

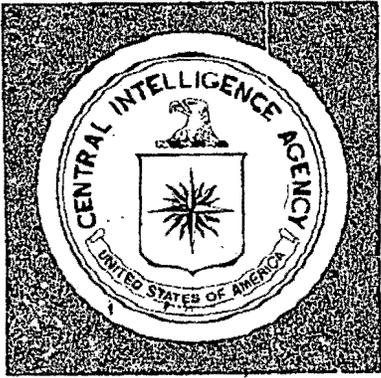
John H. ...

... ..

~~Confidential~~

No Foreign Dissem

DECLASSIFIED UNDER AUTHORITY OF THE
INTERAGENCY SECURITY CLASSIFICATION APPEALS PANEL,
E.O. 13526, SECTION 5.3(b)(3)
ISCAP APPEAL NO. 2013-042, document no. 2
DECLASSIFICATION DATE: October 26, 2018



Intelligence Report

The Economic Situation in South Vietnam, May 1974

~~Confidential~~

ER IR 74-13
May 1974

Copy No. 26

NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

Classified by 015319
Exempt from general declassification schedule
of E.O. 11652, exemption category:
§ 5B(1), (2), and (3)
Automatically declassified on:
Date Impossible to Determine

~~Confidential~~
No Foreign Dissem

The Economic Situation
in South Vietnam
May 1974

SUMMARY

Largely because of rising food costs, prices in South Vietnam continued to edge upward this month, although more slowly than earlier in the year.

In contrast to the first quarter of 1974, South Vietnam's foreign exchange position improved somewhat in April as a result of an unexpected inflow of private short-term capital and the recovery of US piaster purchases. Slackening import licensing in the same period lessened somewhat the bleak outlook for reserves in coming months.

Although sharply increased prices for key imports have spurred several import-substitute industries, overall manufacturing output has fallen to about the 1969 level. With falling real incomes, tight credit conditions, and government measures to reduce imports, there is little likelihood of an industrial revival in the near future.

A fertilizer shortage will add to South Vietnam's trade problems and may reduce rice production.

Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 6716.

Withheld under statutory authority of the
Central Intelligence Agency Act of 1949 (50
U.S.C., section 3507)

~~Confidential~~

May 1974

~~Confidential~~

DISCUSSION

Market Conditions¹

1. Through mid-May, prices continued to edge upward, although at a somewhat slower pace than in early 1974. For the four weeks ending on 13 May, the Saigon price index rose 2.4% to reach a level 26% above the start of the year. Markets were off slightly in early May with the holidays for Buddha's birthday, but prices moved up again later on. Food was the principal source of continuing inflation, with prices of meat, poultry, and fish up sharply. A 19% increase in the official price of canned milk in the week 9-15 May also made a significant impact. Rice prices remained relatively stable, but reflected a slight seasonal upward movement. Consumers have already felt the price boosts for imported rice, petroleum products, and other key commodities, but the main indirect impact of higher import prices of production inputs such as chemicals is yet to come.²

2. Gold and illegal currency markets were relatively inactive this month. The price of black market dollars remained at or below the official exchange rate, which was raised to 620 piasters per US \$1 in late April. Gold prices declined slightly; on 13 May gold sold for \$149 per troy ounce, down about \$4 per ounce from a month earlier.

Foreign Exchange Reserves and Import Licensing

3. South Vietnam's foreign exchange position improved somewhat during April, reversing the trend of the first quarter. Dollar and gold reserves rose by nearly \$10 million, bringing holdings to \$124 million, compared with \$154 million at the end of 1973. One apparent factor leading to the increase was a rise in inflows of private short-term capital.³ Another factor was \$11 million in US purchases of piasters from the National Bank. These purchases had dropped dramatically in previous months, totaling only \$4.6 million in the first three months of the year.

