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14 MAR 1967

The Honorable William S. Gaud
Administrator
Agency for International Development
Department of State
Washington, D. C. 20523

Dear Bill:

In response to your 23 February request, I enclose a memorandum providing background information on Cambodian shipping, sales, and assistance to North Vietnam and the National Liberation Front.

I trust that this information, together with the Special National Intelligence Estimate on Cambodia sent to you 3 March, will meet your needs. Should you require additional detail, please let me know.

Sincerely,

/s/ Richard Helms

Richard Helms
Director

Enclosure

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CONCUR:

[Redacted Signature]

Acting Deputy Director for Intelligence

15 MAR 1967
Date

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Cambodian Shipping, Sales, and Assistance to North
Vietnam and the National Front for
Liberation of South Vietnam

Summary

The value of trade between Cambodia and North Vietnam has ranged between \$US 2 and 2.5 million in recent years. This trade is less than 5 percent of the value and less than 10 percent of the volume of trade of either country. Large sales of Cambodian rice raised the value of trade with North Vietnam to over \$4 million in 1965 but preliminary estimates indicate that trade in 1966 appears to have returned to average levels.

Trade between Cambodia and North Vietnam is conducted under trade and payments agreements recorded in pound sterling. Cambodia's indebtedness under these agreements is estimated at about \$2 million at present. The prices of goods moving in this trade do not differ greatly from world market prices. All of the trade is carried on foreign flag ships, either Communist flag ships or Free World ships under charter to North Vietnam.

Smuggling between Cambodia and South Vietnam is traditional and the Communists in South Vietnam have taken advantage of the poorly controlled border to obtain a variety of goods. Sihanouk became concerned about the smuggling of rice and the consequent loss of foreign exchange in 1965. He then made an agreement to sell to the Communists in Laos and South Vietnam 20,000 tons* or possibly 30,000 tons of rice. This rice which was paid for by Communist China and transported overland, was important to the Communist forces in the rice deficit areas of southern Laos and the central highlands of South Vietnam. Cambodia has made no real effort to stop smuggling, but even the best efforts by Cambodia would serve only to make the smuggling more difficult, and a fair amount of goods would continue to move.

The Communists use Cambodian territory to infiltrate personnel from North Vietnam, as a sanctuary to evade allied forces and as a refuge for rest, training, medical care, and the storage of supplies. Sihanouk and other senior officers are aware of the general nature but not the full extent of Communist activities in Cambodia. Sihanouk has issued orders that the Communists cannot use Cambodian territory for bases or sanctuary. Recently there have been some indications of increased vigilance by the Cambodians, but Cambodia lacks the military capability to effectively close its border with Vietnam.

* Metric tons are used in this memorandum.

Cambodian Trade with North Vietnam

1. Trade between Cambodia and North Vietnam has been relatively unimportant to both countries, accounting for considerably less than 10 percent of the total value or volume of the trade of either country. Cambodia has had to restrict trade severely with all countries in 1966 because of shortfalls in the production of rice, its principal export item, and it appears that further contraction will be necessary in 1967. As a result of the decrease in Cambodian rice exports, most of which go to Free World countries, the North Vietnamese share of total Cambodian trade may have increased slightly in 1966. Cambodian exports to North Vietnam consist mainly of corn and lumber; Cambodian imports from North Vietnam are principally cement, raw sugar, and paper.

2. Customs statistics published in Cambodia show the following value series for Cambodian trade with North Vietnam.

	Million \$US					
<u>Cambodian:</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>Jan-Sep 1966</u>
Exports	1.17	0.26	0.57	1.19	2.16	0.81
Imports	0.86	1.91	1.43	1.27	1.98	1.25
Total	<u>2.03</u>	<u>2.17</u>	<u>2.00</u>	<u>2.46</u>	<u>4.14</u>	<u>2.06</u>

During 1961-64 the value of the trade fluctuated between \$2 and 2.5 million. Trade increased sharply to over \$4 million in 1965 and in 1966 apparently returned to the 1961-64 average level. The sharp increase in the trade figures for 1965 is explained principally by a major export sale to North Vietnam of rice valued at \$1.7 million.

3. The volume of Cambodian trade with North Vietnam in 1966, as derived from the available shipping statistics, is shown below:

	<u>1,000 Tons</u>
Total	<u>88.6</u>
Cambodian exports:	<u>26.4</u>
Rice	10.0
Timber	15.3
Miscellaneous and unidentified	1.1
Cambodian imports:	<u>62.2</u>
Cement	51.0
Sugar	7.6
Miscellaneous and unidentified (including paper)	3.6

These data, which are preliminary but believed to be quite complete, indicate that the volume of Cambodian trade with North Vietnam is relatively small. It makes up less than 10 percent of the total trade volume of either country.

