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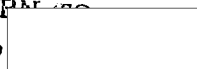
Intelligence Report

The Situation in South Vietnam (Weekly)

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(29 January - 4 February 1968)

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I. POLITICAL SITUATION

After getting off to a very slow start, the government has begun to give its attention to problems of a nonmilitary nature arising from the current crisis. A joint Vietnamese-US task force has been set up under Vice President Ky to handle emergency assistance to victims of Viet Cong attacks and such other tasks as clearing major lines of communication. The National Assembly has pledged its support for the government and various other circles are offering assistance, but the government is still coming under criticism for its slowness in acting.

The population is generally confused and fearful and a number of wild rumors are rampant. Massive refugee flows have been reported throughout the country, public services have been curtailed or interrupted, vital supplies are short, and prices are soaring. There is little evidence, however, that the Viet Cong have received any significant popular support, despite their propaganda treatment of the offensive as a spontaneous popular uprising aimed at overthrowing the Saigon government and replacing it with a coalition government. Communist radio broadcasts claim that an organization called the "Alliance of National and Peace Forces" has been established and has become the rallying point for coordinating political action. Although the Communists claim the "alliance" is a national organization, only the Saigon and Hue branches have been specifically referred to and the "alliance" shows no signs of being anything more than a paper organization.

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Government Reaction to Current Crisis

1. After a slow start, the government has begun to give its attention to problems of a nonmilitary nature brought on by the current crisis, and it has received the public support of the National Assembly and many elements of the population.

2. With President Thieu in My Tho when the Viet Cong offensive broke on 30 January, Vice President Ky took command at the Joint General Staff and ran the government effort until Thieu's return, when Ky reportedly advised Thieu to declare martial law and impose certain other emergency measures. On the evening of 31 January, Thieu announced martial law, a 24-hour curfew, closure of all places of entertainment, and a ban on meetings and demonstrations. Thieu has since told American officials that, although his actions were not taken under constitutional provisions, they do come under a previous law, still in effect, which permits the emergency application of such measures.

3. Prime Minister Loc [redacted]

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[redacted] was rather bewildered by the whole situation. Loc reportedly told an adviser that civilians should do nothing until the military had subdued the Viet Cong and returned the country to a semblance of normality. As a result [redacted] on 1 February, Loc rejected the adviser's suggestions that the government strengthen health, postal, and information services to help the people and demonstrate to them that the government had not been completely immobilized. He also reportedly refused to do anything toward enlisting the active support of labor, Buddhist, intellectual, and other groups.

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4. [redacted] although the government functioned "reasonably well" during the first few days of the crisis, there was a noticeable lack of coordination, evidenced particularly in conflicting orders to civil servants about whether to report for work during the curfew. [redacted] [redacted] not enough had been done to reassure the people throughout the country and feared a further deterioration of public morale in Saigon

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and a severe shortage of supplies if the Viet Cong were not soon cleared out of the city.

5. By 2 February, however, the government had begun to take hold of the situation. Thieu reportedly met that day with Loc, Ky, and several key cabinet members and military men to discuss urgent food and medical needs and to arrange for a public pledge of support from National Assembly leaders. On 3 February a joint Vietnamese-US task force was formed, under the chairmanship of Vice President Ky, to handle both the most immediate and the longer range problems. The task force will set up an operations center in Saigon and similar centers in the provinces and will receive both requests for help from the local populace and offers of assistance from any quarter. These centers will be under Vietnamese guidance and US assistance will be provided where needed. The task force will address itself to such efforts as clearing major lines of communication to assure sufficient passage of vital supplies and improving the information and psywar effort.

6. Although the emergency measures remain in effect and have in fact been increased with the addition of press censorship, the 24-hour curfew has been eased in Saigon to permit civil servants and others to return to work and to allow the populace to procure needed supplies. Water and electricity, which had been out for a time early in the crisis, have been returned to near normal in Saigon, and on 4 February trucks selling foodstuffs were circulating in the city. Thieu has announced that police and members of the armed forces throughout the country will assist in the provision of food and other supplies and will help victims of Viet Cong attacks.

