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F. ECONOMIC

Introduction

50. In the past half-year the major theme has been one of growth, of change, of development. The Government of Viet-Nam has approved in principle a revolutionary new land reform program. There has been a steady acceleration of the "miracle rice" program. And there has been a striking Vietnamese success in maintaining a remarkable degree of price stability in the face of steadily rising defense and other expenditures.

Land Reform

51. Land Rent and Tenure Freeze -- February 12 the Prime Minister announced a freeze on land occupancy and rents in newly pacified areas, and on April 25 this freeze was extended to all land. The purposes of the freeze are to ensure that the farmer now tilling the soil could not be evicted and would be the beneficiary of the Government's Land-to-the Tiller program, and to guarantee that the tenant will receive all the return from

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any increases in productivity.

52. The Land-to-the Tiller Program -- On July 1 President

Thieu submitted to the National Assembly his proposal for a revolutionary new land reform program designed to eliminate farm tenancy in Viet-Nam. The proposal calls for issuance of titles free of charge to the tenant, squatter, or Viet Cong appointee who is actually cultivating the land. Following application by the farmer and issuance of the new title, the Government will pay the farmer-owner for his land in cash and bonds tied to the price of rice. Over the next three years the Land-to-the Tiller program is expected to involve as many as 800,000 farm families and over half the riceland in Viet-Nam.

53. In anticipation of the submission of this legislation, Minister of Foreign Affairs, Tran Chanh Thanh and I signed a Project Agreement in June providing an initial \$10 million support of the \$400 million program. These AID funds will

not be used directly for payments to the farmer landlords but

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to finance imports from the U. S. to counter the inflationary effect of these payments. AID has asked the Congress for an additional \$30 million in fiscal year 1970 for this program.

54. Accelerated Distribution of GVN-Owned Lands -- At the beginning of the year President Thieu set a goal of complete distribution in 1969 of the remaining GVN owned expropriated and former French lands. On May 8, Minister of Land Reform and Agriculture, Cao Van Than, announced new procedures to accelerate this distribution by placing greater responsibilities on village officials. In June the Ministry, with assistance from an AID contractor, began a comprehensive training program to enable these officials to carry out their new responsibilities and to prepare them for the new Land-to-the Tiller program. Without the benefit of the training and new procedures over 19,000 hectares were distributed by the end of June, well over 75 percent of the total distribution in all of 1968. On July 2

the Prime Minister issued a decree suspending all payment

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for this GVN owned land, and this is expected to accelerate further the progress of the distribution program.

Rice - Miracle Version

55. Having met last year's target of 44,000 hectares planted in the new "miracle rice" varieties, the GVN has set a goal of 200,000 hectares for crop year 1969-70. Recent reports indicate this goal will be met or exceeded. The increased plantings, together with improved cultivation, are expected to increase domestic rice production by 600,000 tons of paddy or 360,000 tons of milled rice. This anticipated level of milled "miracle rice" would be the equivalent of more than the total, expected volume of rice imports this year. Over 150,000 farmers are participating in this nationwide program.

Economic Development and Stabilization

56. The general economic situation since December has been remarkably good. Industrial production continued to increase

from the low of early 1968; rice shipments from the Delta,

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responding to higher prices and good security were the highest in three years. Prices remained surprisingly stable in the first four months but then rose sharply in May and June so that there was a total increase of 10 percent in the period. The rate of increase of growth of money supply, reflecting the combined effects of the budget deficit and private bank borrowing, has slowed down somewhat, as it has been doing since the third quarter of 1968. It rose 5 percent in the first five and a half months as compared to 10 percent for the last half of 1968.

57. There are, however, several indications that we have just passed through the calm before another storm. First, money supply and prices have been contained by a large increase of imports to replenish inventories and to meet rising demand which has produced an increase in revenue from imports. As a result budget revenue, excluding counterpart, during the first six months, is estimated to be about 75 percent of what it was

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for all of 1968 and 75 percent higher than the comparable period of last year. Neither exchange reserves nor internal demand could sustain so high a level of imports, and the rate has declined substantially since the beginning of the year. Second, budget expenditures, which had leveled off in the second half of 1968 as the military reached authorized strength, are once again rising in response to higher salaries, force levels and costs. An across-the-board salary increase for government workers has been approved by the government.

58. For both reasons, the inflationary gap should be substantially larger in the second half of the year. The effects may be masked by the seasonal tendency for prices to stabilize in the period August-November but the rise may well be substantial nonetheless.

