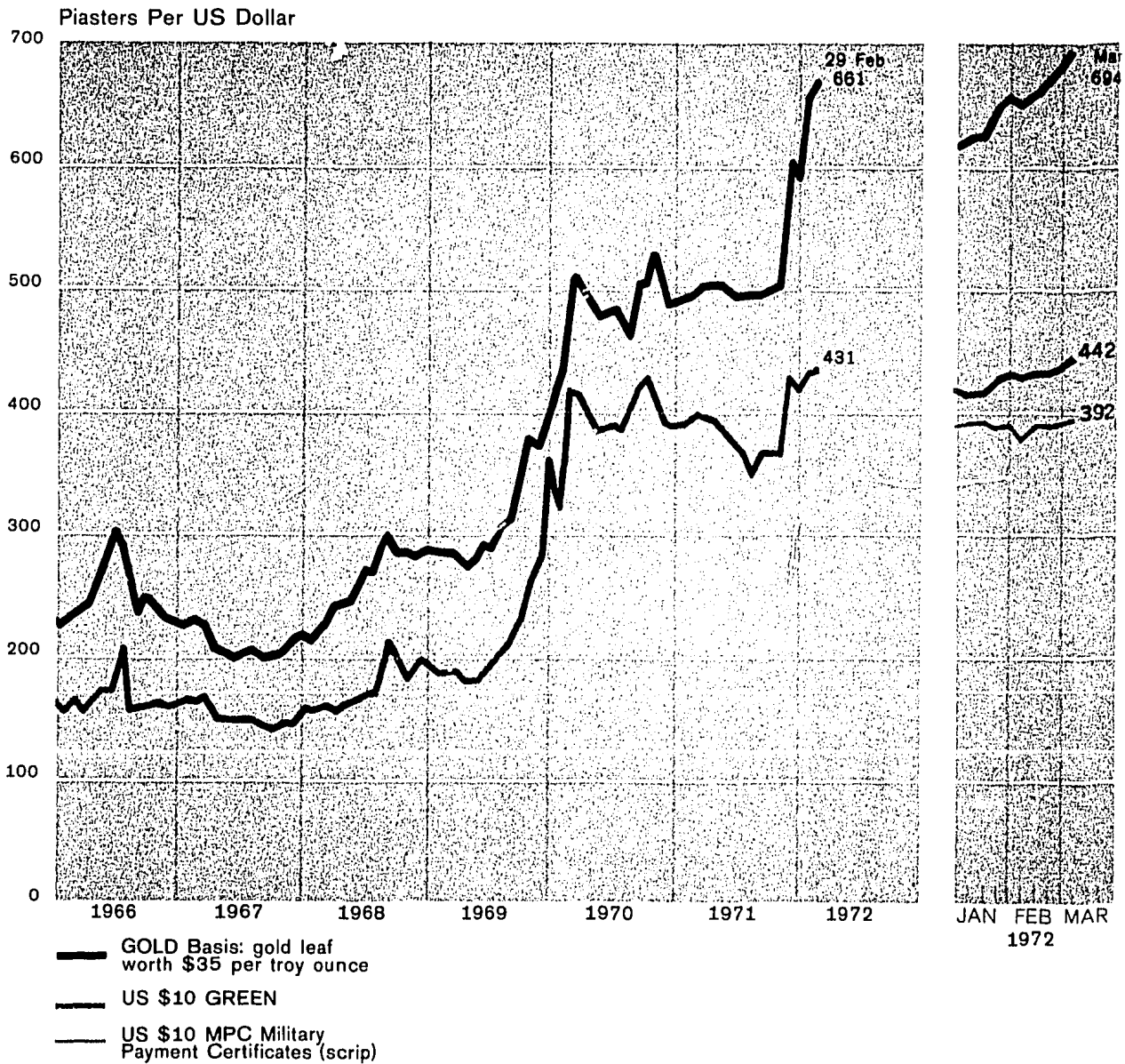
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Figure 4

Free Market Gold and Currency Prices



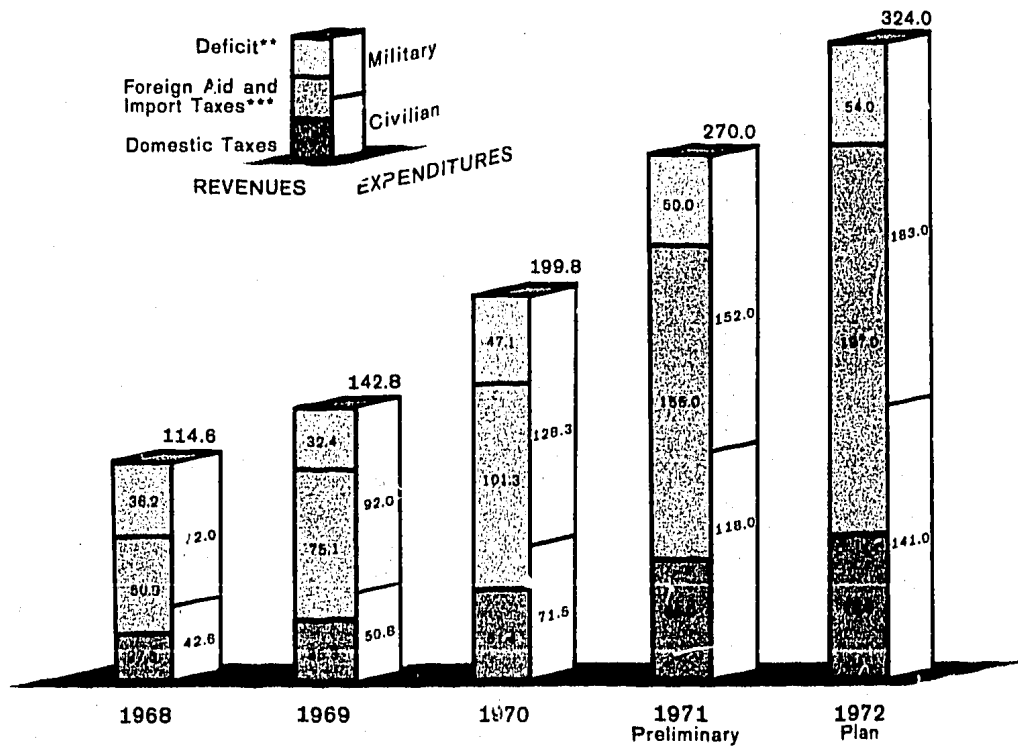
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SOUTH VIETNAM
Government Budget*
 Billion Piasters

Figure 5



*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.

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