Support for Government Measures

7. Offers of assistance and pledges of support are beginning to come in to the government. Upper and Lower House officers met on 2 February

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and on the following day issued a communique denouncing the Communists' actions, pledging the assembly's cooperation with the government in efforts to restore security and help attack victims, and calling for national unity in the face of the Communist offensive. A plenary session of the Lower House, attended by only about 30-35 deputies, issued a similar resolution on 4 February, adding an appeal to the people to support and cooperate with the emergency measures imposed by the government. The Upper House defense committee has also requested public support.

8. Both the Vietnamese Confederation of Labor and its Saigon Council have publicly pledged their organizations' support for the government, and the confederation is planning to organize a committee to provide food and temporary housing for victims of the Viet Cong. Moderate Buddhist Thich Tam Giac, working in close cooperation with the government, has mobilized his northern Buddhist organization to begin collecting and distributing relief supplies in Saigon and its suburbs. Even militant Buddhist leader Thich Tri Quang, according to a clandestine source, has proposed that the militants open reception centers to which the people could come for emergency supplies.

9. Despite this widespread assistance, the government has not been free of criticism. Tri Quang, for instance, refuses to give a public promise of support because he is reportedly angered by the government's violation of his An Quang Pagoda, where a force of Viet Cong were entrenched for several hours on 1 February. Tran Quoc Buu criticizes "government inaction" in the crisis and, when the government rejected his proposal that meetings be organized in workers' neighborhoods to rally the people against the Viet Cong, he charged that "the government does not want the help of its own people."

10. Some National Assembly members have also scored the government's slowness in acting, and

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one prominent senator told an embassy officer that the Communist attacks revealed the government's "weakness and ineffectiveness" and said he regarded the situation as serious enough to warrant assembly consideration of a no-confidence vote. The assembly as a whole, however, has taken care to present a unified face to the public and to assure the public that it is firmly behind the government.

Impact on the Government

11. No clear picture can be gleaned at this point of the long-range impact of the crisis on the government. Prime Minister Loc's indecisiveness and apparent complete failure to take any necessary steps to help the situation may prove to be his undoing. He is becoming the target of widespread criticism and appears to be getting slightly defensive about it. In a statement possibly designed to cover up his own ineffectiveness, he reportedly told a cabinet member on 4 February that he now fears the cabinet will be dissolved through military pressure and that Thieu will rule indefinitely by decree.

12. Although this is, of course, a possibility, there is no evidence to indicate that such a situation is developing. The government's decrees have thus far received support from the legislature, and no extra-legal measures have yet been taken. As for the military, even the most political of the senior generals appear to be too much involved with fighting the war at the moment to concern themselves with pressuring any governmental changes.

13. Both President Thieu and Vice President Ky have apparently acted correctly, and Thieu has shown an ability to make decisions in a crisis that has not always been evident in less drastic situations. Some observers seem to have seen in Ky's actions during the first day of the crisis a possible move to assume some power for himself, but there seems little else he could have done with Thieu out of town, and his actions since

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have given no evidence that he is contemplating such a move. On the whole, the various elements of the government, despite some continued internal sniping, appear to be conducting themselves well under the circumstances and to have a realistic picture of what must be done and how it must be accomplished.

Impact on the Population

14. Popular reaction to the crisis has, in general, been one of confusion and fear. Rumors are rampant in some areas of a possible coup in Saigon, a possible coalition government, and more Viet Cong attacks. Rumors began on the first day of the offensive that, since Vice President Ky had signed the martial law decree, President Thieu had either been killed by the Communists or kidnapped by forces staging a coup. Confusion on this issue is still prevalent in some areas, as are rumors that the US permitted the attacks as a means of pressuring the government into negotiating.

15. Attitudes toward the Viet Cong and their actions range from outrage at their flagrant violation of the cease-fire to fear and surprise at their strength. Many have criticized the government's failure to provide security for them, and some local observers fear that the net result will be a popular loss of confidence in both the government and the US. Despite this, however, there has been no indication of a significant swing to the Viet Cong and no apparent public response to the new Communist front organizations.

