

SECRET

8

health would almost certainly rule him out as a leading contender for leadership. Tran Van Lam, leader of the CR, is ambitious and enjoys considerable popularity in the southern provinces, but his political position is weak. Although the army high command has been trying to keep the army out of politics, the prestige and strength of the army would almost certainly play a major and possibly decisive role in the redistribution of political power. The numerous anti-Diem nationalists in South Vietnam and France would probably attempt to re-enter the picture and their maneuvers would add to the confusion. However, many of these men are discredited because of their past relations with Bao Dai, the French, or the Communists, and it is doubtful that any of them could muster sufficient backing to gain control.

Economic

40. South Vietnam is normally an agricultural surplus area, exporting rice and rubber. During World War II and the civil war periods large portions of cultivated land were abandoned and the transportation and irrigation systems deteriorated. Current rice production is less than two-thirds the pre-World War II levels, and exports in 1955 were only about 100,000 tons as compared with the prewar annual total of more than one million tons. Current rubber output of 54,000 tons exceeds the prewar level by about 10,000 tons and rubber has replaced rice as South Vietnam's leading foreign exchange earner. In 1955, high market prices raised the value of South Vietnam's rubber exports almost 80 percent above 1954 and to more than half the value of all exports.

41. Because of the decline in rice exports and the large imports of consumer goods and, to a lesser extent, capital goods for rehabilitation, South Vietnam is running a large deficit in its balance of payments. In 1954 exports covered 17 percent of imports while in 1955, even with unusually high rubber prices, exports covered only 25 percent of imports. At present, US aid is filling the gap and is an important factor in the relatively high standards of living prevalent in much of South

Vietnam. For the fiscal years 1955 and 1956 the planned level of US economic and military aid for South Vietnam totaled approximately \$520 million (not including the value of US equipment already in Vietnam and transferred to the GVN). At present the US is financing about 90 percent of the GVN military budget, 65 percent of the combined military-civilian budget, and 75 percent of all South Vietnam's imports.

42. The withdrawal of French military forces, the termination of France's preferential trade status, and the loosening of French-Vietnamese political ties have combined to curtail the scale of French industrial and commercial activity in South Vietnam. French business interests are withdrawing about as rapidly as Vietnamese restrictions on currency transfers permit. South Vietnam's import trade is moving away from France toward Japan and the US. In 1953 and 1954, France supplied about 80 percent of South Vietnam's imports. In 1955 the figure dropped to 50 percent and the downward trend is continuing. In the same two-year period, Japan's share of South Vietnam's imports has increased from three to 12 percent.

43. The GVN has not yet effectively come to grips with its economic problems. President Diem has stated that 1956 will be a year of economic consolidation, but through the first six months of the year, GVN attention continued to be focused on security and political issues. Only the most pressing economic problems have received serious government attention and those have generally been dealt with by *ad hoc* methods or authoritarian decrees. For example, the government has attempted to cope with a serious threat of inflation by a series of decrees controlling prices and inventories for many items and establishing high fines and even the death penalty for attempts to corner the market. These measures have contributed little to preventing inflation and have aroused the resentment of the important Chinese community. Inflationary pressures have been held in check primarily because the government has been able, with US aid, to maintain a fairly high level of imports of consumer goods.

SECRET

1074