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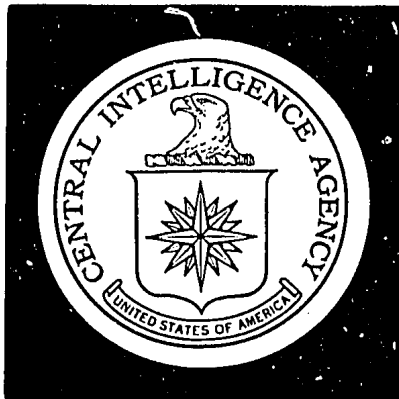
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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

*North Vietnam: Developments In Trade With The Free World
In 1970 And Prospects During 1971*

Secret

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August 1971

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1971

INTELLIGENCE MEMORANDUM

NORTH VIETNAM: DEVELOPMENTS IN TRADE
WITH THE FREE WORLD IN 1970 AND PROSPECTS DURING 1971

Introduction

1. Exports to the Free World are only a small part of North Vietnam's total trade picture, but they are Hanoi's most important source of hard currency earnings. These earnings are needed to support diplomatic representations in Free World countries, including the Paris delegation, and to support military and political activities in the neighboring countries of Indochina, as well as to pay for imports. In addition, North Vietnam undoubtedly gains some political dividends through its commercial contacts abroad. This memorandum describes developments in North Vietnam's trade with the Free World in 1970 and discusses probable trends in trade with the Free World during the next several years.

2. North Vietnam has published no trade statistics since 1963, but data on North Vietnam's trade with the Free World are available from trading partner statistics. Data on North Vietnam's receipts of grants from Free World countries are incomplete and payments by North Vietnam for shipping and insurance costs - included in Free World statistics on North Vietnam's exports but excluded from statistics on North Vietnam's imports - must be estimated from fragmentary data. Thus, estimates of North Vietnam's hard currency earnings are approximations only.

Note: This memorandum was prepared by the Office of Economic Research.

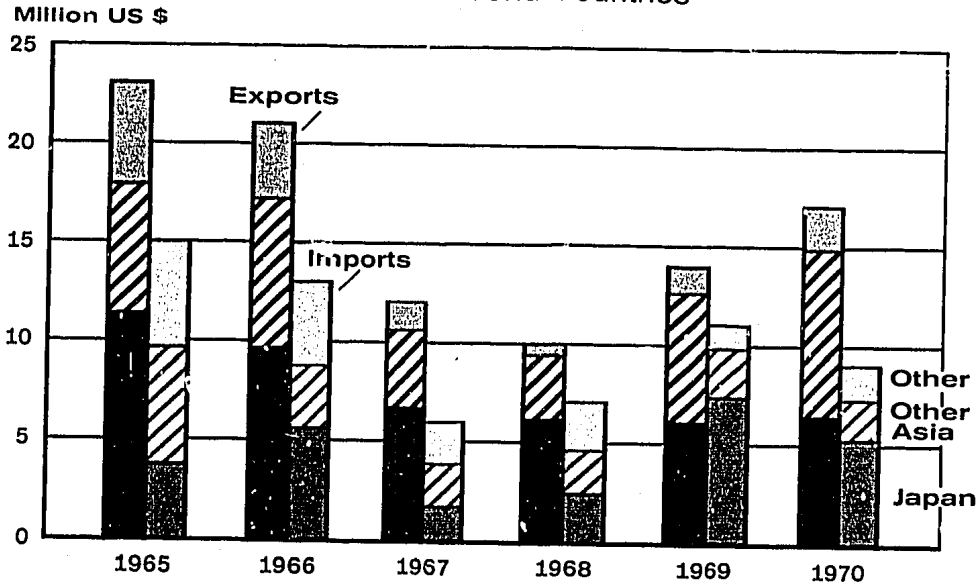
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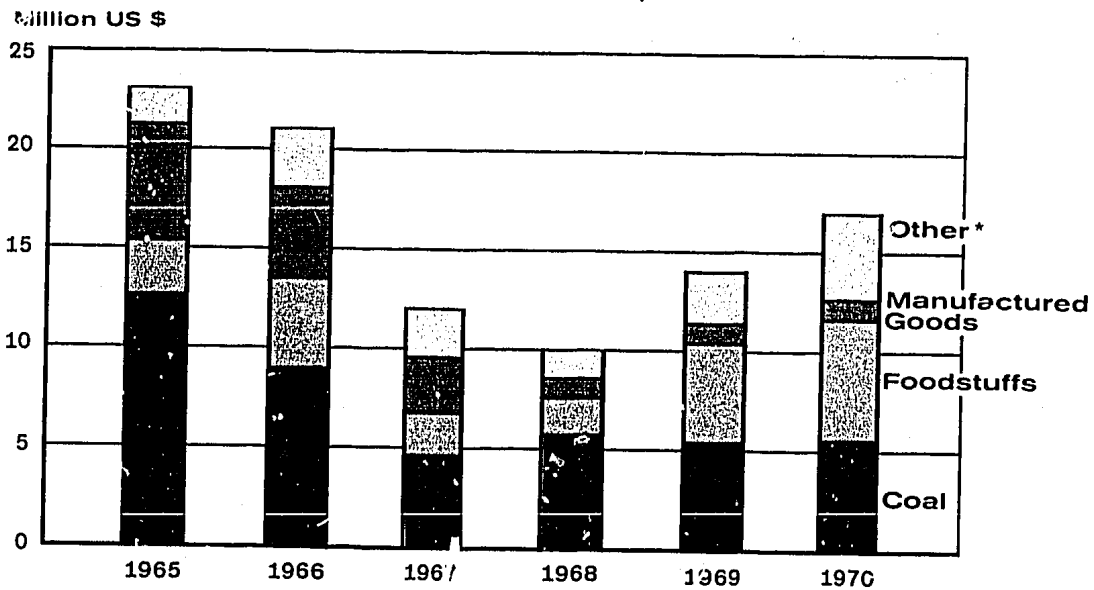
North Vietnam: Trade with Free World Countries