16. In addition to the psychological impact on the people, there has of course been a severe disruption of their normal lives. Massive refugee flows have been reported throughout the country, both into and out of urban centers, depending on the situation in various areas. Public services have been all but curtailed in some localities and vital supplies are running low. Prices have soared; Saigon reports tripling

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and quadrupling of prices on many food items and other commodities, and the situation is the same in other areas.

Communist Propaganda Treatment of the Offensive

17. The Communist military offensive is being portrayed by Hanoi and the Liberation Front as a spontaneous popular uprising by "revolutionary forces" aimed at the overthrow and replacement of the Saigon government. The political and military role of the Front is apparently being downplayed deliberately, and the "revolution," as the Communists call this push, is said to have generated new, broadly based organizations which will eventually establish a coalition government for the South, in conjunction with the Front.

18. A statement issued by Viet Cong headquarters on 31 January said that the time had come for a "general offensive" and claimed that a national organization called the "Alliance of National and Peace Forces" had become a rallying point for coordinating political action. Communist broadcasts claim there has been an enthusiastic popular response to a call from the "alliance" demanding that the US withdraw and end the war, and that negotiations be conducted with the Liberation Front to restore peace and bring about "independence and sovereignty" for the South. An appeal from the "alliance" in Hue, broadcast by the Viet Cong radio on 2 February, mentioned a coalition government for the first time, claiming that one of the "alliance's" goals was the establishment of a "national coalition administration" in the South and the setting up of normal relations with the North in order to effect reunification.

19. The new "alliance" presently shows no signs of being anything more than a paper organization created by the Communists to serve their purposes. Although the "alliance" is presented as a national organization, Communist broadcasts have referred specifically to alliances

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only in the cities of Saigon and Hue. There are no details about the organization in Saigon; a Hanoi broadcast reported only its establishment and said it had issued a manifesto. In Hue, however, Hanoi claims the "alliance" is headed by Le Van Hao, a doctor of ethnology and professor of Saigon and Hue universities. Hao reportedly read an "appeal" over Hue radio.

20. Hao seems to be a non-Communist political nonentity of the same stripe found throughout the ranks of the National Liberation Front. He was active in the 1966 Buddhist struggle movement and was imprisoned between June and October of that year. Little is known of his influence in central Vietnam or even at Hue University, but he may be able to generate some support for his "alliance" among university students, who have frequently been active in antigovernment agitation.

21. Beyond their apparent enlistment of Hao, however, there is virtually no evidence of any substance to Communist claims of mass support. Even the existence of the "revolutionary organizations" and "alliances" is unproved and there is nothing to suggest they have any popular support or following. The Communists' purpose in creating such an organizational facade remains unclear. They may have intended to use it to help set up a coalition government if their offensive won popular support, and they may still intend to do so even though this has not happened. They could also use these organizations as scapegoats for a failure of their "uprising" if their current efforts peter out.

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II. REVOLUTIONARY DEVELOPMENT

It will probably be some time before the full scope of the enemy's military offensive is known, especially in the rural areas. The Revolutionary Development cadre programs seem to have avoided serious losses; however, other pacification-related programs appear to have suffered heavily. The withdrawal of Vietnamese Army troops from RD support may, however, force the RD teams to relocate also. The time it will take for the Vietnamese to begin functioning again is anyone's guess, but the programs which must bear the brunt of the rehabilitation effort --refugees, health, welfare, and psychological warfare--have not responded well in the past. It is still questionable whether, despite intensive US efforts to assist, the South Vietnamese will be able to meet the burdens they presently face.

1. It will probably be some time before the full scope of the Communist offensive is known, especially in the rural areas. The unprecedented wave of attacks during the enemy's self-proclaimed lunar new year ceasefire involved forays against at least 32 of South Vietnam's 44 provincial capitals and the autonomous cities of Saigon and Da Nang. Fragmentary reports indicate that over 50 district headquarters were also attacked between 30 January and 2 February.

2. It is somewhat unlikely that the enemy military action was designed to hold permanently any of the principal towns; however, there are indications that the Communists were willing to commit some of their reserves to exploit any successes, and that they may have sought to retain control of some cities for at least several days.

3. Despite heavy losses, the enemy retains a significant military capability. Available evidence indicates that as of 3 February, the Communists still had major, uncommitted combat elements in I and II Corps. The situation in III Corps is less clear, but it may be substantially the same. In IV Corps, most enemy battalions apparently were committed, although their degree of commitment varied.

