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ECONOMIC CONTEXT

A265a UNITED STATES ECONOMIC ASSISTANCE TO VIET NAM, 1954-1975

VIET NAM TERMINAL REPORT

PREPARED BY THE ASIA BUREAU

AGENCY FOR INTERNATIONAL DEVELOPMENT

DECEMBER 31, 1975

Economic Context -- United States Economic Assistance to...

VS  
330.9597 Agency for International Development. Asia  
A265a Bureau.  
Economic Context -- United States Economic  
Assistance to Viet Nam, 1954-1975. Viet Nam  
Terminal Report. Dec. 1975.  
1 v.

1. Economic development - VS. 2. Inflation (Finance)  
- VS. 3. Economic policy - VS. I. Title.

Reference Center  
Room 1008 NS

VIET NAM TERMINAL REPORT

II. Economic Context

C. January 1965 - February 1968

1. Introduction and Summary

This 38-month period extends from the beginning of the U.S. troop build-up in early 1965 to the Tet offensive in 1968. It was a time of intensification of the war and wrenching structural changes in the Vietnamese economy.

U.S. military forces increased from 16,300 at the end of December, 1964 to 515,200 by March, 1968. GVN armed forces grew from 514,000 in 1964 to 715,000 in 1968. Viet Cong forces also expanded greatly and North Vietnamese army infiltration began and accelerated during the period.

1965-1968 was a period of general diversion of resources from civilian production of food and other goods, to war-related services. Many Vietnamese were drafted or became GVN civilian employees, while others left farms to take employment in military base and port construction or to work in the American sector. Vietnamese employment by the U.S. increased from a handful in 1964 to 140,000 in 1968. It is estimated that the urban population increased from 15 percent of the total in 1964 to 40 percent in 1968. At the same time paddy hectarage and production declined from 2.6 million hectares and 5.2 million metric tons in crop year 1964/65 to 2.3 million hectares and 4.3 million metric tons in 1966/67. In 1963, Viet Nam was the fourthlargest rice exporter in the world, and in 1967 it was the world's largest importer.

Rice imports were financed as part of U.S. aid, which expanded greatly during the period: U.S. economic aid appropriations combined with piaster purchases increased from about \$267 million in 1964 to \$970 million in 1965. Relatedly, annual commercial imports (payments basis) averaged \$613 million in 1965-68 compared with \$269 million for the period 1961-64. In contrast, exports dropped from an annual average of \$63 million in 1961-64 to \$35 million in 1965-68. Notwithstanding the sharp rise in imports and decline in merchandise exports, GVN international reserves rose from \$140 million at the end of 1964 to \$312 million at the close of 1967. The main reasons for the reserve rise were the time lag required to get commodity imports to Viet Nam and the delay in unloading on arrival due to severe congestion, until 1967, at the Saigon port. Consequently, all of the foreign exchange available for imports during the three years 1965-67 could not actually be utilized for importation.

With these and other limits on imports, the greatly increased appropriations for U.S. economic aid were not able to fully offset the strong inflationary pressure resulting from expanded GVN military budget expenditures and increased U.S. official and troop expenditures. As a result, the relative price stability which had prevailed in 1954-64 gave way to a consumer price rise of 68 percent in 1966 and an average of 39 percent in the three years 1965-67.

By the end of the period the economy had been transformed from a basic situation of underemployment and relative stagnation in 1964, to a wartime economy characterized by overemployment and a basic imbalance

between supply and demand for resources in 1968. This imbalance required for prevention of hyperinflation large recurring imports of U.S. aid-financed food, raw materials, fuels, fertilizers and other commodities. In this and other ways 1965-68 was a period of "Americanization" of the economy as well as of the war.

## 2. Comparison of Economy in 1964 and 1967/68

Basic features of the Vietnamese economy just before the U.S. forces build-up in 1964 and at the peak of U.S. presence in 1967/68, as outlined by the USAID in February 1973, are presented below.

### a. The Economy in 1964.

- Population about 15 million, 80 percent rural.
- Agriculture still predominantly undiversified lowland rice culture.
- About 60 percent of the rice farmers were tenants.
- Rice and rubber (from French-owned plantations) were the only significant exports.
- Saigon, the only major city, had a population of less than 1 million.
- A balance of payments deficit of about \$190 million was covered by U.S. assistance.
- The only industries of any importance were textiles, cement, and paper, all largely government-owned.
- Little or no new investment was taking place, either local or foreign.
- There was widespread underemployment, and the economy seemed stagnant.

b. The Economy in 1967-68

--The U.S. military forces, more than 500,000 men, were spending more than \$300 million a year in piasters purchased from the National Bank with dollars and employing 140,000 Vietnamese nationals.

--Expansion of the GVN armed forces by about 300,000 men had greatly increased the military budget.

--Heavy fighting in the countryside and new jobs in the cities had led to a massive urbanization so that nearly 40 percent of the population lived in cities, and the population of the Saigon area exceeded two million. Many of the urban newcomers were refugees.

--Rice production, off one million tons in 1965-67. More than 700,000 acres of rice land had been abandoned. In 1967 it was necessary to import 750,000 tons of rice, mostly from the U.S.

--Strong price inflation since 1965 had led to shifts in income distribution: GVN civil and military services losing sharply, farmers in secure areas benefitting, merchants gaining, refugees losing.

--There was a general shortage of labor, especially all forms of skilled labor.

--Total imports had risen sharply (from \$233 million in 1964 to \$635 million in 1967), and exports had fallen to a mere \$20 million). The greatly increased balance of payments deficit was financed partly by an increase in A.I.D.

assistance  
and P. L. 480, partly by use of the dollar earnings  
from the U.S. military presence.

--The Tet attacks of 1968 brought destruction to the  
cities and a setback to the private sector, but these ef-  
fects proved shortlived; economic activity quickly re-  
vived and many new investments of local capital were  
noted.

--As price inflation continued unchecked, speculative ac-  
tivity abounded; failure to adjust the exchange rate for  
piaster purchases after 1966 led to an increasing black  
market in dollars.

### 3. Major Economic Developments During 1965-1968

From the perspective of early 1975, the USAID provided the  
summary of developments in 1965-68 presented below.

The start of large-scale fighting in 1965 began to transform the  
economy of South Viet Nam. Major troop build-ups of both Vietnamese and  
U.S. forces were initiated. Agricultural land was lost because of lack of  
security and manpower was lost to both the army and as refugees. GVN de-  
fense expenditures jumped from 12.5 percent of GNP in 1964 to 19.5 percent  
in 1965.

The changes in the Vietnamese economy during 1965 and shortly there-  
after inevitably resulted in some major structural changes to meet wartime  
requirements and to support the American presence. Most important were the  
heavy element of services in the composition of GNP and the heavy dependence  
on imports for commodities. (The physical damages of the Tet offensive in  
1968 were more severe, but were of a sort that caused little structural  
change since reconstruction had largely offset these by the next year.)

There was a considerable drop in agricultural production from 1964 to 1966. This shows up clearly in the rice statistics; paddy production was down from 5.2 to 4.3 million tons. Among the other major crops, rubber and sugarcane also showed sharp declines. Manufacturing as a percent of total output decreased. The commodity component of GNP was reduced substantially.

The drop in agricultural production was partly as a result of reduced hectareage planted, due to insecurity. Hectareage in paddy fell from 2.6 million in 1964 to 2.3 million in 1966. But drops in the production of commodities were also due to a massive movement of labor. There was a major build-up in the army. There was a large movement to the cities both for security and for employment, which was largely in services. The U.S. sector attracted a substantial number of workers which, directly and indirectly, is estimated at more than 300,000 at its peak. This U.S. employment is upwards of five percent of the total labor force and accounted for a considerably larger portion of total labor income.

The drop in agricultural and industrial production, however, did not result in a drop in GNP. Increases in the service sector, particularly the defense component of government service and the services supplied to the U.S. sector, more than offset it. Total GNP is estimated to have increased about three percent per year from 1964 to 1967, which means that per capita GNP remained about constant.

A constant per capita GNP did not, however, mean that per capita consumption would automatically remain constant. Income from GVN military service and services to the U.S. sector provided new wages for the additional services added into GNP. But they did not provide comparable additional things to be purchased from these new incomes.

These changes would suggest a considerable drop in real per capita private consumption. In fact, however, such consumption appears to have

actually increased. This was made possible by a great increase in imports, mostly consumer goods, which in turn was largely made possible by a tremendous increase in U.S. economic aid.

The large increase in U.S. aid for imports, primarily food and other consumer goods, was a deliberate and necessary policy. It can be thought of as having an anti-inflationary purpose which of course it did; the increased incomes being earned in the service sector where chasing fewer goods being produced in agriculture and industry. An even more direct way of viewing this commodity aid, however, is as a substitute (though not on an item-by-item basis) for the commodity production lost as a result of the war.

The following figures indicate the magnitude of changes of both total imports and their composition. Total imports increased from about 15 percent of GNP in 1964 to about 30 percent in 1967. U.S. economic aid committed (excluding U.S. plaster purchases) rose from \$275 million in FY 1965 to a peak of \$740 million in FY 1966 (although actual expenditures rose less rapidly). The big increase in consumer goods imports is illustrated in part by the following: rice went from zero in 1964 to 434,000 tons (\$72.1 million) in 1966 and 750,000 tons (\$135.5 million) in 1967. Fabric imports increased from \$6.6 million in 1964 to \$49.3 million in 1967. Motorcycles rose from \$3.6 million in 1964 to \$42.1 million in 1967. POL imports increased from 639,000 tons (\$18.4 million) in 1964 to 934,000 tons (\$30.2 million) in 1966 (and on to 1,860,000 tons at \$75.6 million by 1972).

The net effect of the decline of commodity production as a percent of GNP and the great increase of commodity imports was that by 1967 about 40 percent of all commodities available to the Vietnamese economy were imported.

The major shifts in the structure of domestic production and commodity imports between 1964 and 1967 produced the intended effect. Inflation, although serious, did not develop into hyper-inflation. Standards of living on the average were at least maintained and probably actually rose a little.

Nevertheless, these shifts in the economy would eventually have to be corrected. Few economies, particularly in the less developed countries, could operate indefinitely on a satisfactory basis with services constituting over half of GNP. And the heavy reliance on the import balance to maintain personal consumption—to say nothing of the savings needed for growth—would plainly have to be reduced ultimately. These structural corrections would of course take time.

The changes <sup>in 1965-1968</sup> detailed above gave some indication of the direction and magnitude of the reverse changes that would eventually be required.

#### 4. Balance of Payments Impact of U.S. Involvement

As indicated above, massive U.S. intervention had major balance of payments consequences for Viet Nam. These are summarized in the statement prepared in 1970, presented below.

In the whole pre-U.S. build-up period 1956-64 imports averaged about \$250 million per year, exports \$70 million and exchange reserves changed very little. The armed forces were less than 200,000 most of the time and the import level and its associated revenues kept money supply and prices relatively stable. There were important increases in effective exchange rates and import taxes in 1956-57 and in early 1962. U.S. local spending was negligible. Diversion from the military assistance program to the economy was probably small during this period.