Figure 1



North Vietnam: Commodity Composition of Exports to the Free World

Figure 2



*Including crude materials, animal and vegetable oils and fats, unprocessed chemicals, and some unspecified miscellaneous products.

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3. In 1970, exports to the Free World continued to recover from the wartime low in 1968 (see Figure 1 and Table 1). Exports rose to \$17 million, more than 20% over the 1969 level and more than 60% over the 1968 level, but still less than 75% of the 1965 level. There have been major changes in the composition of exports in the past few years. In 1965, coal made up over one-half of total exports to Free World countries, and manufactures (mainly pig iron and cement) about one-fourth. In 1970, coal exports were down to about one-third and manufactures to about 6% of total exports.

4. Agricultural products continued to spark the recovery in exports as North Vietnam increased its deliveries of rice and other foodstuffs such as coffee, tea, and spices to Singapore, Malaysia, and Hong Kong. North Vietnam's agricultural exports in 1970 were more than three times the 1968 level and surpassed coal as a source of hard currency. They have increased from about 12% to more than one-third of total exports to the Free World since 1965. Coal exports have been superseded by foodstuffs as the single largest source of hard currency earnings because they have stagnated since 1968 and remain below one-half of the pre-bombing level (see Figure 2). Coal exports to Western Europe, which amounted to about \$3.3 million in 1965, have not resumed since mid-1967, when shipments were halted because of the bombing of coal processing facilities and the closing of the Suez Canal. Shipments to Japan reached \$4.7 million in 1970, somewhat more than half of the 1965 level, as production problems continued to limit the output of coal.

5. In 1970, manufactured goods, which have stagnated for three years at about \$1 million compared with nearly \$6 million in 1965, accounted for about 6% of total exports. Pig iron exports to Japan amounted to more than \$2 million in 1965, but have not been resumed since the bombing of the Thai Nguyen Iron and Steel Complex in March 1967; cement exports in 1970 were probably still less than 5% of the levels achieved in 1965 and 1966; coal exports to the Free World in 1970 amounted to less than half of the 1965 level. Exports of crude materials increased slightly over the 1969 level and surpassed the 1965 level of about \$1.5 million, but still remained below the 1966 peak of \$2 million. Chemical exports approached the 1965 level of \$0.3 million as North Vietnam expanded its deliveries of essential oils and resinoids to Western Europe and other markets.