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4. The psychological impact on South Vietnamese attitudes--and international opinion--of the enemy's ability to enter major towns and bases, if only temporarily, and to disrupt the country seriously is bound to be significant and possibly far-reaching. Friendly morale may be further eroded as a result of the heavy civilian casualties. The enemy has undoubtedly succeeded in shaking civilian confidence in the Saigon government and, as information comes in, it may become apparent that he has also inflicted serious setbacks to security and pacification programs throughout the country. Vietnamese and allied resources may have to be diverted from pacification tasks for some time, and the success of the 1968 pacification plan is in doubt before it has even begun to be acted upon.

5. There are tenuous indications that one of the strategic objectives of the enemy campaign may have been to gain, or in many cases to regain, control of large segments of the rural population, utilizing guerrilla and district units, while allied forces were diverted toward the protection of the urban areas. Tactically, the Communists appear to have already partially succeeded in forcing extensive allied troop redeployments, tying down and thinning out allied military units in defensive positions, disrupting the GVN administrative structure in preparation for possible future Communist political agitation, and demonstrating the inability of the GVN to protect the population under its control.

6. Initial reports tend to verify the supposition that the enemy may be seeking to regain control of portions of the rural areas lost to the GVN. A US official in Binh Long Province, located in northern III Corps, indicates that, except for the hamlets surrounding the provincial capital, the Communists probably control most of the hamlets in the province. In the II Corps coastal provinces of Binh Dinh and Binh Thuan, the enemy--after being driven out of the capital cities--was reported to be attacking and/or occupying hamlets on the fringes of the urban areas and along segments of National Highway 1, principal pacification zones in both provinces. In Revolutionary Development (RD) priority provinces such as Quang Ngai in I Corps and Vinh Binh in IV Corps, there is as yet

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little information about the situation in the rural areas or the status of the RD teams. The same is true of most other provinces in South Vietnam, and it may take at least a month before the enemy's impact on the rural areas can be assessed.

7. In most of the urban areas, US officials have reported that the Communist attacks and, in particular, allied reactions have made many thousands of people homeless. This problem is compounded by the movement in some provinces of large numbers of rural inhabitants toward the cities. For example, the population in Quang Tri city has reportedly tripled or quadrupled in the past 72 hours, Hue has about 4,000 homeless persons, Quang Nam Province is reported to have "masses" of refugees, about 5,000 people are reported to be homeless in Phan Thiet--the capital of Binh Thuan, and Bien Hoa city has anywhere from 6-8,000 refugees. Other provinces which have reported significant numbers of refugees or homeless include Darlac, Kontum, Gia Dinh (including the city of Saigon), Dinh Tuong, Chau Doc, and Kien Hoa--where about 50 percent of the provincial capital was reported to have been destroyed.

8. One of the principal thrusts of the pacification program, the Revolutionary Development teams, may have been by and large bypassed by the Communists. In most of II and III Corps, advisors have reported that the enemy incidents between 29 January and 3 February were not heavily directed against the resources of the RD cadre programs. The enemy actions forced the RD teams out of their hamlets, however, and probably caused serious damage to the pacification program in the II Corps provinces of Kontum and Darlac.

9. In Quang Tri Province in I Corps, the teams were forced to relocate when the Vietnamese Army battalions in support of RD were withdrawn into the city. Prior to this, the teams in Quang Tri had suffered only light enemy harassment. Moreover, enemy forces driven off from their attack on Quang Tri city are now spread throughout the pacification area, where heavy fighting may be required to dislodge them. In most of IV Corps, the status of the teams remains generally unknown.

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10. The low RD cadre casualties thus far reported may be due to the Tet holidays. In most provinces, only 50 percent of the teams' members were in place. It is possible that some of the cadres away from the teams may have been injured while others may have become discouraged to the point where their return is unlikely. The loss of life to as well as the psychological impact of the enemy attacks upon government district and provincial officials may have been significant. Since the RD cadre programs stand or fall on the confidence and interest of these officials in them, the officials' future support of these programs may be in question. At a minimum, the cadre programs will probably suffer a lengthy period of inactivity in many provinces.