4. The capital inflow is believed to reflect mainly the repatriation of funds by businessmen who are feeling the squeeze of exceedingly tight monetary and credit conditions.⁴ Since last fall the government has encouraged holders of foreign

1. Charts showing major economic indicators and the government budget follow the text.

2. During the year ending in mid-April, the imported commodity price index rose 93%, compared to 79% for Saigon retail prices. The comparable figures for the period January to mid-April were 15% and 23%, respectively. Because roughly half of the higher priced imports of 1973 were producers' goods, however, their impact on retail prices naturally lagged the movements in the import price index.

3. Payments transactions that are effectively short-term capital movements appear scattered throughout the current and capital accounts reported by the South Vietnamese. In the compacted accounting available at irregular intervals through the year, many of them are subsumed under the heading "invisibles," which covers a variety of receipts of unknown origin.

4. Another source of sudden inflows has been Communist purchases of Vietnamese piasters for local procurement requirements. There is no indication, however, that such purchases played a role in the unexpectedly large receipts of the National Bank last month.

~~Confidential~~

~~Confidential~~

currencies, regardless of the legality of their source, to make exchanges through official channels with the assurance there would be no legal action taken. Moreover, repeated devaluations of the piaster, coupled with tight credit conditions, have prevented a black market premium for dollars and have induced use of the banking system to dispose of hard currency.

5. Another recent development that may augur somewhat less pressure on South Vietnam's slim reserves in coming months is the recent decline in import licensing. Related to both specific government measures to curb demand⁵ and the continuing business recession, this pattern deepened considerably in April. Weekly import licensing rates for goods financed under the US Commercial Import Program (excluding petroleum products and fertilizer) averaged just under \$2 million, down from about \$5 million per week during the January-March period. Similarly, the weekly average of orders for goods financed by government sources declined in April and the first two weeks in May to about \$3 million, down from some \$4.5 million during January-March and \$6 million during 1973.

6. Although the April performance relieves some of the acute pressure on South Vietnamese officials to devise ways to cope with international payments problems, it provides little encouragement for an early recovery from the recession that has plagued the economy for the past two years. With commodity stocks still low and industry operating substantially below capacity, imports will clearly have to rise sharply for any resurgence.

Industrial Conditions

7. Manufacturing output has sagged since 1972 largely because of slack consumer demand for less-essential goods and, particularly over the past year, shortages and higher costs of imported raw materials. The limited available evidence suggests that production had picked up somewhat toward the end of 1973 but was still only at about 1969 levels. There are no signs of further revival so far in 1974; with falling real incomes, government measures to reduce imports, and tight credit conditions, the overall outlook for industry is not good.

8. The impact of the continuing recession has been uneven. By late 1973 and early 1974, there were a few bright spots in textiles and cement, although even these were well below pre-1972 output levels. Other industries suffered particularly sharp declines and have since shown virtually no recovery. These include soft drinks, tobacco, glass bottle manufacturing, sugar processing, and construction activity.

5. These measures are described in ER IR 74-5, *The Economic Situation in South Vietnam, February 1974*, CONFIDENTIAL/NO FOREIGN DISSEM.

~~Confidential~~

9. Sharply increased prices for key imports have led, nonetheless, to the expansion, emergence, or reappearance of several domestic industries producing substitutes. Most notably, charcoal production reportedly had gained such momentum in recent months that the market became glutted and prices dropped by as much as 50% since the start of the year. Over the same period, kerosene consumption is estimated to have declined by 80%. Another outgrowth of high import costs is seen in the paper industry, where it has now become economical to use domestic raw materials rather than imported wood pulp. As a result, the two state-owned paper manufacturers have begun pulping rice straw and pine logs. Other developments in import-substitution industries include a proliferation of bicycle manufacturers; increasing collection and recycling of lubricating oils; and government encouragement for small, artisan sugarcane-processing facilities.

Farmers Face Tight Fertilizer Market

10. World shortages and higher prices of fertilizer will have a serious impact on South Vietnamese imports and could well affect domestic rice production. Last year, South Vietnam imported some 450,000 metric tons of fertilizer at a cost of \$50 million-\$60 million, all financed under the US Commercial Import Program. With recent price bids for delivery of urea at about \$380 a ton compared with \$150 last year, matching last year's fertilizer imports would cost an additional \$75 million-\$100 million. South Vietnam will be unable to achieve such a target.