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Table 1
North Vietnam: Commodity Composition of Exports to Free World Countries a/

	Million US \$					
	1965	1966	1967	1968	1969	1970 ^{b/}
<i>Total exports</i>	<u>23.0</u>	<u>21.0</u>	<u>12.0</u>	<u>10.0</u>	<u>14.0</u>	<u>17.0</u>
Foodstuffs	<u>2.7</u>	<u>4.4</u>	<u>2.0</u>	<u>1.9</u>	<u>4.9</u>	<u>6.0</u>
Of which:						
Live animals	0.4	0.1	Negl.	Negl.	Negl.	Negl.
Rice	0.4	1.5	0.6	0.4	3.3	3.5 ^{c/}
Crude materials	<u>1.5</u>	<u>2.0</u>	<u>1.3</u>	<u>1.2</u>	<u>1.5</u>	<u>1.6</u>
Mineral fuels (coal)	<u>12.6</u>	<u>9.0</u>	<u>4.7</u>	<u>5.7</u>	<u>5.3</u>	<u>5.6</u>
Animal and vegetable oils and fats	<u>0.4</u>	Negl.	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.3</u>
Chemicals	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>	<u>0.3</u>
Machinery and transport equipment	Negl.	<u>0.1</u>	Negl.	Negl.	Negl.	Negl.
Manufactured goods	<u>5.8</u>	<u>4.6</u>	<u>3.0</u>	<u>0.8</u>	<u>1.0</u>	<u>1.0</u>
Of which:						
Textile yarns and fabrics	0.3	0.1	0.1	0.2	0.1	N.A.
Cement	2.0	1.7	0.9	Negl.	0.1	N.A.
Other lime, cement, and con- struction materials	0.1	0.2	0.1	0.1	0.1	N.A.
Pig iron	2.9	2.1	1.3	Negl.	Negl.	N.A.
Other	<u>0.1</u>	<u>0.3</u>	<u>0.6</u>	<u>0.5</u>	<u>0.9</u>	<u>2.2</u>

a. Totals are rounded to the nearest \$1 million. Individual commodity categories are rounded to the nearest \$100,000. Because of rounding, components may not add to the totals shown.

b. Preliminary estimate.

c. Preliminary estimate for Hong Kong and Singapore only.

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6. Asian countries continued to be North Vietnam's most important markets (see Table 2); Western Europe's share of North Vietnam's exports remained below 10%, compared with nearly 25% in 1965. Exports to Western Europe remained low mainly because deliveries of coal to France, Italy, and the Netherlands ceased after mid-1967. Japan, Singapore, Malaysia, and Hong Kong together accounted for nearly 85% of total exports. Coal was the major commodity exported to Japan and foodstuffs dominated exports to the other major markets.

Imports

7. Imports from the Free World were reduced from about \$11 million in 1969 to about \$9 million in 1970, less than two-thirds of the 1965 level (see Table 3). A major part of this cutback was North Vietnam's reduction in purchases of Japanese urea, 1/ which declined from nearly \$5 million in 1969 to less than \$2 million in 1970, probably to conserve hard currency. Other imports from the Free World remained substantially below the 1965 levels, in some cases reflecting the slow recovery in North Vietnam's economy. Such imports consist mainly of textile fibers, yarns and unfinished cloth, and leather; pesticides and other inputs for agriculture; wood for the construction industry; and metal and rubber for light manufacturing. Imports from the Free World are not critical to North Vietnam's conduct of the war, industrial growth, or consumer welfare and have declined in importance since 1965 as North Vietnam devoted its major efforts to waging the war. The Communist countries have supplied some goods such as rubber and wood products to replace products formerly manufactured from materials supplied by Free World countries.

8. Japan remained North Vietnam's largest Free World supplier in 1970 (see Table 4), but its share of total imports from the Free World fell from about 65% in 1969 to about 55% in 1970 because of the cutback in purchases of Japanese urea. Singapore declined in importance as North Vietnam reduced its purchases of crude rubber. Imports from Cambodia spurted in 1969, after declining steadily from 1965 through 1968, but ceased after the ouster of Sihanouk in March 1970. Deliveries from Hong Kong increased more than 3-1/2 times the 1969 level to \$1.3 million in 1970 as a result of a sharp increase in shipments of cotton fabrics, all of which occurred in the second half of the year and may have been financed

1. *The reduction in imports of urea from Japan from 77,000 metric tons, or \$4.9 million, in 1969 to 34,000 metric tons, or \$1.8 million, in 1970 was offset by an increase in deliveries of ammonium sulfate reported by the USSR from 34,000 metric tons, or \$1.6 million, in 1969 to 112,000 metric tons, or \$4.9 million, in 1970.*