In 1961-64 insurgency and the size of the Vietnamese army started to rise. Imports increased but aid did not, probably because of the growing .

friction with the Diem government (overthrown in November 1963). Therefore, the exchange reserve increase of the period 1956-60 was largely wiped out. Spending by Americans, mostly military advisers who numbered about 23,000 by 1964, had very little impact on the balance of payments.

In the period 1965-68 the build-up of both U.S. and Vietnamese forces resulted in serious inflation and the doubling of U.S. assistance. Assistance plus local U.S. spending, an important factor for the first time, was sufficient to more than double both imports and exchange reserves even while exports declined. This occurred even though several hundred million dollars worth of piasters were obtained for U.S. use by various means that did not involve dollar purchases.

With respect to the exchange system, an accommodation rate for U.S. forces was established at 118/1 in September 1965. All payments and receipts except piaster purchases for official use (left at 80/1) were set at 118/1 in June 1966. This exception was eliminated in October 1967.

In this period there is also a statistical, and therefore analytical problem, that the combination of a large U.S. sector inflation and an over-valued exchange rate created a large unrecorded black market in goods and currency. The drain of military and PX supplies and capital flight means that the real balance of payments would look somewhat different than the statistical record we have. Imports would be higher perhaps by \$100-200 million and the private capital account would be negative. It would show higher invisible receipts and consequently a larger invisible surplus and larger "grants".

##### 5. Employment Impact of War

As already noted, the urban population is estimated to have increased from 15 percent to 40 percent of the total during the years 1964-68. Some further idea of the massive transformation of the economy which resulted

from the war can be gotten from figures for employment shifts from 1965 through 1968, shown in the table below.

		<u>Employment Shifts</u>	
		<u>1965</u>	<u>1968</u>
	GVN military	500,000	750,000
	GVN civil service	140,000	200,000
	Vietnamese employed by U.S. gov't. & U.S. contractors	10,000	140,000
	Private sector;		
construction	of hotels, restaurants, bars	small	large
	Operation of hotels, bars and restaurants	small	large
	Bar girls in Saigon-Bien Hoa area	500*	30,000*
	Stevedoring	small	large
	Importing	small	large
	Rental of homes and offices to Americans	small	large

Source: USAID Spring Stabilization Review 1967

\* "A Strange Sad Story" Atlas, September 1967

#### 6. Impact of War on Availability of Goods

Some insight into the impact of the war on goods availabilities are contained in an essay "Availability of Goods in South Vietnam From 1964 through 1967", by the A.I.D. contractor, Institute of Defense Analyses. Slightly revised portions of this paper are included below.

Despite the adversity of the war and the political and economic uncertainties which followed from it, the South Vietnamese economy, buttressed by massive U.S. aid, moved ahead at a rapid pace in the four year period. Little can be said about the distribution of the economic gains; however, conclusions regarding the total economic gains can be summarized as follows:

- 1) total availability of goods increased approximately 20 percent;
- 2) availability of domestically produced agricultural products declined 9 percent;

- 3) industrial production increased by at least 45 percent;
- 4) consumable imports doubled; and
- 5) the increase in available goods did not come because of a reduction in the foreign exchange balance.

Intensification of the war beginning in 1965 had a major effect on transportation of both goods and passengers as indicated in the tables below.

VIETNAMESE NATIONAL HIGHWAY SYSTEM OPEN TO TRAFFIC  
1965 THROUGH 1967

Year	Estimated kilometers open	Percent of total
1965	2165	57
1966	2925	77
1967	3075	81

Source: Engineering Division, Highway Branch, Agency for International Development, Saigon.

ANNUAL RATES OF IMPROVEMENT IN TRANSPORT ACTIVITIES  
1964 THROUGH 1967

Activity	Percent increase over previous year		
	1965	1966	1967
Railways			
Passengers	- 84	- 45	326
Freight	- 48	47	166
Air (Private)			
No. of flights (Air Vietnam)	95	22	23
Passengers	105	19	44
Freight	211	29	17
Mail	97	19	15
Internal mail	4	1	8
National highways open to commerce		35	5
Railroads open to commerce	- 78	0	76

Source: National Institute of Statistics and USAID.

The war also impacted heavily on agricultural production. Agriculture continued to be the major economic activity in Vietnam. In 1964 about one-third of the gross national product was attributed to agriculture, but the

agricultural sector employed at least one-half of the total work force. While South Vietnam was commonly regarded as a rice economy, there were other agricultural products (interpreted to include fishing and forestry) of considerable economic importance. Noteworthy among these were fish, pork, timber, rubber, and vegetables. The table below shows how the output of South Vietnam's major agricultural products changed over the three year period.

INDEXES OF AGRICULTURAL CHANGE IN SOUTH VIETNAM, 1964 THROUGH 1967  
(1964 = 100)

Commodity	Weight	1965	1966	1967
Agricultural crops	(134)			
Paddy rice	100	93	84	86
Manioc	4	82	100	91
Sweet potatoes	5	92	82	84
Sugarcane	3	104	89	73
Peanuts	1	92	94	94
Rubber	14	81	67	57
Tea	2	109	96	78
Vegetables	5	124	133	178
Animal products	(100)			
Pork	45	114	100	105
Fish	55	94	96	100
Timber production	16	105	87	68
TOTAL	250	98	90	91

Source: GVN and USAID.

Production of rice, rubber and timber declined over the period studied. These three products comprised more than one-half of the index of agricultural production as measured in the above and their decline caused serious food and international payment problems for the South Vietnamese.

• In 1963 South Vietnam exported 323 thousand metric tons of rice but in 1967 it imported 770 thousand tons. This turnaround of approximately

1.1 million metric tons was the best measure of the severity of the rice situation in South Vietnam. In 1963, South Vietnam was the world's fourth largest exporter of rice and in 1967, it was the world's largest importer.

Rubber production on plantations of more than 500 hectares declined from 69 thousand metric tons in 1964 to 39 thousand tons in 1967. Peak production occurred in 1961, when 71 thousand tons were produced. The steady decline of rubber was a direct result of the intensification of the war with the obvious effect of loss of security in rubber growing regions, loss of labor, and loss of incentive to produce due to what was commonly believed to be high Viet Cong taxes on rubber production. The loss of production can be explained by a reduction in planted area actually exploited and a loss in output per hectare. Between 1964 and 1967 exploited areas declined by 24 percent and output per hectare by 15 percent. The decline of rubber also had a major impact on South Vietnam's export trade to which it regularly contributed more than all other products taken together.

Another major casualty of the war was timber production. South Vietnam had relatively large forest reserves which had never been properly managed but the war greatly aggravated the situation. According to one report,

Log extraction has been hazardous and wood labor scarce:  
Defoliation has modified large areas with unforeseen results, bombardment...renders (trees) useless for processing  
...loggers are exposed not only to Viet Cong harassment but to the possibilities of bombardment by Allied aircraft.<sup>6</sup>

According to official estimates timber production declined by 32 percent between 1964 and 1967.

Agriculture in South Viet Nam was dominated by rice production. However, there were a few crops of some local importance. Sugarcane was a fairly important crop in Gia Dinh and Quang Ngai provinces, sweet potatoes were

6. Henry S. Kernan, "Preliminary Report on Forestry in Vietnam," Working Paper No. 17, Joint Development Group, Saigon, January 1968, pp. 3 and 54.

grown in Quang Ngai, manioc in Tay Ninh, peanuts in Binh Dinh, and tea was very important in Lam Dong province. These crops were also grown to lesser degrees in most of South Viet Nam's provinces. Production of each of these crops was hindered by the war.

The only bright spot in South Vietnamese agriculture for the period under consideration was vegetable production. The overall gain for South Viet Nam over the three year period was 78 percent. Most provinces shared in this gain as vegetables became a very important cash crop for South Vietnamese farmers located close to the large cities and provincial capitals.

Working class Vietnamese spent almost twice as much on protein products as they did on rice. The principal protein foods were fish, pork, beef, chicken, duck, eggs, and milk. Of those products fish and pork were by far the most important. Production of fish and pork changed little between 1965 and 1967. According to NIS estimates, pig slaughterings increased five percent and fish recovered its 1964 level after declining in 1965. Total agricultural output was nine percent lower in 1967 than it was in 1964.

Industry emerged during the period as a significant activity in the South Vietnamese economy. In 1964, manufacturing contributed about one-third as much as agriculture to the gross domestic product in South Viet Nam.

Because new manufacturing industries were located in secure areas, the war did not have the adverse effect on the growth of industrial production as it did in the case of agriculture. For the period under consideration, the index of industrial production increased 45 percent. The table below shows the growth of all the major subclassifications under industry. Note the very rapid growth in plastic articles, electrical equipment, tobacco, and beverages. The textile industry which had shown significant gains to 1966 fell off in 1967 and competition from imports made a further decline likely

YEARLY INDICES OF INDUSTRIAL PRODUCTION, 1964 THROUGH 1967<sup>a</sup>  
(1962=100)

Class of product <sup>b</sup>	Weight					Percent change
		1964	1965	1966	1967	1964 - 1967
General index	100.0	132	158	171	191	45
Manufacturing Industry	93.5	133	160	173	194	46
Foodstuffs	14.5	93	106	115	127	37
Beverages	45.1	148	182	189	215	45
Tobacco	13.7	120	148	171	221	84
Textiles	10.8	144	162	170	155	8
Wood and wood manufacturing	0.5	5	9	4	5	0
Paper	1.1	150	146	219	129	- 14
Chemical products	1.9	147	187	176	165	12
Glassware	.9	128	117	129	144	13
Iron and steel	1.1	118	143	166	39	- 67
Electric equipment	0.8	118	167	291	366	210
Plastic articles	0.5	183	358	445	610	233
Electricity	5.2	129	168	174	197	53

a. Source: National Institute of Statistics, Monthly Bulletin of Statistics, October 1968, Bulletin No. 10.

b. This table includes only those products for which the weight in general index is greater than or equal to 0.5 percent.

The growth rate (46 percent) of South Vietnamese manufacturing industry during the war was impressive. However, to properly interpret the significance of this growth in terms of <sup>total</sup> availability of goods one should understand that the total manufacturing activity in South Viet Nam was small.

One of the major indicators of economic development was generator capacity. Despite the war, output of electricity in South Viet Nam increased by 53 percent (1965 through 1967) and additional capacity was being constructed. Power generation in Saigon added over 200 million kilowatt hours in three years, but all parts of the country gained. The table below shows the percentage gains through 1967.

PERCENT GAINS IN ELECTRICITY PRODUCTION IN SOUTH VIET NAM BY AREA  
1965 THROUGH 1967

<u>Area</u>	<u>Percent gain through 1967</u>
Saigon Metropolitan	62
(Production at Danhim)	(total loss)
Other South	100
Central Lowlands	129
Central Highlands (excluding Danhim)	27

Source: GVN official statistics.

The Danhim output was completely closed in May 1965. This was South Viet Nam's biggest hydroplant and had a capacity of 160,000 kwh. It began operation in October 1964 and was shut down completely in May 1965 due to sabotage of the 230-kv transmission lines to the Saigon area. The loss of this major source of power resulted in a crash program in Saigon to replace cheap hydropower with relatively expensive diesel power.