11. Reduced foreign aid and the tight exchange reserve situation limit the extent to which South Vietnam can deal with the fertilizer problem. The United States will finance substantially less fertilizer this year than last. The total US purchase of fertilizer for aid distribution to LDCs will probably amount to about 350,000 tons, of which only 50,000-100,000 tons would go to South Vietnam. For South Vietnam to obtain the same quantity as last year would require large disbursements from its own foreign exchange holdings, which are already near record lows. While other foreign spending could be reduced, there is little room to trim imports without reducing domestic availabilities of key raw materials, food, and other essential commodities.

12. There are some indications that large fertilizer stockpiles in-country could substantially cushion the impact of reduced imports, but there is considerable disagreement on the size of these stocks. Estimates range from 120,000 to 350,000 tons, with the lower end of the range being more likely. Even these figures are deceptive, however, for the forms in which the stocks are held vary considerably and in ways that significantly affect whether they will be drawn into use this year. Some are scattered around the country in small batches; others are in large hoards.⁶ Commercial importers - who in principle are authorized to sell only to

6. Fertilizer hoarding is not a new problem. A recent knowledgeable visitor reported that some of the fertilizer now being marketed carries labels indicating it was imported in the middle and late 1960s.

~~Confidential~~

licensed dealers and farm organizations -- have been accused of selling for later resale large amounts to influential persons and organizations who had no need for fertilizer at all.

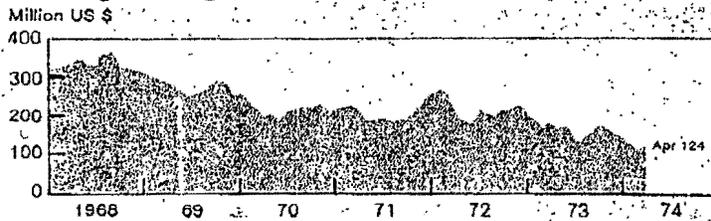
13. The government is attacking the problem primarily at the wholesale level. In mid-May the government announced that it would take over the importing of fertilizer. If this occurs, the government will have direct control of initial fertilizer distribution, eliminating the commercial importer and giving the government a role in fertilizer similar to its present control of the sale of imported rice. The Prime Minister also ordered a check on all warehouses and called for maintenance of official prices. The latter is impractical, however, given the myriad import prices that have prevailed over time in the constantly changing world market and the need for reasonable profit margins for legitimate retailers.

14. If, in spite of all efforts, fertilizer use is substantially below last year's rate, the resulting impact on rice output could be quite strong. The high-yielding rice varieties now being used on one-third of the planted area (about 900,000 hectares) have been largely responsible for the increase in paddy production from 4.4 million tons in 1968-69 to an estimated 6.5 million tons in 1973-74. These new strains are highly fertilizer-responsive and in Vietnam yield about 4 tons of paddy per hectare, whereas traditional varieties that are not fertilized yield only about 1.7 tons. At typical application rates, a one-ton decrease in fertilizer on fields planted to high-yielding varieties would result in a .7-ton decline in output; on traditional varieties that are fertilized, a one-ton reduction in fertilizer would reduce output by about 3 tons.

~~Confidential~~

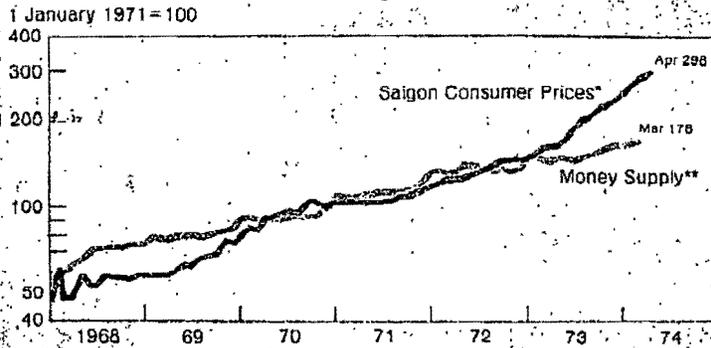
South Vietnam: Economic Indicators

Foreign Exchange Reserves*



*Consisting of gold and foreign exchange held by the National Bank of Vietnam.