Table 2

North Vietnam: Direction of Trade with Free World Countries -- Exports ^{a/}

	Thousand US \$					
	1965	1965 ^{b/}	1967	1968	1969	1970 ^{b/}
Total turnover	38,000	34,000	18,000	17,000	25,000	26,000
Total exports	23,000	21,000	12,000	10,000	14,000	17,000
Asia	18,000	17,100	10,600	9,400	12,800	15,100
Japan	11,457	9,651	6,686	6,108	6,015	6,317
Singapore	1,859	1,614	1,447	1,375	2,957	3,316
Malaysia	N.A.	179	229	199	1,199	1,800
Hong Kong	2,660	3,032	1,097	1,168	1,836	2,628
Cambodia	2,000	1,600	1,100	500	800	1,000
Other	8	1,028	7	2	9	--
Western Europe	5,400	3,500	1,200	1,000	1,200	1,700
France	3,021	2,643	541	513	440	678
West Germany	215	147	122	172	229	394
United Kingdom	333	255	207	122	204	178
Netherlands	573	112	99	128	133	100
Italy	485	143	71	107	49	73
Belgium-Luxembourg	661	19	27	2	2	9
Austria	78	139	74	10	20	167
Sweden	24	32	27	9	49	39
Switzerland	44	47	9	74	46	82
Other	4	7	3	N.A.	4	4
Other	100	Negl.	100	100	Negl.	N.A.

a. Aggregate totals are rounded to the nearest \$1 million. Area totals are rounded to the nearest \$100,000 and individual country totals are rounded to the nearest \$1,000. Because of rounding, components may not add to the totals shown.

b. Preliminary estimate.

Table 3

North Vietnam: Commodity Composition of Imports from Free World Countries a/

	Million US \$					
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u> ^{b/}
<i>Total imports</i>	15.0	13.0	6.0	7.0	11.0	9.0
Foodstuffs	<u>1.8</u>	<u>0.7</u>	<u>0.3</u>	<u>0.3</u>	Negl.	N.A.
Crude materials	<u>3.2</u>	<u>1.8</u>	<u>1.6</u>	<u>1.3</u>	<u>0.9</u>	<u>1.0</u>
Of which:						
Crude rubber	1.9	1.2	1.0	0.6	0.8	N.A.
Wood	0.4	0.3	0.2	0.4	N.A.	N.A.
Textile fibers	0.9	0.3	0.3	0.3	0.1	N.A.
Animal and vegetable oils and fats	<u>1.2</u>	<u>0.7</u>	<u>0.4</u>	<u>0.8</u>	<u>0.2</u>	<u>0.5</u>
Chemicals	<u>3.8</u>	<u>2.1</u>	<u>1.4</u>	<u>1.5</u>	<u>5.9</u>	<u>3.0</u>
Of which:						
Urea	0.3	0.5	N.A.	0.4	5.0	1.9
Other nitrogenous fertilizers	2.0	Negl.	Negl.	Negl.	0.3	N.A.
Machinery and transport equipment	<u>0.9</u>	<u>1.5</u>	<u>0.7</u>	<u>1.1</u>	<u>0.7</u>	<u>1.0</u>
Manufactured goods	<u>3.5</u>	<u>5.5</u>	<u>1.6</u>	<u>1.9</u>	<u>1.8</u>	<u>3.0</u>
Of which:						
Textile yarns and fabrics	1.8	0.7	0.5	0.9	0.9	N.A.
Metals and metal manufactures	1.0	3.8	0.8	0.6	0.6	N.A.
Leather and leather products	0.4	0.8	0.1	0.1	Negl.	N.A.
Other and unspecified	<u>0.4</u>	<u>0.3</u>	<u>0.1</u>	<u>0.1</u>	<u>1.6</u>	<u>N.A.</u>

a. Totals are rounded to the nearest \$1 million. Individual commodity categories are rounded to the nearest \$100,000. Because of rounding, components may not add to the totals shown.

b. Preliminary estimate.