11. Another pacification related cadre group, the Provincial Reconnaissance Units, appears to have been heavily engaged in combat in many provinces. These units were reported to have made a credible showing.

12. It may take at least 30 days before the US CORDS advisory effort is again functioning smoothly. The time it will take for the essential ingredient--the Vietnamese--to begin functioning again is anyone's guess; the cadre programs, however, will probably be functioning before other pacification related operations.

13. The weakest GVN programs--the care and handling of refugees, social welfare, health, and psychological warfare--are the ones which must bear the brunt of the rehabilitation efforts in the wake of the Communists' offensive. These programs have not responded well in the past and may not be able to meet the burdens they face at present. Intensive US efforts are under way to assist the Saigon government in these areas.

14. Some incidents have come to light which suggest that segments of the Vietnamese populace knew that some of the recent attacks were impending but may not have alerted GVN officials. One example of this is the lack of Tet celebrations by residents in Chau Doc Province. The drop in the price of rice in Saigon in the week prior to the holiday may even indicate a widespread sell-off by merchants sensing something in the wind.

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15. These factors, plus the Communists' ability to mass units close to major towns and infiltrate agents in advance suggest that the enemy may command-- by intimidation as well as persuasion--either more general support than has been estimated, or that the population is even more apathetic than generally assumed.

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III. ECONOMIC SITUATION

The rice situation appears more favorable than it did a year ago, with production up slightly and stocks adequate, but several problems remain to be solved. The Minister of Finance reportedly will try to eliminate tax inequities resulting from political influence. Retail prices in Saigon continued to rise during the week ending 22 January as expenditures for the Tet holidays increased. Free market currency and gold prices declined for the third consecutive week.

Rice Situation

1. The rice situation in Vietnam--production, stocks, and prices--appears more favorable than it did a year ago, although there are some disturbing factors which probably will cause trouble for both US and Vietnamese officials during the next few months.

2. The estimate for the new crop now being harvested indicates that output in 1968 will increase slightly for the first time since 1964 (see the Situation in South Vietnam (Weekly) of 15 January). The increase, however, results entirely from higher production in the delta, which in turn can be accounted for by a recovery of production in four provinces that were hit by floods in the fall of 1966. These four provinces, An Giang, Chau Doc, Kien Phong, and Kien Tuong, produce mainly red floating rice, which most Vietnamese in the delta and Saigon do not eat. In the past this type of rice was either exported or shipped to central Vietnam. This year, however, the government will have a difficult problem disposing of this "surplus" because exports are now banned, the deficit in central Vietnam is being covered by imported US white rice, and the price of red rice is currently too high to compete with corn for animal feed.

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3. The production of white rice during 1968 will not be much changed from 1967. US officials estimate, therefore, that imports of about 850,000 metric tons will again be needed to meet requirements for Saigon and the rice deficit area in the north. Actual imports during 1967 of about 750,000 tons were lower than planned because of negotiating and shipping delays. Deliveries of surplus domestic rice from the delta, however, reached about 275,000 tons, or about 75,000 tons more than expected. Unlike early 1967 when government stocks of rice in Saigon were approaching zero with insufficient imports scheduled to fill the void, the government now has sufficient stocks and there should be no shortage of rice. The current government stock consists of some domestic rice and some Thai rice, but mainly US long and medium grain rice. The stock of medium grain--the most widely consumed of the types of imported rice--reached a low point in mid-November, but new shipments of this rice are now arriving, and the US Embassy reports that the government may soon resume sales to retail dealers.

4. The price at which the government sells US rice to retailers is currently one of the major economic issues under discussion between US and Vietnamese officials. Since US rice began coming into the country in 1965, the Vietnamese government, the sole importer, has subsidized its sale to retailers in order to keep imported rice prices down to the level of domestic rice prices. During the first three months of 1967, however, prices of both imported and domestic rice in Saigon rose sharply because of a shortage of imported rice at a time when the major part of consumption was being met by imports. This increase in rice prices during 1967 was considered a healthy development by US officials. Higher retail prices resulted in higher prices paid to farmers, not only halting the decline in the peasants' real income, but also, according to US officials, providing incentive to increase production.