Some new industrial capacity, which does not show up in the index of industrial production, was introduced into South Viet Nam during the period. New products such as cement, asphalt shingles, plywood, millwork, plastics, and canned milk were among the most prominent ones. The production of cement was the best example of a dramatic wartime change. In 1963 South Viet Nam produced no cement. A clinker plant at Ha Tien and a cement plant at Thu Duc were completed in 1964 with a 300 thousand ton capacity which, at the time, was expected to take care of three-fourths of the total South Vietnamese requirements. As can be seen in the table below local needs increased much faster than the government had anticipated, and cement production did not reach its capacity due to Viet Cong interdiction of barge

traffic in Viet Nam's southern canal system. Even so, in 1967 the cement plant supplied 28 percent of South Viet Nam's cement needs.

DOMESTIC PRODUCTION AND CEMENT IMPORTS, 1964 THROUGH 1967

	Year			
	1964	1965	1966	1967
Domestic production (000 tons)	75.3	189.3	134.7	180.8
Imports (000 tons)	437.4	426.1	365.1	476.2
Total availability	512.7	615.4	499.8	657.0
Percent produced in Viet Nam	15	13	27	28

Source: National Institute of Statistics, Monthly Bulletin of Statistics, October 1968.

The index of availability shown below combines agricultural production (adjusted for imports of rice), industrial production, and nonduplicated imports (i.e. imports not used as agricultural and industrial inputs).

INDEX OF AVAILABILITY OF GOODS IN SOUTH VIET NAM, 1964 THROUGH 1967

Sector	Sector Weight	Year			
		1964	1965	1966	1967
Agriculture availability	0.68	1.00	1.00	0.97	1.03
Industrial availability	0.23	1.00	1.20	1.30	1.45
Import availability	0.09	1.00	1.24	1.88	2.01
TOTAL AVAILABILITY		1.00	1.07	1.13	1.21
(Domestic agricultural output)		(1.00)	(0.98)	(0.90)	(0.91)
(Total domestic output of goods) <u>a/</u>		(1.00)	(1.04)	(1.00)	(1.05)

a/ This row combines the unadjusted agricultural production and industrial indexes with weights of 0.75 and 0.25, respectively.

During the four year period covered, availability of goods to the South Vietnamese increased 21 percent. If one considers only domestic agricultural

output and domestic industry, the South Vietnamese produced five percent more goods in 1967 than in 1964. Thus, it appears that about one-quarter of the total gain in availability was due to domestic activities and three-quarters was due to importing of goods. Even this statement needs qualifying because the gain in domestic output was due entirely to the large increase in industrial production (45 percent) as agricultural output declined by nine percent. It is doubtful whether industrial production would have increased so rapidly had South Vietnamese industry been denied certain raw materials it required through importation.

In order to measure the progress in material welfare in South Viet Nam, material welfare was defined as the gross availability of goods for consumption and investment.

It should be noted that the population increase absorbed some of the increase in goods. Considering that the population increased eight to nine percent in 1964-67, availability of goods increased rapidly enough to allow for a per capita increase of goods of about three to four percent a year.

Although there are no adequate data on domestic investment over the period of this study, it is believed that the capital stock of South Viet Nam actually increased. Much of the U.S. investments in bases, airfields, roads and port facilities (public investment) would, it was believed, have a future payoff for the Vietnamese. In addition, there was some investment in farm machinery, buildings, and capital equipment financed by the South Vietnamese and A.I.D. Despite much destruction of houses, the capital stock in South Viet Nam at the end of 1967 probably was larger than in 1963. It is hardly conceivable that the increase in availability of goods came as a result of capital consumption.

Total export earnings (merchandise and services)

also increased.

While the exportation of

goods declined to a negligible amount, the exportation of services increased

rapidly. At the end of 1967, the U.S. government employed approximately 140,000 South Vietnamese civilians. This employment and the local U.S. troop expenditures were the major sources of South Vietnamese foreign exchange reserves. Foreign exchange reserves increased from about \$175 million at the end of 1963 to about \$325 million at the end of 1967. The gains in availability of goods calculated in this study thus did not come about by drawing down foreign exchange balances.

#### 7. The Inflationary Impact of the War.

The principal focus of U.S. economic aid to Viet Nam during 1965-68 was on financing needed commodity imports to help limit inflationary pressures resulting from the war, and on providing advice to the GVN on supporting economic policies required to help achieve and maintain relative economic stability. Because of these aims it is important to have an adequate understanding of the nature and intensity of inflationary forces unleashed in 1965-68 by the war and of the measures considered and actually taken by the GVN to control these forces. A paper prepared by the USAID in December 1969 ("Inflation in Vietnam: 1965-69") provides a good exposition on these matters. Relevant parts of this paper in slightly revised form are presented below.

##### a. Introduction

Inflation had been a serious problem in Viet Nam since early 1965, when American troops began to arrive in large numbers. It had gone through several phases: a rapid increase in prices during 1965-66 culminating in the devaluation of June 1966, then a lull, gradual resumption of pressure in 1967, then the shock of Tet 1968, followed by a period of stagnation. The following memorandum begins with a short description of the economic situation as it was in early 1965, just before the American build-up began,

and then traces the course of the inflation through its several phases, describing the Vietnamese and American efforts to control it.

b. The economy before the American buildup

During late 1964 and early 1965, South Viet Nam went through a dark period in political and military terms. The overthrow of the Diem regime in 1963 had been followed by a succession of short-lived governments, none of them with much claim to legitimacy or popular support. The VC hold on rural areas/<sup>became</sup> stronger. Roads and waterways that had always been safe were closing.

Surprisingly, perhaps, it was not a period of rapid price inflation. Prices continued to rise moderately, as they had every year since 1960. During 1964, the NIS lower income cost of living index rose by only eight percent. The explanation was not far to seek. In the first place, the war had not, up to that time, disrupted economic life to the degree that might be imagined. For example, the rice crop of 1963-64 was the largest of the post World War II period, and possibly the largest in Viet Nam's history, at 5,327,000 tons of paddy. The 1964-65 crop was almost as large, 5,185,000 tons. The area planted to rice in 1964-65, 2,562,000 hectares, was actually slightly larger than that of the previous year. So it was clear that the war had not yet begun to drive large numbers of peasants off the land.

It can also be said that the war had not, in 1964, by any means absorbed the full resources of the economy. Though the numbers cannot be determined, it is certain that there were many unemployed and underemployed people both in the cities and in rural areas. South Vietnamese military forces at the end of 1964 totaled 450,000 and there was no significant number of Vietnamese employed by the U.S. government, so the governmental sector of the economy employed in all less than 600,000 people. In contrast, this

sector would employ almost a million people by early 1967, and over a million and a quarter people by early 1969. In 1964 and early 1965, the economy had not yet been placed under pressure; its resources had not been brought fully into play by the Vietnamese government.

Some general characteristics of the 1964 economy can be briefly noted. The end-1964 population was an estimated 14.4 million, of whom 2.1 million lived in Saigon-Gia Dinh. The GNP for 1964, translated to U.S. dollars at the then effective rate of \$VN 60 = \$1, was about \$2.4 billion, or \$167 per capita. During 1964 total imports (licensing basis) were \$281.5 million, of which \$92.1 million was GVN financed and \$187.4 million U.S. financed. Export shipments totaled \$48.5 million, including some 50,000 tons of rice; 1964 was the last year of self-sufficiency in rice. The balance of payments for 1964 was adverse, and reserves of gold and foreign exchange fell by \$39 million, to \$140 million at year's end. The GVN budget for 1964 was \$VN 37.1 billion, of which \$VN 19.4 billion was for the Defense Ministry. The National Budget equalled about 25.6 percent of GNP. Money supply increased by 21 percent during 1964, and at year's end totaled \$VN 27.4 billion.

It is interesting to note that, during the seven year period from end-1957 to end-1964, the money supply rose by 150 percent, from \$VN 11.0 billion to \$VN 27.4 billion, while prices, as measured by the NIS lower class cost of living index, rose by only 20 percent during the same period. (The middle class index is not significantly different.) This very wide discrepancy is hard to explain. Population was growing at some three percent per year during this period, and national output possibly by slightly more than that, so that an increase over seven years in the volume of

transactions of about 30-35 percent probably took place. The remainder of the difference must be attributable to two factors: increasing cash holdings, and increasing monetization of trade in rural areas. The ratio of deposits to notes in circulation was almost constant over the period, and gives us no clues.

For the four years 1965 through 1968, while money supply rose by 350 percent, the NIS lower class index rose by 300 percent. In other words the long period when large increases in money supply could be absorbed without price increases of roughly corresponding magnitude came to an end after 1964.

c. The inflation of 1965-66: shift of resources

During the period from April 1965 to July 1966, the cost of living in Saigon rose by about 125 percent. Compressed into this period of 15 months were events which altered the character and intensity of the war, and also profoundly affected the economy. Idle resources were sucked into the war effort, and other resources were drawn from peacetime use into war related activity.

The shift of resources was most evident in the abrupt decline in rice production. The area under rice cultivation dropped by the planting season of 1966 some 250,000 hectares from the 1964 level. Rice production fell, between the 1964-65 crop and that of 1966-67, by nearly a million tons, from 5.2 million tons of paddy to 4.3 million tons. Most of the drop in production occurred because people left their farms, partly driven away by the war itself, partly drawn to the cities by offers of high wages. As many as a million people came into urban areas. Many of them took jobs with the GVN and with U.S. agencies and contractors. Young men were drafted or joined the police.

From the end of 1964 to the end of 1966, the GVN armed forces rose by 170,000 men. The civil service, including police and paramilitary forces,

more than doubled, rising from 143,000 at the end of 1964 to 330,000 at the end of 1966. In addition, by the end of 1966 the U.S. government and its contractors were employing 142,000 Vietnamese citizens, whereas they had employed only a handful in 1964. Thus the total employment increment in the GVN-U.S sector was about 500,000. In addition, the GVN and U.S. force build-up drew an unmeasured but very substantial number of people into private-sector employment related to the war. One would have to count the expansion of the dockworker force at the Port of Saigon, expanded employment by the oil companies and others supplying the forces, and the host of laundry workers, car washers, and bar girls who came to cluster about the military camps.

By early 1966, unemployment had substantially disappeared in Saigon and in many other parts of Viet Nam. Acute shortages of skilled labor had arisen, and the U.S. sector was deeply engaged in training many thousands of Vietnamese as truck drivers, clerks, interpreters, and in hundreds of other skills. Residual unemployment remained in outlying areas, particularly in I Corps, which had always been overpopulated. Transportation and housing problems and lack of appropriate skills made it difficult to draw people from these areas into vacant positions.

By early 1966, the manpower resources of Viet Nam were fully employed, from the inflationary point of view. Because of great frictional problems in matching people to jobs, there were still unemployed and underemployed people, so that there was potential for further expansion of employment and production, but this potential could only be realized gradually, at a pace governed by the output of training schools, the improvement of security, and the general restoration of order to the badly disrupted economy.