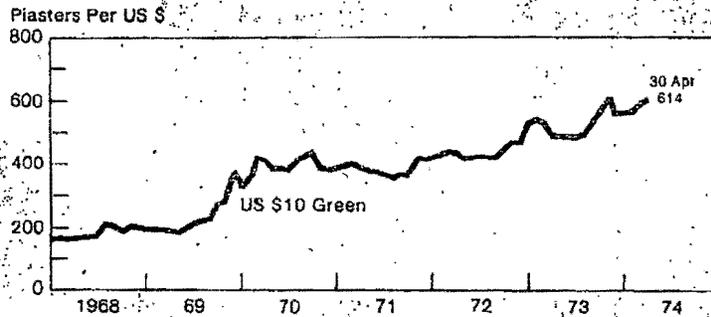
Indexes of Money Supply and Saigon Consumer Prices



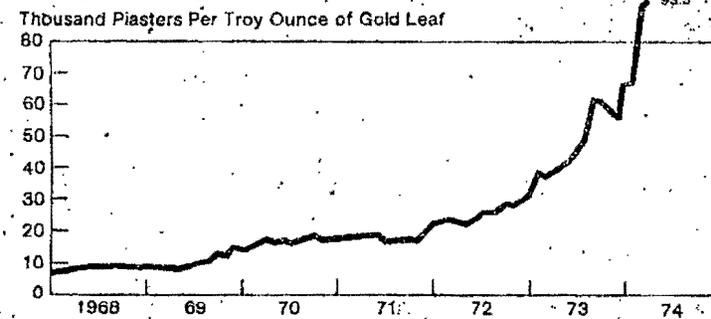
US AID monthly average retail price index for Saigon. A revised index was established beginning in January 1971; the new series was linked directly with the former data.

**Data are for end of month.

Free Market Currency Prices



Free Market Gold Prices

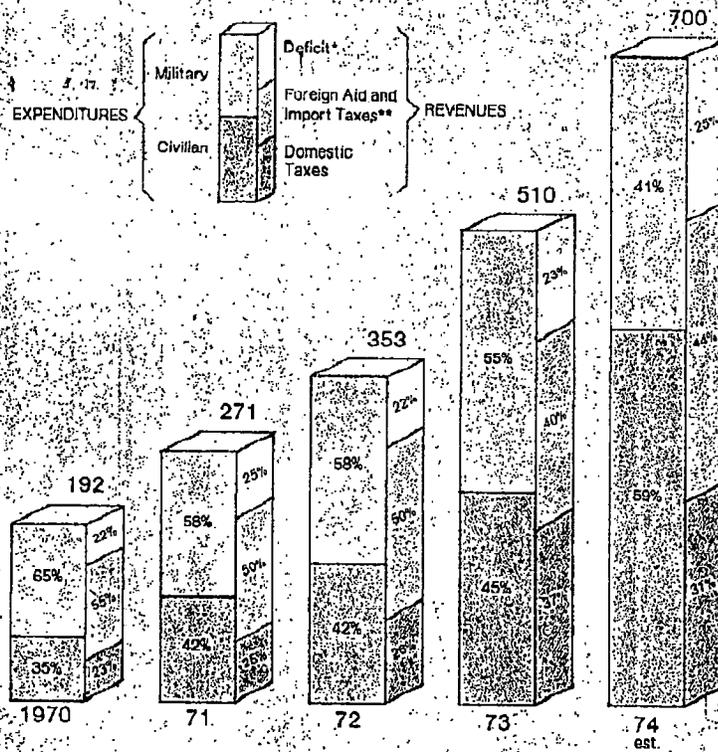


503400 6/74

UNCLASSIFIED

South Vietnam: Government Budget

Billion Piasters



*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.

563401 8-74

UNCLASSIFIED