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5. US officials feel that in order to ensure that domestic rice prices stay at a level that would guarantee a suitable price to farmers during this harvest period and also reduce the large government expenditure on the subsidy, the government should now raise the wholesale price of US medium grain rice. Vietnamese officials have been reluctant to irritate urban consumers by raising the price, but have said they would take action if there were any evidence that paddy prices were falling. They have also postponed announcing an official paddy price, which would guarantee farmers a price at or near recent market levels. The embassy reports that paddy prices did begin to fall about 17 January (see paragraph 7), but it is probably too early to tell whether the decline will continue. One source reports that during the cabinet meeting of 25 January a decision was made to increase POL taxes and rice prices, but other reporting indicates that the price increase pertains only to the rice sold in government commissaries for civil servants and the military, who, of course, are among the groups least able to afford such an increase. The Vietnamese have been telling US officials that steps to increase taxes and rice prices will be taken after Tet, but it now seems probable, in view of the disruption caused by the recent widespread VC attacks, that these measures will again be postponed.

Unequal Taxation

6. [redacted] Minister of Finance Luu Van Tinh told the cabinet on 25 January that stricter and more equitable enforcement of tax laws would greatly increase government revenues. As an example of present inequities, he cited the great difference in taxes paid in 1967 by four major Saigon hotels, which he said have roughly the same type and volume of business (in thousands of piasters):

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Continental	18,000
Caravelle	2,000
Dong Khanh	360
A Dong	280

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Tinh believes these differences result from political influence, not ministerial inefficiency, and he stated his intention to act at once to eliminate the inequities. [redacted] the Continental and Caravelle hotels are owned by foreigners whereas the other two are owned by Chinese, who know how to manipulate taxes.

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Prices

7. Retail prices in Saigon continued to rise during the week ending 22 January as consumer purchases for the celebration of Tet (30 January) increased. During the month before Tet, the USAID weekly price index rose six percent, although this increase was smaller than those occurring during the same period in both 1966 and 1967. This year rice prices did not rise as in past years, and, in fact, during the week ending 22 January they dropped sharply. The embassy attributes this decline to an increase in the supply of new crop rice which farmers sold in order to obtain piasters for Tet expenditures. In addition, farmers were anxious to sell because the government has not yet announced an official price for paddy, which would guarantee farmers a price near the relatively high market level prevailing during December. Among nonfood items the price of haircuts rose 60 percent, apparently because of Tet. The price of white calico, however, declined 9 percent as demand fell off because it presumably was too late to have new clothes made in time for Tet. (A table of weekly retail prices in Saigon is included in the Annex.)

8. Prices of US-financed imports declined for the third week as businessmen reportedly were liquidating their inventories, which are known to be substantial. Prices of all goods sampled were either unchanged or lower.

Currency and Gold

9. Free market currency and gold prices in Saigon continued to decline as of 22 January. The price of green dollars declined two piasters to 165

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piasters per dollar, and the rate for MPC (scrip) declined one piaster to 115 piasters per dollar. The price of gold leaf was 208 piasters per dollar, or three piasters below the price on 15 January. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