The shift to a full-employment situation was accompanied by a considerable growth in real income for the families who were in a position to take advantage of it, mainly urban families. It should be noted that in Viet Nam the "extended family" was usual. That is, income was pooled within a family including four, five, or more workers. As more jobs became available, women, children, and elderly people who had not been in the work force were absorbed into it. Moreover, it became relatively easy for many working people to earn overtime pay, or to find second or even third jobs. All of this made it possible for many families not only to stay abreast of the cost of living, but actually to improve their status. Although wage rates--especially civil service and military pay--did not rise nearly as fast as prices, it was observable that many people were experiencing a growth in real income: they were buying Hondas, sewing machines, transistor radios, and other goods that had been beyond their means before. Most of the increased income went into imported consumer goods. Total Vietnamese import arrivals expanded from \$298 million in 1964 to \$496 million in 1966. The importation of motor-bikes increased from \$3.6 million in 1964 to \$22.5 million in 1966.

Obviously, not all Vietnamese shared in this prosperity. Individuals with limited access to the new jobs by reason of location or health, especially if they belonged to small families, were driven down in the confusion of the inflation to lower standards of living.

In general, the urban population may have tended to gain earlier than the rural population. At any rate, the visible evidences in terms of objects like Hondas were seen in large numbers in Saigon before they began to appear in the provinces. But it is not clear that the "terms of trade" between city and country, as measured by prices of the things farmers buy and the things

they sell, changed seriously during this period. The farmer's plight during 1965-66 was chiefly a matter of insecurity, unreliable transportation of goods to market, and shortage of farm labor, rather than changing price relationships.

The shift of resources to war-related activity during 1965-66 was in the main a desirable one from the point of view of the GVN and U.S. government. The situation demanded more soldiers, more police, more stevedores, more construction labor for air bases. In this light, the decline in output of rice, rubber, and other agricultural commodities was a price that had to be paid. Rice could be imported. U.S. aid could substitute for export earnings. The farmer in many cases was needed elsewhere than in the paddy.

Obviously, not all elements of the resource shift were desirable. The inflation drew resources into "war-related" activities such as bars for troops. A rather tawdry assortment of service industries grew up overnight, dedicated to the comfort and convenience of the American soldier. In addition, the inability of the GVN to collect heavy income taxes from the wealthier classes led to use of scarce resources for luxuries of all kinds. But these aberrations were not the dominant aspect. Most importantly, the economy of Viet Nam, a free enterprise, uncontrolled economy in most respects, had been put on a war footing.

d. Methods of analyzing the inflation

In a general way, the causes of the inflation that began in the spring of 1965 were easy enough to identify. The arrival of hundreds of thousands of foreign troops, the construction of a chain of vast air bases and other installations, the recruitment of large numbers of new soldiers, police, and

civil servants, all combined to place tremendous demands on the Vietnamese economy. The economy could not respond to these demands with enough men and goods, even helped by large quantities of imported goods. There was a gross imbalance between demand and supply, and prices rose.

However, description of this process in specific, quantitative terms, proved very difficult for economists of the U.S. Mission and the GVN. National Income Accounts prepared by the National Bank were based on such unreliable data and so delayed in preparation as to be nearly useless. The economists fell back on a technique of monetary analysis known as measuring the "gap". The gap, as understood in this context, was the increase in money supply predicted to take place in a given time period, in the future, or which actually had occurred in the past.

Gap analysis did not provide a direct measure of price inflation, since prices may not respond proportionately to changes in money supply, especially in the short run. As noted earlier, the period from 1957 to 1964 had been one in which large increases in the money supply had been accompanied by very modest increase in prices. But that was now changing, and over the whole period 1965 through 1969, prices tended to follow money supply rather closely, usually with a few months lag.

The basic elements of the gap equation were simple:

Money supply was expanded as currency was issued by the National Bank and Treasury to public circulation. It was also expanded by new loans by private banks, which created deposits as a form of money.

Money supply declined as the National Bank and Treasury collected money, and as private bank credit contracted.

These elements can be elaborated:

Expansionary factors:

- 1) GVN budget expenditure
- 2) Exports
- 3) Invisible exports, including the piaster expenditure of foreign governments and their troops
- 4) Private credit expansion

Contractionary factors:

- 1) GVN tax and customs collections
- 2) Imports
- 3) Invisible imports
- 4) Private credit contraction

Although the above seems simple, there were numerous problems of definition and of obtaining correct data. For example, imports had to be defined not in terms of licensing or goods arrival, but in terms of the actual payment of piasters, for a given time period. Data problems occurred because of various National Bank and Treasury accounts which were intermediate steps in issuance or cancellation of money had a "quasi-money" character. Finally, some data, such as a complete statement of GVN budget expenditure, were only available many months after the fact, so that verification of prediction was very belated. In practice it proved difficult to reconcile the gap equation ex-poste with actual change in money supply.

Another serious defect was that the monetary gap equation was not by any means a fully determined model in the mathematical sense. There were inter-relations among the components which were not exposed in the equation. For example, imports were in reality chiefly determined with a time lag, by exchange earnings from exports and other sources, and by change in the exchange reserve, not shown in the equation.

Finally, it should be noted that the gap measures only monetary inflation and cannot be used for other purposes or to relate inflation to other problems. The fact that the gap analysis was the economic model in common use in Viet Nam probably also brought an excessive focus on the inflation problem by

both the U.S. Mission and the GVN.

e. Anti-inflation policy in 1965-66

The following table shows a summarized monetary gap computation for for the years 1964-1965 and 1966, with some other data:

	<u>billions of piasters</u>		
	<u>1964</u>	<u>1965</u>	<u>1966</u>
<u>Expansion:</u>			
GVN budget	37.1	51.3	57.7
U.S. military expenditure	-	10.8	37.4
All other	2.7	4.0	23.4*
Total	<u>39.8</u>	<u>66.1</u>	<u>118.5</u>
<u>Contraction:</u>			
GVN revenue	13.0	16.4	28.0
Imports	17.7	21.9	61.2
Other	4.0	7.6	11.5
Total	<u>34.7</u>	<u>45.9</u>	<u>100.7</u>
Money supply increase (gap)	5.1	20.2	17.8
Money supply increase (%)	23%	74%	37%
Cost of living increase (NIS)	6%	40%	68%
Exchange reserves (year end)	140.1	178.9	315.9

\*Chiefly credit expansion to importers, necessitated by the devaluation and port tie-up.

Taking first the change from 1964 to 1965, three points were of interest: first, the increase in GVN budget expenditure was actually more important than U.S. expenditure in creating inflation in its early stages. The GVN's recruitment of troops was proceeding very rapidly in 1965. Entry of U.S. troops was also rapid, but the massive effort to construct bases for the troops, using Vietnamese labor, was mainly in the organizing stage, and actual expenditure was small until late in the year. Second, the GVN's revenue collection, domestic taxes and customs duties, was lagging. It was failing even to keep up with the rate of price increases. The increase in collections was about 25 percent, compared to price increases on the order of 40 percent. This inelasticity of taxes with respect to price inflation was

caused at least in part by the fact that many Vietnamese indirect taxes were levied on a per unit rather than ad valorem basis. It quickly became clear that tax rates would have to be continuously revised, even to keep up with the inflation.

A third observation, and perhaps the most significant, was that imports also failed to rise very rapidly, considering the demand inflation that was taking place, and also considering that exchange reserves were increasing. In dollar terms, import arrivals rose from \$298 million in 1964 to \$357 million in 1965, or by 20 percent. This lagging rise in imports was due in the first instance simply to the order lead time from overseas sources of supply. Allowing for red tape in licensing, import lead time is normally three or four months from Far East sources, and at least twice that for A.I.D. financed imports from the U.S. Hence the rise in demand, and in dollar availability, was destined to stay ahead of import arrivals all through the period of the U.S. buildup. By the end of 1965, and all through 1966, a jam-up of facilities in the Port of Saigon was adding to the problem, so that goods were delayed in reaching the market place for months after the ships which carried them arrived in Saigon.

The lag in imports accounted for the severity of the inflationary crisis of 1965-66. Had it been possible to move into the economy, month by month, imports equal to the dollars available to finance them, the inflation would have been held within modest limits. There were two main sources of dollars available: those obtained from U.S. purchase of piasters, and those from U.S. assistance programs, CIP and PL 480. During the calendar year 1965, GVN exchange reserves rose by \$39 million, reflecting dollar receipts from U.S. piaster purchase not yet disbursed. Meanwhile, the combined funds

available under appropriations for CIP and PL 480 Title I were \$184 million in U.S. FY 1965 and \$497 million in U.S. FY 1966; yet payments from these programs were only \$206 million in CY 1965 and \$336 million in CY 1966. In the two year period, about \$140 million was thus added to the aid pipeline. If in 1965 total imports had been \$120 million higher, as was clearly possible in terms of dollars available, the money supply expansion would have been curtailed by some SVN 10 billion (allowing \$VN 60 per dollar for exchange rate and say \$VN 20 for customs). The gap would have been cut in half to about \$VN 10 billion, or an expansion of some 37 percent.

As 1966 began, it had become abundantly clear that no amount of import financing could stem the inflation, given all the other factors at work. Congestion in the Port of Saigon, which was becoming progressively worse with no early relief in sight, confirmed the fact that other anti-inflation remedies would have to be sought.

When top U. S. and Vietnamese officials met in Honolulu in February 1966, it was decided to make an effort to raise taxes. This/ <sup>was</sup> the conventional answer . If goods could not be provided to match new money, some of the money would have to be taken from the pockets of the spenders. A start was made in March 1966, when new taxes were introduced on restaurant and bar consumption automobiles, and rents. Also, an old tax, called the perequation tax, was reinstated for the first time since 1961 on GVN financed imports. It was intended partly to equalize import costs of GVN financed and U.S. financed imports, but also to act as a surcharge on exchange used for import of luxury goods. These were substantial moves, designed to increase revenues in 1966 by as much as \$VN 5 billion. Further increases were planned, but were deferred, because the GVN had entered a difficult period politically by April 1966. The Buddhist "struggle movement" was underway.

f. The devaluation of June 1966

At about this time, the thinking of policy makers on both the U.S. and GVN sides turned toward a different sort of anti-inflation device: devaluation of the piaster. Foreign exchange for imports was then being purchased by Vietnamese importers at 60 piasters to the dollar. This had been the effective rate for imports since January 1, 1962, and the process of inflation was clearly making imports cheap, relative to domestic goods. That is, imports were low priced to the initial importer. However, the port tie-up and other restraints were limiting the availability of goods in the market, scarcity markups for imports were the rule, and importers were taking high profits.

It should be remarked that the exchange rate for piasters was at this time split three ways: 60 for imports, exports, and for most invisibles, a special rate of 73.5 for purchases of piasters by foreign governments for official use, and finally an "accommodation" rate of 118 for purchases by foreign officials and tourists (U.S. troops, in particular) for personal use. The official purchase rate had been introduced in June 1965, and the accommodation rate in September 1965, after negotiations between the U.S. and GVN.