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Table 4

North Vietnam: Direction of Trade with Free World Countries -- Imports a/

	Thousand US \$					
	1965	1966	1967	1968	1969	1970 ^{b/}
Total turnover	38,000	34,000	18,000	17,000	25,000	26,000
Total imports	15,000	13,000	6,000	7,000	11,000	9,000
Asia	9,600	8,900	4,000	4,600	9,900	7,300
Japan	3,853	5,649	1,817	2,444	7,259	5,020
Singapore	2,800	1,858	1,228	1,232	905	670
Malaysia	--	--	--	15	--	--
Hong Kong	447	261	151	240	349	1,285
Cambodia	2,160	1,040	830	700	1,400	300
Other	325	42	N.A.	N.A.	N.A.	N.A.
Western Europe	5,100	3,900	2,400	2,700	1,300	1,900
France	2,124	2,290	627	1,373	566	534
West Germany	136	212	521	664	34	223
United Kingdom	202	104	185	254	161	130
Netherlands	93	302	473	46	9	108
Italy	633	399	550	143	346	144
Belgium-Luxembourg	1,685	515	0	18	30	15
Austria	1	0	1	0	8	32
Sweden	6	8	5	79	78	648
Switzerland	101	31	9	16	22	8
Other	83	31	25	74	76	68
Other	400	100	Negl.	100	Negl.	100

a. Aggregate totals are rounded to the nearest \$1 million. Area totals are rounded to the nearest \$100,000 and individual country totals are rounded to the nearest \$1,000. Because of rounding, components may not add to the totals shown.

b. Preliminary estimate.

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by Swedish aid. Sweden also sharply increased its deliveries in 1970, replacing France as North Vietnam's largest West European supplier. Western Europe's share of North Vietnam's imports rose to 20% in 1970 from about 10% in 1969, but remained below the 1965 share of about 35% when there were large fertilizer deliveries from Belgium-Luxembourg and Italy and substantial purchases of manufactured goods and machinery from France.

Hard Currency Earnings

9. The continuing recovery in North Vietnam's exports to the Free World and the cutback in imports in 1970 led to a sharp improvement in its balance of trade to about the 1965 level, as shown in the tabulation.

	Million US \$					
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Exports	23	21	12	10	14	17
Imports	15	13	6	7	11	9
Balance	+8	+8	+6	+3	+3	+8
Estimated shipping costs	5	4	2	2	2	3
Net hard currency earnings	3	4	4	1	1	5

In 1970 North Vietnam earned its surplus entirely in trade with Asian countries, while it incurred a small deficit in trade with Western Europe. Since 1965, North Vietnam has consistently earned a surplus in trade with Asian countries and has incurred a deficit with Western Europe since 1967.

10. Adjustments of the trade data are necessary to estimate the amount of foreign exchange North Vietnam has had available for other purposes, including augmentation of reserves. Trading partner statistics include shipping charges on imports from North Vietnam which, for the most part, do not accrue to North Vietnam. Moreover, data on exports to North Vietnam do not include shipping charges, part of which North Vietnam does have to pay in hard currency. North Vietnam's small merchant fleet carried less than 2% of the country's total seaborne imports and exports

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in 1970. As shown in the tabulation, adjustment for shipping charges substantially reduces the surplus.

11. In addition to hard currency earnings through trade, North Vietnam since 1965 has received some \$10 million in grant aid. In 1970 the International Red Cross gave North Vietnam about \$1.3 million in cash and commodities. The Swedish government donated about \$350,000 of this sum to the International Red Cross and also contributed another \$6.8 million of humanitarian aid to North Vietnam through the Swedish Red Cross. As in previous years, North Vietnam in 1970 did not receive any goods on medium- or long-term credits from Free World countries.

12. Sketchy data on North Vietnam's deposits of hard currency at its primary international bank, Banque Commerciale pour l'Europe du Nord (Eurobank), indicate an increase from about \$7 million in December 1969 to nearly \$20 million in December 1970 - an amount consistent with the observed increase in hard currency earnings from trade and aid in 1970.

13. North Vietnam's deposits at Eurobank provide an indication of the level of Hanoi's hard currency reserves, although they may be offset to some extent by short-term debt, on which we have no information. On the other hand, North Vietnam may have some holdings at other banks, including the Moscow Narodny Bank in London.

Prospects

14. North Vietnam's trade with the Free World in 1971 will probably show another substantial increase, led by exports of coal to Japan. Coal exports to Japan in the first half of 1971 nearly equaled the 239,000 metric tons delivered in all of 1970, and will probably continue at a high level for the remainder of the year. The increase in exports to Japan has been accompanied by a halt in coal exports to Communist China in the first half of 1971 and probably reflects an accommodation by the Chinese to permit North Vietnam to earn additional hard currency. There probably has been only a small increase in total coal production. Exports of foodstuffs to other Asian countries will probably also show a further increase in 1971. Deliveries of rice to Singapore and Hong Kong in the early months of 1971 fell below the previous year's level, but shipments increased in June and reports point to larger shipments later in the year. Although imports from Asian countries rose in the early months of 1971, North Vietnam's favorable balance of trade continued to improve.