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TABLE

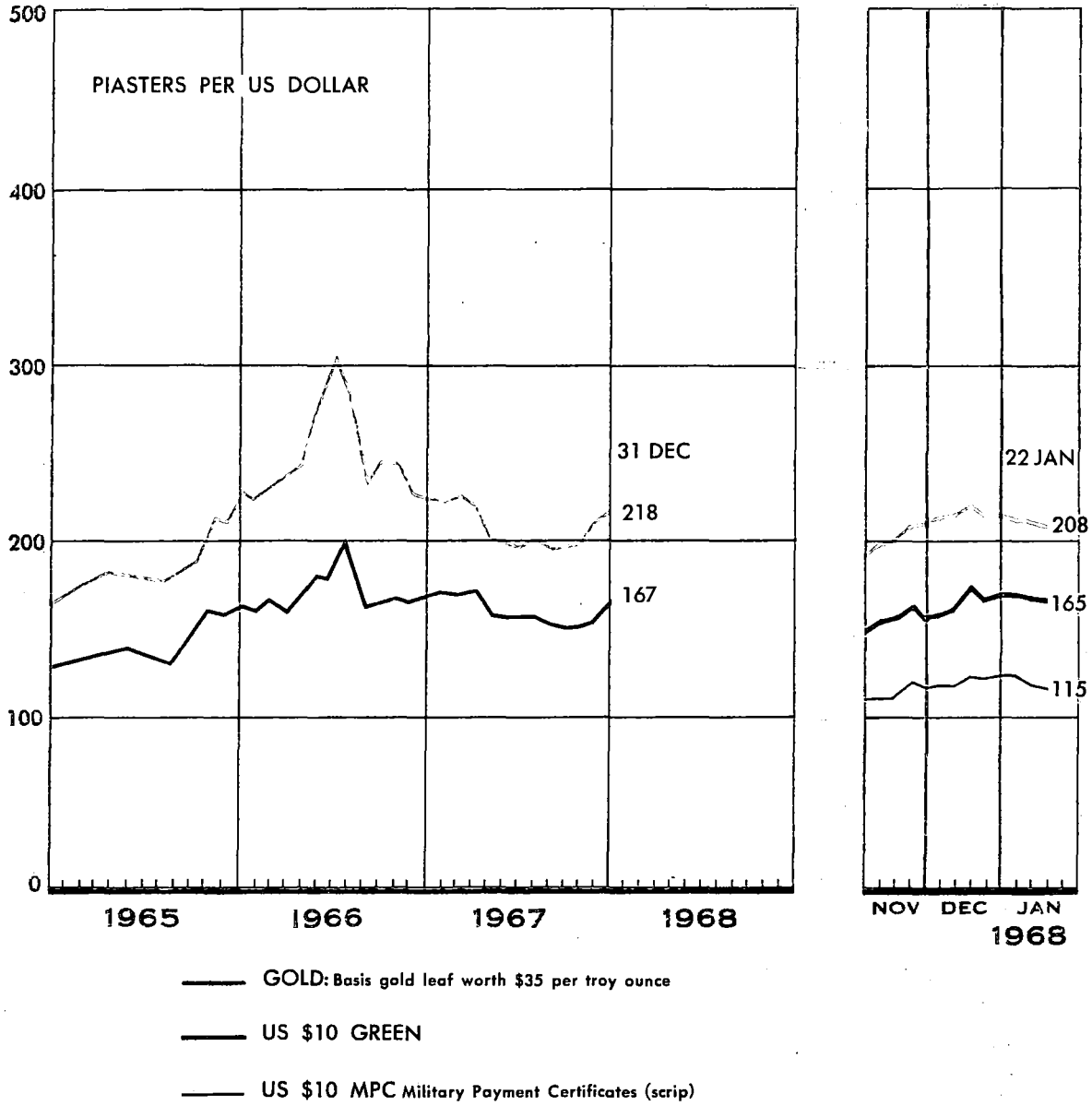
Weekly Retail Prices in Saigon^{a/}

	13 June 1966 ^{b/}	3 Jan 1967	2 Jan 1968	8 Jan 1968	15 Jan 1968	22 Jan 1968
Index for all Items	<u>173</u>	<u>225</u>	<u>308</u>	<u>308</u>	<u>318</u>	<u>326</u>
Index for Food Items	<u>190</u>	<u>242</u>	<u>344</u>	<u>342</u>	<u>354</u>	<u>360</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	1,250	1,700	2,500	2,600	2,600	2,450
Pork Bellies (1 kg.)	90	130	220	210	210	230
Fish-Ca Tre (1 kg.)	130	150	230	220	240	250
Nuoc Mam (jar)	70	90	150	150	150	150
Index for Nonfood Items	<u>140</u>	<u>195</u>	<u>241</u>	<u>245</u>	<u>251</u>	<u>263</u>
Of Which: (In Piasters)						
Firewood (cu. meter)	360	560	600	650	700	700
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	33	52	52	55	50
Kerosene (liter)	7.8	10.5	9	9	9	9

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

b. Price level just prior to the 18 June devaluation.

Saigon Free Market Gold and Currency Prices



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