Devaluation, in the circumstances of early 1966, could be counted on to have a strongly deflationary effect. The circumstances, to recapitulate, were a very high level of imports, constrained by port congestion, a very low level of exports, prevented from rising by the war and insecurity, and a high level of foreign exchange earnings from the presence of U.S. military forces. A devaluation of the import rate would force importers to pay more into the National Bank for each dollar, so that more inflation-absorption could be obtained and importer profits in effect taxed away. To the

extent that importers had not profited but had passed along low prices to their customers, devaluation would also fall on consumers, in the form of higher prices for imported goods. This increase in the cost of living would be, hopefully, a once and for all increase, which would be followed by an extended period of stability.

The contrary effect of a devaluation on the export side would be limited, because exports were small and not very expansible.

Dollar earnings from U.S. military presence would be reduced by a general devaluation, i.e., if the official purchase rate and the accommodation rate were also changed.

In May 1966, an IMF team went to Saigon, and discussions were held which involved the GVN, the IMF, and the U.S. Details of a devaluation and several associated reforms were hammered out over several weeks, a period during which the GVN was also attempting to put down the "struggle movement", which had taken an insurrectionary character. By early June, the insurrection had been quelled, and the stage was set. The devaluation was announced on June 18, 1966. It changed the effective rate for most transactions from 60 to 118 piasters to the dollar, a devaluation of 49 percent.\* The accommodation rate was not changed, and in effect it disappeared. The rate for official purchases was changed, but only from 73.5 to 80. From that point until October 1967, when the official purchase rate was changed to 118, the U.S. government was thus receiving an unfavorable rate, resulting in additional dollar revenues for the GVN. This was quite deliberately accepted by the U.S. as a provisional means of placing more resources at the disposal of the GVN. It makes clear that economic aid was a quantity difficult to measure with any precision.

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\* That is to say, the value of the piaster vis-a-vis the dollar declined by 49 percent.

The other measures taken at the same time as devaluation were:

1) Import licensing was freed from all restrictions, and both the GVN and U.S. governments declared that large amounts of foreign exchange were available to meet demand.

2) import license applications pending were all approved, and penalties were placed against withdrawal of applications.

3) The import industry itself, which had been closed to new entrants, was opened, and more than 100 new firms were admitted over the next several months.

4) Civil and military services of the GVN received a wage increase averaging about 27 percent.

5) A subsidy was placed on imported rice, to hold its price at the predevaluation level, in effect exempting it from devaluation.

6) Customs duties were not increased. They were recomputed to the base of \$VN 80=\$1, in such a fashion that the piaster amounts were unchanged. Because of this, the average total cost of imports (customs included) increased by nearly 100 percent.

The devaluation of 1966 can be said to have been successful, with some qualifications. The inflationary outlook was so serious at the time that a drastic action was clearly necessary. The IMF projections of the monetary gap for 1966, made on the assumption of no extraordinary measures is shown below, together with one of several hypothetical projections of the situation for the year immediately succeeding a devaluation:

	<u>billions of piasters</u>	
	<u>IMF</u>	<u>USAID</u>
	<u>no. deval.</u>	<u>with deval.</u>
GVN budget	64.5	65.0
U.S. military expenditures	37.0	24.5
Other	1.0	3.0
Total expansion	102.5	92.5

	<u>billions of piasters</u>	
	<u>IMF</u>	<u>USAID</u>
	<u>no. deval.</u>	<u>with deval.</u>
GVN revenues	17.0	22.0
Imports	30.8	59.0
Other	<u>6.6</u>	<u>5.0</u>
Total contraction	54.4	86.0
Gap	48.1	6.5

In other words, it was believed that without devaluation the money supply would double in one year and that with it, a much nearer balance could be achieved.

In fact what happened was that there was a very sharp <sup>escalation</sup> ~~evaluation~~ of prices during the period immediately surrounding the devaluation. The cost of living rose by 33 percent from end-May to end-July 1966. Then prices stabilized and rose only another four percent during the remainder of the year. In early 1967 a revival of pressure began, and the cost of living in August 1967, was 35 percent higher than it had been one year earlier. The money supply rose by only 10.1 billion piasters, or 17 percent during the year from end-May 1966 to end-May 1967.

What evidently happened is that while the money supply was in fact restrained as anticipated, or nearly so, the psychological shock to people's confidence in the currency was sufficient to dislodge some hoarded cash, with the result that price increases for the first time exceeded the money supply increase.

The supporting measures were successful, at least for a time, in reducing importer profit margins and in inducing a greater degree of competition in the import trade.

However, the measures taken to encourage licensing, particularly the penalty against withdrawal of pending licenses, had some undesirable effects.

Very heavy licensing did take place right after the devaluation: total licensing in June, July and August was \$246 million, compared to \$133 million in the first quarter. But, coming at a time when Saigon port was already congested, these imports simply added to the jam. Most of the goods arrived during the late months of 1966, and by the end of the year, more than 1000 barges were being used in the Saigon river as temporary warehouses, while warehouses ashore were so jammed that goods could not be found or extricated. Meanwhile, the high prices of imports, resulting from devaluation, had had some effect on demand, and importers were finding it difficult to sell. Their reluctance to come and get their goods from the port added to the problem. Indeed, the later stages of the Saigon port tie-up were almost wholly a matter of excessive inventories, rather than physical limitations on cargo handling. When demand revived in early 1967, the problem of congestion disappeared rapidly: by April 1967, the port was operating normally.

g. The lull before the storm

The period between the devaluation of 1966 and the Tet offensive of February 1968, was one of relative quiet on the economic front. The NIS working class cost of living index rose by only 41 percent during the 18 months from July 1966 to January 1968, whereas it had risen by 125 percent in the immediately preceding 15 months. Inflationary pressure, which had fallen substantially to zero after the devaluation, gradually reasserted itself in 1967, but not to an alarming extent. The increase in money supply during 1967 was \$VN 19.4 billion, or 30.4 percent, and the increase in prices during the year closely paralleled the increase in money supply. It was a period of optimism, during which the Vietnamese economy seemed to be recovering in a number of respects. Security improved in many areas, and trade of all sorts prospered. In particular, commerce between urban and rural areas

noticably expanded. This was the period in which the Honda and the TV aerial began to be visible in provincial towns. Later on, after the Tet offensive, some observers were inclined to discount the pre-Tet prosperity, and to consider that it was ephemeral and not solidly grounded. But still later, after the Tet setback had been overcome, that view seemed over-pessimistic. By early 1969, rural economic activity had fully regained the lost ground, and by December 1969 agricultural production and all forms of trade and commercial activity in rural Viet Nam were decidedly on a higher level than in late 1967, and progressing rapidly.

Since inflation was not such a pressing problem in 1967, economists found time to worry about some other problems. Most of these revolved around the "import function". For 1967 produced one particularly interesting phenomenon in the Vietnamese economy: despite the fact that import licensing was on a substantially free and unhindered basis, and that the economy was once again under inflationary pressure, imports failed to use up the dollars available. For the three years ending in 1967, import licensing was as follows, in millions of dollars:

	<u>1965</u>	<u>1966</u>	<u>1967</u>
GVN financed	115.8	245.8	291.8
U.S. financed	<u>291.0</u>	<u>414.7</u>	<u>239.5</u>
Total	406.8	660.5	531.3

GVN licensing rose sharply in 1966 from 1965, and moderately from 1966 to 1967. Nevertheless, GVN exchange reserves rose in both years. End-1966 reserves were \$315.9 million and end-1967 reserves were \$338.3 million. It must have been really unprecedented that an economy hard pressed enough to undergo a 30 percent per year increase in money supply and prices, should not use up the foreign exchange available to it.

Explanations offered at the time, which still seem valid, were:

1) The great influx of imported goods brought in during the second half of 1966 choked the distribution system with inventories for about a year. During the first part of the period, until about March 1967, this overstocking was apparent in the Saigon port tie-up. But even after the port was cleared up, wholesaler and retailer channels were oversupplied for a number of months.

The commercial distribution system of Viet Nam, especially outside Saigon, was a rather primitive one, and not responsive to rapid changes in demand and supply conditions. Advertising was next to unknown. Merchants in province capitals came to Saigon to buy. Smaller merchants in districts and villages made periodic buying trips to province capitals. New products filtered down slowly through the system. Demand was created by word of mouth information. In 1967, the system did not operate smoothly enough to absorb all the imports that could have been brought in.

2) The very sharp increase in prices of imported goods caused by devaluation had a restraining influence on quantities demanded; that is, demand was elastic. Wholesale prices of imports rose, between April 1966, and the end of 1966, by 53 percent, according to the USAID index.\* The abrupt change in relationship between import prices and domestic prices caused a shift in consumer behavior, sufficient to restrain licensing below the total of dollars available.

This is confirmed in a way by the relative behavior of import prices and domestic prices during 1967. Import prices were on balance almost unchanged during the year. The USAID index continued to rise through April, reflecting the port tie-up, then dropped back.. The index stood at 219 (July 1965=100)

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\* The increase in import prices was thus less than the increase in importer costs, confirming that some reduction of profit margins occurred.

for January, and 235 for December. Meanwhile, the prices of some key domestic goods were soaring. Between January and December 1967, lean pork increased in price 68 percent, live chicken by 75 percent. The urban population was evidently spending some of its increased income on luxury goods, items which could not easily be imported.

For the U.S. and GVN economists, the increasing GVN foreign exchange reserves were an embarrassment, and considerable efforts were begun to stabilize them. The most important measure taken in 1967 to stabilize reserves was the change, made effective October 1, 1967, in the rate of exchange at which the U.S. purchased piasters for official use. The 80 rate was raised to 118, so that GVN dollar earnings on U.S. piaster needs were reduced substantially.

Meanwhile, efforts were also made, beginning in late 1966 and extending through 1967, to reduce the total of U.S. piaster expenditure, both official expenditure and the personal spending of U.S. troops. Since the GVN dollar earnings from this expenditure were not (or not all) being converted into imports, but were tending to build up GVN exchange reserves, the expenditure was clearly inflationary. And since the U.S. troop buildup was still under way, the personal expenditure of troops was a prime consideration. In the early days of the buildup, the average expenditure per man per month had run at about \$30. With the prospect of a half million men in Viet Nam, this figure began to look very alarming: \$30 per month times 12 months times 500,000 equaled \$180 million, or \$VN 21.1 billion. At the beginning of 1967, there were already 389,000 troops in Viet Nam, and nearly 100,000 more entered during the year.

Besides troop expenditure, official expenditure for salaries of local employees, rents, etc. was equally of concern. In November, 1966, the U.S.

Mission began setting ceilings on overall expenditure, official and personal, agency by agency. The burden of complying with these ceilings fell chiefly on COMUSMAC/V, since military expenditures were by far the greatest. The program of expenditure reduction carried out in 1966 and 1967 by MAC/V was critically important to the anti-inflationary effort. Out of country R & R trips for troops, high interest rate savings accounts, and other devices, lowered the average soldier expenditure to the vicinity of \$10 per month. Official expenditures were cut back by strict limitations on in-country purchasing. These measures had the effect of reducing overall U.S. piaster expenditure below the ceilings originally set, contributing greatly to the relative stability of 1967.