4. We estimate that none of the legitimate trade between Cambodia and North Vietnam is carried by means of land or air transport. All of Cambodia's seaborne trade with North Vietnam is transported by foreign shipping, either Communist flag ships or Free World ships under charter to North Vietnam. One of the two Chinese ships noted transporting goods between Sihanoukville and North Vietnam in 1966, however, normally participates in service provided by a joint shipping company agreement signed in 1960 between Cambodia and Communist China.

5. About 15,400 tons of the 26,400 tons of cargo exported from Cambodia to North Vietnam during 1966 were carried on Free World ships under charter to North Vietnam, 8,800 tons were carried on Soviet ships, and 2,200 tons were carried on a Communist Chinese ship. Chartered Free World ships also carried 36,300 tons of the 62,200 tons imported from North Vietnam, Soviet ships carried 22,800 tons and 3,100 tons were carried on a Communist Chinese ship.

6. Cambodian trade with North Vietnam is conducted under a trade and payments agreement in which the amounts are recorded in pound sterling. The bilateral payment agreement obviates the need for foreign exchange transfers except possibly when the accounts are settled. It is doubtful that settlement in foreign exchange has occurred, and Cambodia's indebtedness on the clearing account has probably built up to the equivalent of about \$2 million.

7. The price of Cambodian rice exported to North Vietnam in 1965 averaged \$80 per ton -- about the same as for rice of equal quality sold to Hong Kong and the Philippines, suggesting world market prices are used in pricing commodities exchanged between Cambodia and North Vietnam. When prices listed in the bilateral exchange vary from world market quotations, they usually are higher than world market prices. Cambodian trade officials have complained that in the bilateral trade agreements with some Communist countries export prices are sometimes inflated by both parties but that the Communist inflate their export prices more.

Gifts

8. We have no information to confirm any donations or gifts by Cambodia to North Vietnam or to the National Front for the Liberation of South Vietnam since April 1966. The gifts, known to date, consist of medicines presented in September 1965 and dried fish in March and April 1966. Cambodia on the other hand has reportedly

received gifts from North Vietnam -- 10 tons of sugar in July 1966 and 1,510 tons of coal in August 1966.

Smuggling

9. Food. There has always been a good deal of private trading and smuggling of rice back and forth across the Cambodian-South Vietnamese border, particularly in the delta region. In 1965, however, coincident with the buildup of North Vietnamese Army units in the rice-deficit South Vietnamese highlands, the Communists began to make extensive private purchases of rice in Cambodia, and this rice was smuggled through northeastern Cambodia to Communist forces in Laos and South Vietnam. It is not certain how much this additional smuggling amounted to in 1965, but the total was probably around 5,000 tons. It is known that this smuggling was on a large enough scale to disturb Sihanouk because of the loss of tax revenues and foreign exchange earnings involved.

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Other food supplies smuggled from Cambodia include dried fish, salt, beef, pork, and milk, but the quantities of these items are not large.

10. Chemicals and Munitions. Some drugs, medical supplies, and chemicals useful in the manufacture of explosives are imported into Cambodia through normal commercial channels and smuggled forward into South Vietnam to the Communists. The quantities obtained by the Communists from Cambodia are difficult to establish. Between March 1963 and February 1964 at least 23 tons of explosive chemicals, 95 percent of which was potassium chlorate, were captured on delta waterways near the Cambodian border, some with Cambodian markings and obtained in Cambodia. In addition, small quantities were seized in 1966 which clearly came from Cambodian sources. On the other hand, bulk chemicals, including potassium chlorate, are available in Saigon, which would generally be a more accessible source than would Cambodia. Small amounts of arms and ammunition drawn from military aid deliveries to Cambodia and from stocks of old weapons in Cambodia probably have been smuggled to the Vietnamese Communists. This traffic probably results from the procurement activities of the Communist party apparatus in Cambodia and from illegal sales by local military commanders in border areas.