15. During the next several years, further improvement in North Vietnam's exports will depend on successful reconstruction of industry, especially coal, cement, and pig iron. A Soviet survey has estimated North

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Vietnam's anthracite reserves to be between 2 billion and 5 billion metric tons. However, damage to the Cam Pha Coal Processing Plant was only two-thirds repaired by the end of 1970. At the Thai Nguyen Iron and Steel Complex the second of three blast furnaces was put back into operation in May 1971. The first had been restored in August 1970 and had operated intermittently since then, but sustained operation has not yet been achieved. Similarly, the Haiphong Cement Plant had been restored to three-fourths of its former capacity, with the repair of five of the seven kilns, but work on the remaining two halted in August 1970 for unknown reasons. North Vietnam will have to complete reconstruction of these and other facilities to restore exports of its major industrial products to pre-bombing levels.

16. Growth of exports of other industrial products to the Free World does not appear very promising, primarily because such exports would have to be diverted from Communist countries (for example, apatite ore) or because reserves and production are low (for example, chromite and tin). Agricultural products offer only limited opportunities for further expansion of exports to the Free World even though recent policy statements from Hanoi have stressed the need to expand agricultural exports to provide the means for future industrialization. Chronic ills that beset Communist agriculture have been aggravated by the war. Production of commercial crops such as tea, coffee, tobacco, groundnuts, jute, and silk is dispersed, poorly organized, and inefficient. In many cases North Vietnam's products could not meet the quality standards necessary for success in Free World markets. Seafood products offer good prospects for growth of exports to the Free World. Small amounts of seafood were exported to Hong Kong in late 1970 for re-export to other countries. However, North Vietnam will need foreign investment to develop a modern seafood processing industry. Assistance from the Free World may be forthcoming after the war.

17. Exports of consumer manufactures probably will not grow rapidly, because of pressing domestic needs and quality problems. Textiles, footwear, and clothing are exported to Communist countries, but poor quality limits their prospects in Free World markets. North Vietnam has engaged in negotiations with Japanese and West European firms for the establishment of export-oriented textile industries and assembly operations. One attempt by a Japanese firm to establish assembly operations in North Vietnam for calculators made of Japanese components ended in failure because of the poor quality of the North Vietnamese labor. Inefficient management and low labor productivity have impeded the establishment of other plants in North Vietnam by Free World countries.

18. Although North Vietnam has not yet been successful in obtaining developmental aid from Free World countries, several countries have displayed an interest in aiding North Vietnam's economic development and

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some projects will almost certainly be undertaken following the end of hostilities. Sweden is the only non-Communist government that has designed an official aid program to assist North Vietnam's economic recovery. For the three years beginning on 1 July 1970, Sweden allocated a total of \$43.5 million, of which \$14.5 million was classified as humanitarian aid and \$29 million as developmental aid, particularly for the wood and paper industries. Pressure from the United States and from domestic political opposition, however, caused postponement of the developmental assistance until the war ends. Several projects have been discussed with Japanese and West European firms for the development of North Vietnam's industries, especially potential sources of hard currency. Development of a Hon Gai coal mine by Japanese firms is the most important project planned to date.

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Conclusions

19. Agricultural exports to Asian countries in 1970 led the continuing recovery of North Vietnam's exports to the Free World. Exports of coal and most other industrial goods continued to stagnate because of the slow pace of reconstruction.

20. North Vietnam cut back its imports from the Free World in 1970, mainly by reducing its imports of Japanese urea from the unusually high level of 1969. Imports of other goods from the Free World remained substantially below the pre-bombing levels as Hanoi devoted its major attention to waging the war rather than developing industry.

21. North Vietnam's earnings of hard currency rebounded sharply in 1970 as a result of the increase in exports, the reduction in imports, and the receipt of more than \$8 million of aid from Sweden and the International Red Cross. Further substantial increases, however, will require expansion of exports of industrial goods. In 1971, exports will increase because of a diversion of North Vietnamese coal from Communist China to Japan. Export performance in subsequent years will depend primarily on the pace of reconstruction and on the amount of developmental aid received from both Free World and Communist countries.