At this point it may be well to show how the monetary gap analysis came out for 1967. The following table shows the gap as projected by the Mission's Stabilization Review of May 1967, and the actual results as computed after the year was over. The projections include ceiling figures on U.S. expenditure.

	\$VN billions	
	<u>Projected</u>	<u>Actual</u>
GVN budget	85.0	85.7
U.S. expenditure	57.1	55.7
Exports and invisibles	10.0	8.3
Total expansion	<u>152.1</u>	<u>149.7</u>
GVN revenues <sup>1/</sup>	43.7	52.7
Imports <sup>1/</sup>	70.7	65.7
Invisibles	11.3	13.2
Other	-	1.3
Total contraction	<u>125.7</u>	<u>132.9</u>
Errors and omissions	-	2.6
Gap	26.4	19.4

Tight restraint on U.S. expenditure more than offset a slight increase in the GVN budget.

<sup>1/</sup> Definition of GVN Revenues and Imports changed between the projected and actual figures.

#### h. The price of rice

While incidental to the story being recounted in this memorandum, the 1967 controversy over rice prices was so important at the time that it deserves some mention here.

At the time of the 1966 devaluation a subsidy had been placed on imported rice, in effect exempting it from the devaluation. During 1967 total rice imports were 750 thousand tons and the price of imported rice dominated the structure of local rice prices.

Beginning in late 1966, concern began to be expressed among U.S. economists in Saigon that the depressed structure of rice prices was adversely affecting farm income, the incentive to grow rice, and also the pacification of rural areas. The counter-argument was that a sharp increase in urban rice prices might create great political difficulties for the GVN and generate inflationary wage demands.

The issue was settled in favor of raising the import price, and in March 1967, taking advantage of a speculative price increase which occurred when stocks were low, the official wholesale price of U.S. medium grain rice in Saigon was raised from 20 to 25 piasters per kilogram.\*

In retrospect it seems fairly certain that the move was a correct one. The IR-8 program, which was just getting started in 1967, needed a degree of price support in order to finance its fertilizer and insecticide inputs. Contrary to some of the more pessimistic predictions, the price increase caused hardly any political trouble in urban areas.

But one of the arguments used by the advocates of the move was probably not valid. It had been said that the low price of rice was causing an

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\* This did not completely remove the subsidy, but further increases were made in 1968 and 1969, which did eliminate it, by May of the latter year.

adverse shift of income from farm to city. Statistical evidence gathered since then (by the Institute of Defense Analyses) does not support this. Many farmers were benefiting greatly from high prices of pork, poultry, fruits and vegetables. Most Vietnamese farmers had a variety of sources of cash income, and rice was not typically the most important.\* What really happened to farm income in 1965-67 is that farmers who happened to be located in outlying, insecure areas suffered, while those closer in benefited.

i. The Tet offensive

The political and military results of the Tet offensive are still partially veiled, but the economic results are clear enough. It was a costly setback and nearly a disastrous one. Something over \$200 million in capital goods, including houses, was destroyed, and trade and commerce were virtually halted for a number of weeks. Production of most urban goods and services was severely cut back. Agricultural production, however, was scarcely damaged. The offensive was so timed that most of the 1967-68 rice harvest was in before it started, and of course, most of the fighting was in urban rather than rural areas.

Besides the direct impact on capital wealth and output there were serious secondary effects and repercussions. These were of two sorts, which tended to offset each other. In the first place, the offensive caused a general loss of confidence among entrepreneurs and a spirit of caution among consumers. Business activity declined as businesses sought to reduce inventories and liquidate speculative ventures. For a number of months, private construction fell to a very low level, and projects under way were in many cases left unfinished. Consumers at the same time cut their expenditure on luxuries and increased their cash hoards. This was a very specific

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\*This was one of the conclusions of the Rural Income and Expenditure Survey conducted by USAID/Vietnam in 1964.

result of the character of the Tet offensive. People came to fear that their houses and all their belongings might be destroyed. All one could do as insurance, after building up a stock of rice, was to hoard cash.

The fears of businessmen and consumers tended to restrict the volume of trade and for some months, there was a general stagnation of private business. This phenomenon, which was primarily deflationary in character, helped to offset the other main consequence of the Tet offensive: the GVN's force buildup, and increase in military expenditure. In a very real sense, the shock to confidence and the restraint on private sector activity which ensued, provided the margin of manpower and other resources necessary for the GVN to undertake what was labeled "general mobilization".

These cross currents show up clearly in the monetary data for 1968. The table on the following page compares the gap for 1967 and 1968 with other data:

	\$VN billions	
	<u>1967</u>	<u>1968</u>
GVN civil budget	36.3	37.5
GVN military budget	49.4	69.5
Subtotal	<u>85.7</u>	<u>107.0</u>
U.S. expenditure*	55.7	55.7
Exports and invisibles	10.3	14.4
Change in credit	- 2.0	.5
Total expansion	<u>149.7</u>	<u>177.6</u>
GVN revenues	52.7	54.5
Imports	65.7	68.2
Invisibles	13.2	10.2
Other	1.3	7.1
Total contraction	<u>132.9</u>	<u>140.0</u>
Errors and omissions	2.6	4.2
Money supply increase	19.4	41.8
% change in money supply	31%	51%
% increase in cost of living index	33%	23%
(Dec.-Dec.)		

\*Includes American Aid Chapter of GVN Civil Budget, 8.0 billion in 1967 and 8.9 billion in 1968.

The large increase in money supply in 1968 as compared with 1967 is almost wholly due to the increase in GVN military expenditure. Other factors in the equation are remarkably stable, considering the disturbances of the year. Despite the fact that the GVN increased austerity tax rates in April 1968, and then imposed a surcharge of 20 percent on most domestic taxes in July, total tax receipts for the year hardly exceeded 1967. Imports also showed no very marked increase for the year as a whole although licensing began to revive strongly during the last few months of the year.

Prices rose less in 1968 than in 1967. They rose very sharply during the period of the Tet and May-June offensives but each time settled back rapidly. The only explanation is an increase in cash hoards because the volume of transactions almost surely declined rather than expanded.

j. Some conclusions

The American presence in Viet Nam was not the primary cause of inflation. The entry of American forces in 1965-66 had a "surge" effect, because the imports necessary to offset their expenditures were slow in arriving. But the main and enduring cause of inflationary strain on the economy was the GVN's budget outlay for its own military forces. These were mainly salary and allowances so that the burden was roughly proportional to the number of men in uniform. Counting military, police, and paramilitary forces, this number rose from about 500,000 at the end of 1964 to about 1,050,000 in late 1969, slightly more than doubling in five years. During the same period the GVN's total budget rose from \$VN 37.1 billion to an estimated \$VN 145.0 billion, but all means of deflating this for price increases are approximate. The best measure of real effort was the number of men in uniform.

It is interesting to note the relative burden carried by the U.S. in economic aid over these years. In the main, the volume of U.S. financed imports represented the support offered to stabilization and thus to the GVN's military budget. The following table shows the main components of U.S. import financing, the Commercial Import Program and PL 480 (all Titles) since 1964, on a payments basis:

	<u>Millions of Dollars</u>				
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
CIP	108.5	179.9	233.1	200.7	117.7
PL 480	<u>67.0</u>	<u>59.2</u>	<u>152.1</u>	<u>196.5</u>	<u>228.0</u>
Total	175.5	239.1	385.2	397.2	345.7

Evidently U.S. economic assistance kept pace with the GVN force build-up through 1967 but has since been substantially cut back. By 1969 the GVN was supporting military forces more than double those of 1964 and receiving aid which was only about 70 percent higher. That very rough computation ignores various types of U.S. military assistance and assistance to the pacification program which may have had an economic character (e.g, road repair). It also ignores the whole question of dollar earnings from the U.S. presence which had a quasi-aid character at times depending on the exchange rate. However, the addition of these factors would not alter the main conclusions, for they are also stable or declining. The main conclusion must be that by 1969 the GVN was maintaining a million-man military force on relatively moderate economic aid.

APPENDIX (to "Inflation in Viet Nam:1965-1969")

Selected Economic Data  
Monthly - 1965-1969

	Price Index Working Class w/o rent 1/ (1959 = 100)	Money Supply 2/ VN\$ million	Gold & Foreign Exchange Reserves 3/ US \$ millions	Import Licensing 4/ GVN financed U.S.	U.S. financed \$ millions	Total
<u>1965</u>						
Jan.	126	30,915	135.9	4.7	9.7	14.4
Feb.	126	31,485	133.8	4.4	8.2	12.6
Mar.	124	32,469	130.9	6.7	20.7	27.4
Apr.	126	32,909	129.3	11.7	18.2	29.9
May	131	33,697	125.8	8.5	23.6	32.1
June	135	34,806	125.0	9.5	33.6	43.1
July	146	36,272	125.3	5.0	10.9	15.9
Aug.	147	38,219	130.0	4.5	29.2	33.7
Sept.	155	40,830	147.6	5.2	33.5	38.7
Oct.	163	42,680	160.4	15.9	30.0	45.9
Nov.	167	44,893	171.3	23.6	39.8	63.4
Dec.	175	47,596	178.9	<u>15.6</u>	<u>33.7</u>	<u>49.3</u>
			Total	115.3	291.1	406.4
<u>1966</u>						
Jan.	195	51,038	184.8	7.3	39.9	47.2
Feb.	193	52,831	178.3	7.6	27.0	34.6
Mar.	194	54,754	189.5	7.5	43.8	51.3
Apr.	203	56,638	196.5	19.9	22.8	42.7
May	212	58,773	218.4	19.7	61.9	81.6
June	234	61,435	238.8	18.7	59.0	77.7
July	283	62,102	264.4	60.3	37.5	97.8
Aug.	278	62,686	276.3	38.0	32.4	70.4
Sept.	277	63,129	289.1	13.5	28.9	42.4
Oct.	277	65,164	308.9	9.5	16.5	26.0
Nov.	288	65,576	316.7	26.8	17.6	44.4
Dec.	294	65,448	315.9	<u>17.0</u>	<u>27.4</u>	<u>44.4</u>
			Total	245.8	414.7	660.5