11. The Cambodian government appears to want to stop at least that smuggling that results in large losses of revenue and has established road blocks on some of the major roads leading to the Vietnamese borders. On occasion, cargoes have been confiscated by border or customs officials. The general tenor of information on

this subject in the past six months indicates that such efforts have been stepped up by the Cambodian government. However, the Cambodian-South Vietnamese border is about 700-miles long and is difficult to control, and past activities and attitudes are difficult to change. Sihanouk has for several years foreseen a Communist victory in Vietnam (although he may now be having second thoughts); he has feared Communist intentions against his own regime; and he has felt it necessary to maintain cordial relations with them. To this end, he has been publicly sympathetic to the Communist cause and critical of the GVN and the US. He has also given the Communists those forms of material aid which are generally consistent with neutrality, which could be defended on commercial or humanitarian grounds, and which he would consider unlikely to provoke a military response from US-ARVN forces.

12. Businessmen in Cambodia, particularly Chinese merchants, have been quick to take advantage of this situation. Aside from the official rice sales, most of the support obtained by the Communists in Cambodia is in fact accomplished through commercial and private transactions, handled primarily by Chinese and Vietnamese businessmen in Cambodia who import materials, smuggle rice, and occasionally even use Cambodian Army trucks to effect deliveries. Sihanouk's political attitude provides little incentive for medium- and low-level government officials and military personnel to resist the temptation and opportunity for personal profit. The Cambodian Army, security forces, and local officials are poorly paid, and dealing with the Vietnamese Communists represents the chance of a life time to make money. As a result, there is much local collusion along the border, including the sale of supplies to the Communist and the occasional use of army trucks to deliver them. While Sihanouk and senior officials in Phnom Penh probably are generally aware of what is going on; they have apparently chosen generally to close their eyes to most of it.

13. If the Cambodian Government chose to, it could probably do more to limit the shipment of rice, chemicals, and other goods to the Communists. Sihanouk could change the prevailing climate, and the bureaucratic and military apparatus could exert tighter controls over rice shipments and the import of goods from abroad. At best, however, smuggling, false manifesting, bribery, and other tricks of the trade would serve to permit a fair amount of goods to move.

Communist Use of Cambodian Territory

14. The extent to which Cambodian territory is used for Communist bases, for sanctuary, and for infiltration is difficult to determine. The Vietnamese Communists have established several important base areas in South Vietnam next to the Cambodian border. There is considerable evidence, however, that some of these bases extend into Cambodia,

where they form part of the logistical system for the acquisition and storage of supplies obtained from or through Cambodia. The bases also provide facilities for sanctuary, hospitalization, rest, and training. Sanctuary is probably the most important use made of Cambodia by the Vietnamese Communists in their combat operations. As the war has intensified, VC and NVA units have resorted more frequently to border crossing to avoid detection by or combat with US-ARVN forces. The main use of Cambodian territory is for infiltration by North Vietnamese Army troops who normally walk all the way to South Vietnam. The main infiltration trails generally run on Vietnamese territory after leaving the Laotian Panhandle, but they follow close to the border and cross into Cambodia in many places, in one instance utilizing Cambodian territory for some 50 kilometers or so. There is some evidence that Communist groups may have been making more extensive use of the trails in Ratanakiri and Mondolkiri Provinces over the past year.

15. Sihanouk and other senior Cambodian officials almost certainly have a general knowledge of Vietnamese Communist military activities in Cambodia, although perhaps not to their full extent. Communist activities are almost certainly better known along the more populous and politically sensitive southern half of the frontier, where Cambodian border posts are concentrated. The RKG is probably much less informed of Communist activities in the desolate and unsettled northeast.

16. Sihanouk dislikes and distrusts all Vietnamese, including the Communists, and is unhappy about their presence and activity in and on the borders of Cambodia. He also fears involvement in the war and has attempted to maintain an official posture of correct neutrality. He has issued instructions that no Vietnamese forces be permitted sanctuary or bases on Cambodian territory, and Cambodian border forces have in fact skirmished with the VC, but until recently there has been no determined effort to police the border. During the past six months there has been definite interest expressed by the central authorities of making an attempt to police their Vietnamese border.

17. In any event, Cambodia's Armed Forces are far too small to seal Cambodia's borders and to effectively deny Communist use of Cambodian territory. Deployments along the troubled border with Thailand and in the southern central part of the country leave less than 5,000 regular troops along the entire 700-mile border with South Vietnam. There are only 1,300 Cambodian regular soldiers, deployed in three locations, to cover some 300 miles of wild and inaccessible border in the northeastern provinces of Ratanakiri and Mondolkiri. There are about 12,000 Communist main force troops on the South Vietnamese side of this border region. While a firmer attitude and increased vigilance by the Cambodians might serve to

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discourage Communist use of Cambodian territory, Cambodia's capability to detect and resist sizable Communist forces or inhibit Communist activities, particularly in the northeast, is extremely limited.

CIA/ORR
March 1967

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