59. Over the last several months, the Mission has repeatedly brought to the attention of the GVN measures to meet the

inflationary threat. These efforts resulted in the signature of

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a stabilization agreement and an associated exchange of letters. The four major points of this agreement and an earlier one in February were: (1) a series of import taxes that will have the effect of raising customs and tax revenue 7-8 percent in 1969; (2) a commitment to consider devaluation when major inflationary pressures arise; (3) a ceiling on credit to the private sector; and (4) the lapse of an earlier promise to support exchange reserves at \$300 million. This final point is especially significant because it means that the U. S. no longer has an open-ended aid commitment to Viet-Nam. It should stimulate further self-help measures on their part.

60. Exchange reserves have fallen about \$50 million since the end of the year. A further but much smaller decline is expected in the second half. Exchange reserves are currently about \$275 million, equivalent to about seven months of GVN-

financed imports. Although imports have risen, earnings from

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U. S. spending in Viet-Nam mainly for military purposes are expected to rise about 30 percent this year and have of the decline. cushioned the effects! The withdrawal of 25,000 troops will have negligible effect on GVN earnings in 1969.

61. Rice Shipments -- The high rate of rice shipments from the Delta, which exceeds the level of any year since 1966, and the existence of exceptionally high stock levels at the end of 1968 have kept Saigon and the rice deficit provinces well supplied while at the same time cutting imports to 65,000 tons for the first six months. For the year as a whole, imports should be about 300,000 tons as compared to 750,000 tons in 1968. We believe that the IR8/5 program may add several hundred thousand tons more to domestic supply in the 1969-70 crop year.

62. Postwar Planning -- In the area of postwar planning there have been two important events. First, David Lilienthal

has submitted the report of his group on postwar development to

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you. This also signals a change of emphasis for the group from overall planning to regional development, particularly in the Mekong Delta where its project proposal will be shortly evaluated by the World Bank. Since Lilienthal's men were working with a semi-official Vietnamese group, the report received a cool reception from a number of Ministries whose operations would be affected. Postwar planning, given the preoccupation of the moment, unfortunately has a low priority in the GVN.

63. The second development refers to the various studies that have been made to predict the economic consequences of different patterns of troop withdrawal for Viet-Nam and for U. S. aid policy. This will be a continuing and increasingly important activity.

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G. CONCLUSION

64. I think one must conclude that during the last half year substantial progress has been made in many areas.

65. Perhaps chief among these has been the development of a flexible and forthcoming negotiating position on the key issue of elections. Thieu must be given full credit for the skill with which he has carried the country along to this position. But the fact that it has been possible for him to do this is also a reflection of the growing strength of the Vietnamese government and the resultant confidence this has engendered.

66. This increasing strength is reflected in a growing effectiveness and stability of the government; in the beginning of political organization; and the drawing together of the leaders of the nationalist ranks in support of the government or as a "loyal" opposition.

67. It ^{is} ~~has been~~ reflected in the improving performance of the Vietnamese armed forces, not only the ARVN but the

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territorial forces as well, and in their equipment and training; in the enrollment of nearly one and one-half million people in the People's Self-Defense Program and the commitment by citizens to the government and to the protection of their communities and families which this connotes.

68. It is reflected in the steady development of the pacification program, which has brought increasing numbers of the population under government control, involving the people in greater political participation and in decisions about their future.

69. It ^{is} ~~has been~~ reflected in the elections of village and hamlet officials, and in training for more effective local administration.

70. It ^{is} ~~has been~~ reflected in the dramatic rise of ralliers to the government side under the Chieu Hoi program.

71. This progress has been manifested in ^A ~~the~~ growing confidence on the part of the Vietnamese government and people, perhaps the most encouraging development of the policy we have pursued in Viet Nam.

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72. This does not mean that there are no problems to be faced;

73. Chief among these is the development of much greater cohesion and unity among the nationalist elements in preparation for the political contest with the communists.

The attack on corruption still leaves much to be desired.

The problem of inflation must be dealt with in a more determined

manner. The functioning of the bureaucratic machine needs

to be greatly improved. The armed forces need to be further

strengthened; this is especially true in the vital area of

leadership; morale and motivation need to be improved in order

to bring down the high desertion rate.

74. These are all problems to which the government is addressing itself, and given the enormous strains to which the country's manpower and resources have been put I think it is fair to say that they are doing well.

75. The growing strength and resulting confidence of the

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government and people have made possible the beginning of the Vietnamization of the war.

This I think can continue; the Vietnamese people expect it to continue. But I must point out that the crucial factor in the Vietnamization of the war is the rate at which it takes place. If the pace of our troop reductions takes place at a pace faster than the Vietnamese are confident that they can take over, it could destroy their self-confidence and all that we have built up here step by painful step.

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