Selected Economic Data  
Monthly--1965-1969

	Price Index Working Class w/o rent 1/ (1959 = 100)	Money Supply 2/ VN \$ Millions	Gold & Foreign Exchange Reserves 3/ US \$ millions	Import Licensing GVN financed U.S. \$ millions	U.S. financed \$ millions	4/ Total
<u>1967</u>						
Jan.	311	68,480	335.2	10.1	16.8	26.9
Feb.	319	70,295	351.9	13.2	18.3	31.5
Mar.	339	68,138	344.7	24.2	38.8	63.0
Apr.	326	68,962	358.7	31.5	33.7	65.2
May	331	68,870	358.4	19.7	10.4	30.1
June	351	70,567	376.0	42.5	7.9	50.4
July	368	72,014	364.5	28.9	9.9	38.8
Aug.	375	72,384	343.6	22.5	10.1	32.6
Sept.	390	74,669	329.5	19.1	12.5	31.6
Oct.	388	76,400	333.8	24.3	22.8	47.1
Nov.	393	80,057	335.6	26.9	30.2	57.1
Dec.	393	82,593	338.3	28.9	28.1	57.0
			Total	291.8	239.5	531.3
<u>1968</u>						
Jan.	399	90,692	342.7	19.0	6.2	25.2
Feb.	518	96,476	350.6	8.7	23.0	31.7
Mar.	434	100,283	351.6	14.2	52.3	66.5
Apr.	430	103,049	355.8	15.5	24.2	39.7
May	452	108,692	366.5	27.7	11.1	38.8
June	448	113,310	357.2	12.8	14.0	26.8
July	466	116,950	350.6	23.9	19.3	43.2
Aug.	478	121,682	387.1	41.2	33.2	74.4
Sept.	481	122,356	389.9	40.8	12.1	52.9
Oct.	478	121,894	360.1	56.2	12.0	68.2
Nov.	479	124,469	350.3	63.0	18.4	81.4
Dec.	483	124,015	352.0	56.3	19.5	75.8
			Total	379.3	245.3	624.6

Selected Economic Data  
Monthly - 1965-1969

	Price Index Working Class w/o rent <sup>1/</sup> (1959 = 100)	Money Supply <sup>2/</sup> VN \$ Millions	Gold & Foreign Exchange Reserves <sup>3/</sup> U.S. \$ millions	Import Licensing <sup>4/</sup>		
				GVN financed	U.S. financed	Total U.S. \$ millions
<u>1969</u>						
Jan.	492	126,010	348.1			
Feb.	503	131,466	343.0	41.1	18.6	59.7
Mar.	495	130,026	325.1	26.2	16.4	42.6
				32.8	55.4	88.2
Apr.	495	127,568				
May	513	130,797	310.0	35.9	19.4	55.3
June	538	131,661	304.2	24.9	25.1	50.0
			296.9	20.8	28.5	49.3
July	540	131,920				
Aug.	569	131,196	274.9	21.1	18.9	40.0
Sept.	589	134,384	300.7	18.0	24.8	42.8
			305.8	31.0	29.8	60.8
Oct.	606	136,901	319.8	31.5	14.3	45.8

<sup>1/</sup> Source: National Institute of Statistics

<sup>2/</sup> Source: National Bank of Viet Nam

<sup>3/</sup> Source: National Bank of Viet Nam

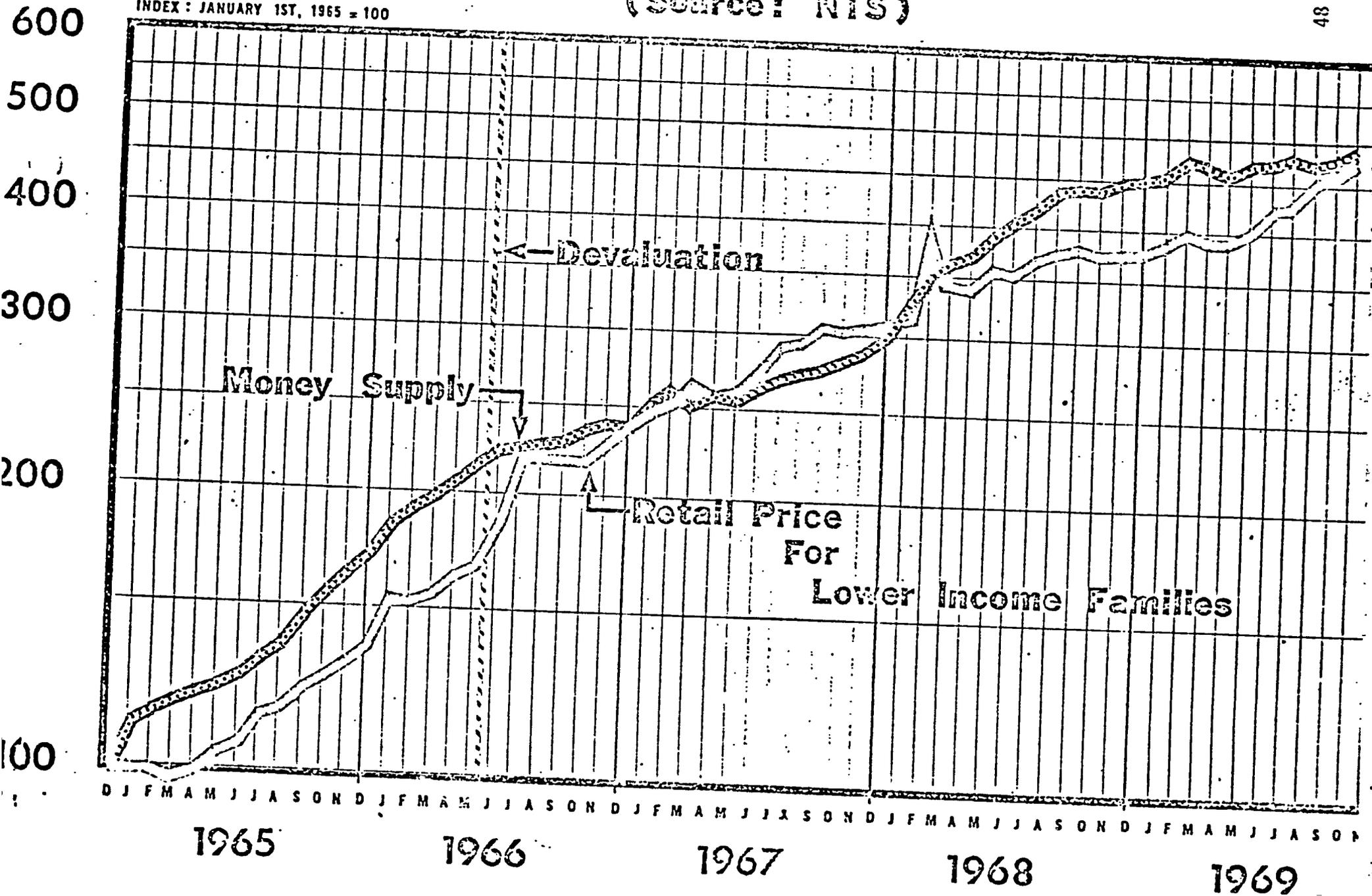
Includes Commercial Bank holdings, rice escrow account  
and blocked French francs.

<sup>4/</sup> Source: Directorate General of Commerce

# MONEY SUPPLY & RETAIL PRICE INDEXES

(Source: NIS)

INDEX : JANUARY 1ST, 1965 = 100



## 8. U.S. economic aid trends

As already indicated, U.S. economic support expanded greatly in 1965-68 in parallel with the rapid U.S. and GVN military buildup. The increase in economic support was due both to expanded economic aid obligations (for CIP, PL 480 and Project assistance) and to increased U.S. piaster purchases resulting from the tremendous increase in U.S. forces in Viet Nam.

It may be noted from the table below that total economic support (economic aid obligations plus U.S. piaster purchases) increased from an annual average of approximately \$244 million in FY 1955-65 to \$863 million in FY 1966-68, or by 254 percent. The composition of U.S. economic support also changed strikingly between these two time periods. CIP obligations fell from 61 percent to 28 percent of the total between the earlier and later period, while the proportional shares of Food for Peace and Project and Other Aid obligations increased greatly. The expansion of Food for Peace from 10 percent to 14 percent of the total between the periods was attributable mainly to the large increase in FFP rice funding to offset the decline of rice production in Viet Nam resulting from worsening security and migration of many peasants from farms to war related employment. Project aid rose as more Americans were assigned to operational jobs in an effort to increase quickly GVN efficiency. U.S. piaster purchases as a source of economic support funding increased greatly, from 11 to 29% of the total between the two periods (see table below). Despite the large rise in economic support fund availabilities during the period, actual absorption of U.S. support financed aid by the Vietnamese economy lagged during most of 1965-68 behind the rapidly increasing military resource requirements, with the result that U.S. economic support was not able to

prevent large advances in price inflation during the period. Contributing to the lag between U.S. support fund availabilities and absorption of support-financed commodities by the economy were such factors as administrative red tape connected with import licensing, congestion in the Port of Saigon, and underdevelopment of the Vietnamese distributive system. As a consequence of these factors economic support fund utilization was less than fund availabilities with the result that GVN international reserves and A.I.D. assistance pipelines rose during the period.

While the buildup in U.S. economic support during 1965-68 was necessary to help sustain the greatly expanded military effort, the buildup tended to create dependence on concessional aid which led to a need for painful economic adjustment in 1972-75 when U.S. aid in real terms came tumbling down.

COMPARATIVE U.S. Economic Support: Annual Average,  
FY 1955-65 cf. FY 1966-68

	FY 1955-65 Average		FY 1966-68		B over A
	<u>\$millions</u> <sup>a/</sup>	<u>%Distrib.</u>	<u>\$millions</u> <sup>a/</sup>	<u>Average % Distrib.</u>	<u>% Increase</u>
	A		B		
1. CIP	149	61	240	28	61
2. FFP	25	10	118	14	372
3. Project and Other Aid	44	18	256	29	482
4. U.S. Piaster Purchases <sup>b/</sup>	<u>26</u> <sup>c/</sup>	<u>11</u>	<u>249</u>	<u>29</u>	<u>858</u>
5. Total Economic Support	244	100	863	100	254

<sup>a/</sup> Obligations.

<sup>b/</sup> Piaster purchases data are for calendar years.

<sup>c/</sup> Estimated.

Source: Basic data used in calculating figures for lines 1-3 and 5 obtained from A.I.D. Statistics and Reports Division, "U.S. Overseas Loans and Grants" (various issues). Basic data for line 4 obtained from A.I.D. (EA/VN), "Vietnam Economic Data" (various issues).

TABLE I

Money Supply and Consumer Price Index Increase, 1965-1968  
(Year to Year % Increase)

<u>Year</u>	<u>Money Supply</u>	<u>Consumer Prices*</u>
1965	+43	+19
1966	+62	+51
1967	+23	+47
1968	+51	+36

\*National Institute of Statistics Working Class Retail Price Index Without Rent for 1965 and USAID Saigon Retail Price Index for 1966-1968.

Source: USAID, "American Economic Assistance to Vietnam," February 1973.

## Rice Area, Production and Imports, Crop Years 1964-68

<u>Crop Year</u>	<u>Area</u> (mil. hectares)	<u>Paddy Prod.</u> (mil. MT)	<u>Rice</u> <u>Imports</u> (000 MT polished rice)
64/65	2.6	5.2	
65/66	2.4	4.8	129 (1965)
66/67	2.3	4.3	434 (1966)
67/68	2.3	4.7	750 (1967)

Source: USAID, "American Economic Assistance to Vietnam," February 1973 and USAID, "Republic of Vietnam Economy," November 1974.

GVN EMPLOYMENT, 1964-1968  
(Thousand)

	<u>Government Civil Employees</u> <sup>a/</sup>	<u>Armed Forces Strength</u> <sup>b/</sup>	<u>Civil and Military</u>
1964	143	514	657
1965	179	545	724
1966	219	562	781
1967	210	615	825
1968	208	715	923

## Sources:

- a) National Institute of Statistics, Viet Nam Statistical Yearbook, various issues.
- b) 1964, Office of the Chief of Military History, U.S. Army.  
1968, The Military Balance, Institute of Strategic Studies,  
~~1968~~ London, annual issues.

GVN Expenditures, Resources and Deficits, 1964-1968  
(VN\$ Billion)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
<b>A. <u>GVN Expenditures</u></b>	<u>29</u>	<u>44</u>	<u>59</u>	<u>98</u>	<u>121</u>
1. Security Related	16	25	35	65	86
2. All Other	13	19	24	33	35
3. Security Related as % of Total	55	57	59	66	71
<b>B. <u>GVN Resources</u></b>	<u>23</u>	<u>20</u>	<u>46</u>	<u>78</u>	<u>77</u>
1. Domestic Revenues	8	10	17	25	28
2. Import Revenues	5	6	21	28	26
3. Net Sales of Exchange for Imports:	<u>9</u>	<u>2</u>	<u>8</u>	<u>24</u>	<u>17</u>
(a) Exchange Sales	14	17	48	73	66
(b) U.S. Piaster Expenditures	-2	-13	-38	-47	-48
(c) Exports	-3	-2	-2	-2	-1
4. Treasury Bond Sales	1	2	0	1	6
5. Domestic Revenues as % of Total GVN Resources	35	50	37	32	36
<b>C. <u>Deficit (A-B)</u></b>	<u>6</u>	<u>24</u>	<u>13</u>	<u>20</u>	<u>44</u>
Deficit as % of Total Expenditures	21	55	22	20	36

Source: USAID, "American Economic Assistance to Vietnam," February 1973.

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## U.S. Economic Support\*, Nominal and Real Terms, 1964-1968

<u>Year</u>	<u>U.S. Support</u> <u>(\$ Millions)</u>	<u>Import Price Index</u> <u>(1964=100)</u>	<u>U.S. Support</u> <u>(1964 U.S. Dollars)</u>
1964	150	100.0	150
1965	256	99.6	257
1966	668	101.1	661
1967	674	103.9	649
1968	550	104.2	528

\*U.S. Support defined as U.S. financed imports (CIP and P.L.480 Title I) plus U.S. sector plaster purchases.

Source: USAID, "American Economic Assistance to Vietnam," February 1973.

Indexes of Commercial Imports  
(1964 = 100)

	<u>Index of Constant-Price Value of Commercial Imports</u>	<u>Index of Real Imports Per Capita*</u>
1964	100.0	100.0
1965	124.0	121.0
1966	242.9	230.9
1967	262.2	242.9
1968	225.8	203.9

\*Assumes population growth of 2.6% yearly.

Source: USAID, "American Economic Assistance to Vietnam", February 1973.

Rice, Paddy and Consumer Prices  
(1964=100)

	(1) <u>Index of Retail Rice Prices</u>	(2) <u>Index of Delta Paddy Prices</u>	(3) <u>Consumer Price Index*</u>	Col. 1 <u>Col: 3</u>	Col. 2 <u>Col. 3</u>
1964	100	100	100	1.00	1.00
1965	124	103	119	1.04	0.87
1966	208	189	180	1.16	1.05
1967	403	367	235	1.52	1.38
1968	431	334	360	1.20	0.93

\*National Institute of Statistics Working Class Index.  
Without Rent, 1964-1965 and USAID Saigon Retail Price Index, 1966-1968.

Source: USAID, "American Economic Assistance to Vietnam," February 1973.

Simplified Balance of Payments, 1964-1968  
(\$Millions)

<u>A. Balance of Trade</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
1. Exports	49	40	25	22	16
2. Commercial Imports, (C.I.F.)	<u>-233</u>	<u>-288</u>	<u>-572</u>	<u>-635</u>	<u>-548</u>
Balance of Trade	-184	-248	-547	-613	-532
<u>B. U.S. Support</u>					
1. U.S. aid	139	203	335	347	239
(CIP)	(105)	(155)	(259)	(101)	(177)
(PL 480 Title I)	( 34)	( 48)	( 76)	(153)	(138)
2. U.S. piaster purchases	11	53	333	327	311
(Official)	( 4)	( 14)	(233)	(212)	(256)
(Personal)	( 7)	( 39)	(100)	(115)	( 55)
Total U.S. support	150	256	668	674	550
<u>C. Net Invisibles and Other</u>	- 5	31	16	- 39	- 24
<u>D. Change in GVN reserves</u>	- 39	+ 39	+137	+ 22	+ 14

Notes: A.2. GVN financed, CIP and PL 480 Title I imports only; excludes Project and PL 480 Title II aid.

B.1. Data are import payments in calendar year indicated.

Source: USAID, "Economic and Financial Data 1964-1972", undated.

Black Market Premium For US\$ 10 Notes  
(End of Year 1964-1968)

<u>Year</u>	<u>Percent Premium*</u>
1964	+82%
1965	+43%
1966	+46%
1967	+42%
1968	+70%

\*Premium over the legal exchange rate for personal piaster purchases.

Source: USAID, "American Economic Assistance to Vietnam,"  
February, 1973.

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TABLE X

## PRODUCTION DATA 1964-1968

Year	Paddy Rice	Pigs Slaughtered	Timber Cut	Fish Catch	Building Permits	Checks Cleared	Government Employees <sup>1</sup>		Electricity Output	Real Value Of Imports
	Th. Tons	Th.	Th. Cu. Met.	Th. Tons	Th. Sq. M.	Th.	Civil Th.	Military Th.	Th. KWH	\$ Million
1964	5185	1091	303	397	1094	1102	143	514	470	323
1965	4822	1248	318	375	1211	1241	179	545	496	392
1966	4336	1093	263	381	1664	1575	219	562	602	607
1967	4683	1163	205	411	1103	1834	210	615	682	729
1968	4366	824	286	410	606	1758	208	715	715	687

Source: All data from Vietnam National Institute of Statistics, Vietnam Statistical Yearbook and Monthly Bulletin of Statistics (various issues) except where noted.

1. Military employment 1964-1965, Office of the Chief of Military History, U.S. Army; 1966-1968, Institute for Strategic Studies. The Military Balance, annual issues.
2. Dollar value of imports from Office of Joint Economic Affairs, USAID. Annual Statistical Bulletin (various issues). Deflated by index of export prices from the United States, Japan, and Taiwan.

**U.S. ARMY AND TOTAL U.S. MILITARY PERSONNEL  
IN SOUTH VIETNAM**

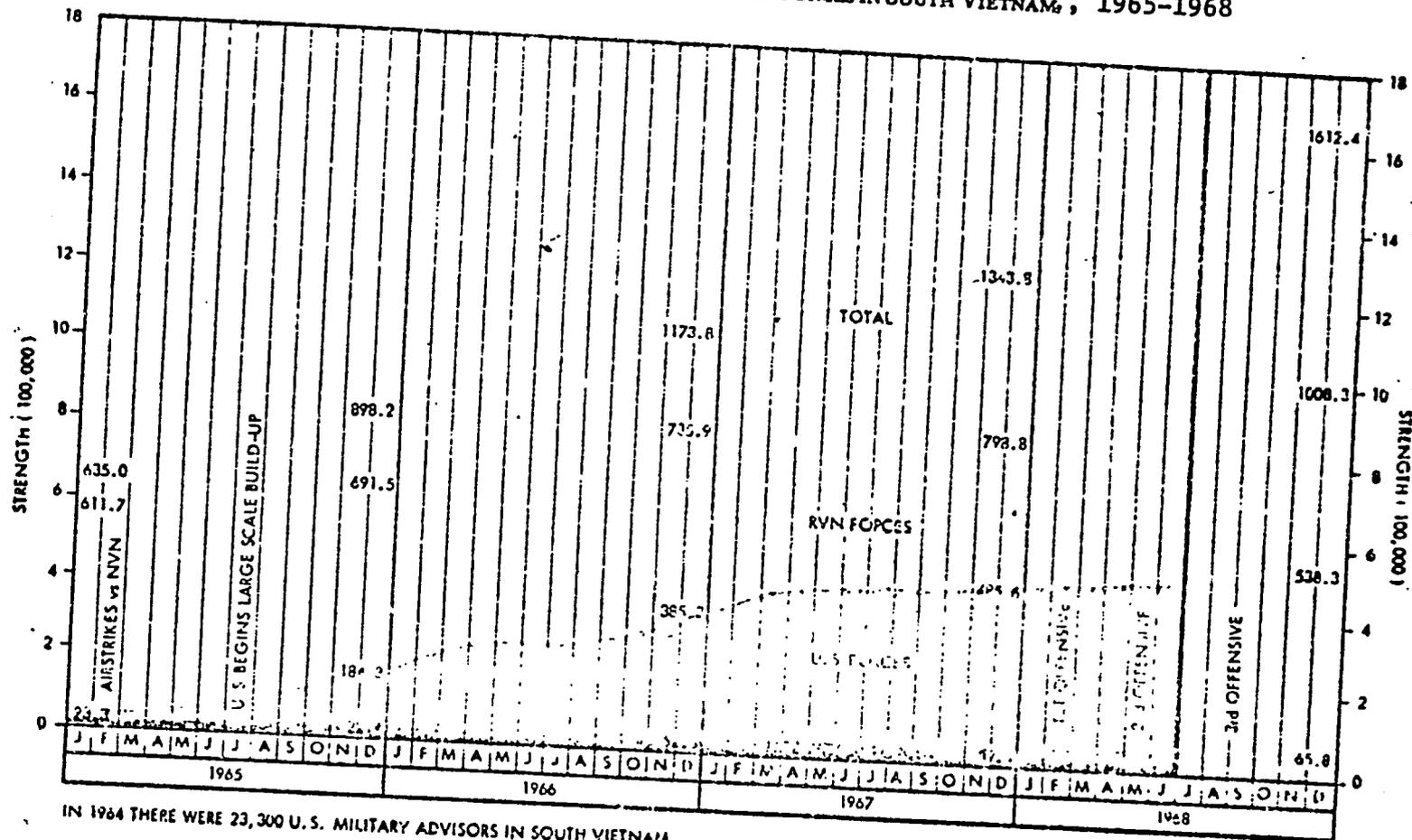
Date	U.S. Army Personnel	Total U.S. Military Personnel
31 Dec - 1965	116,800	184,300
31 Mar 1966	137,400	231,200
30 Jun	160,000	267,500
30 Sep	189,200	313,100
31 Dec	239,400	485,300
31 Mar 1967	264,600	420,900
30 Jun	285,700	448,800
30 Sep	296,100	459,700
31 Dec	319,500	485,600
31 Mar 1968	337,300	515,200
31 Dec 1974	14,700	23,300

Between 1954-1960 U.S. Military Strength averaged about 650 advisors

Source: U.S. Dept. of Army, Office of Current Military History.

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CHART 1 - VIETNAMESE AND ALLIED FORCES IN SOUTH VIETNAM, 1965-1968



IN 1964 THERE WERE 23,300 U.S. MILITARY ADVISORS IN SOUTH VIETNAM

Source: U.S. Department of Army, Office of Current Military History.