

FHS 25X1

Central Intelligence Agency

152



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

7 June 1985

Vietnam-ASEAN: Trade Overrides Political Considerations [ ]

25X1

Summary

Despite its unified opposition to Vietnam's occupation of Cambodia, neither ASEAN as an organization nor its individual member countries have imposed an across the board trade embargo on Vietnam. Trade has continued--and in the case of Singapore expanded--since 1979 in all ASEAN countries except Brunei. Hanoi's recorded trade with ASEAN now totals about \$100 million annually--an inconsequential amount in terms of ASEAN, but equal to about a quarter of Hanoi's hard currency trade. We estimate that unrecorded exchanges are of approximately equal magnitude. From Hanoi's point of view, moreover, trade with Singapore and Thailand has provided essential fuel and rice in times of shortage. [ ]

25X1

Hanoi's economic strategy for the remainder of the decade calls for sharply expanding trade with ASEAN, [ ] but we believe these plans are unlikely soon to amount to much. Hanoi's ability to import from ASEAN countries will be limited primarily by lack of foreign exchange and access to credit. Expansion of Vietnamese exports to ASEAN will be hindered by poor quality, limited availability, lack of marketing knowhow, and the competition with commodity exports of other Southeast Asian nations. [ ]

25X1

25X1

This memorandum was prepared by [ ] Southeast Asia Division, Office of East Asian Analysis. Information available as of 6 June 1985 was used in its preparation. Comments and questions are welcome and should be addressed to Chief, Southeast Asia Division, OEA, [ ]

25X1

25X1

EA M 85-10110

[ ]

25X1

[ ]

25X1

Vietnam's Trade with ASEAN

Vietnam's annual foreign trade of roughly \$2.2 billion is oriented strongly toward the Soviet Union and Eastern Europe; these countries account for about 80 percent of Vietnam's total trade. Published data indicate that trade with ASEAN averages about \$100 million annually, thus accounting for about 5 percent of Hanoi's combined imports and exports and about a quarter of its hard currency trade.<sup>1</sup> (See Table 1) This trade is of negligible value to the ASEAN countries, comprising less than 1 percent of the value of trade in all cases. Nevertheless, we believe there is some merit to Hanoi's claim that its trade with ASEAN is far greater than official statistics show. [redacted]

25X1

[redacted] a substantial amount of trade goes unrecorded, so that the data in Table 1 probably understate the flow of trade between Hanoi and ASEAN by about 50 percent. [redacted]

25X1

25X1

Singapore. Official Singapore statistics show total trade with Vietnam approached \$80 million in 1983. Both imports and exports rose sharply in the first half of 1984. Although it has no embassy there, Hanoi maintains an official trade representative in Singapore. Much of Vietnam's trade with Indonesia, Thailand, and Malaysia is generated by this office and is reflected in Singapore statistics. [redacted]

25X1

Hanoi's major export to Singapore is frozen seafood, largely through the joint Singapore-Soviet seafood company Marrisco. Hanoi also exports tropical commodities and foodstuffs, which are largely reexported, and some exotic products favored by Singapore's Chinese community. [redacted]

25X1

Singaporean companies sell a variety of consumer goods and commodities to Vietnam. Refined petroleum products--largely marine diesel fuel--and goods and services for the Soviet oil exploration effort in the South China Sea make up a large portion of this trade. Most Singapore companies long ago gave up granting Hanoi letters of credit to pay for imports unless these are cosigned by the Moscow Narodny Bank of Singapore, according to the financial press. [redacted]

25X1

In addition to trade by official Vietnamese companies, reporting from press [redacted] details a large volume of trade conducted by ethnic Chinese businessmen--often relatives--in both countries. This trade may fall off,

25X1

<sup>1</sup> Data used in this paper come from ASEAN and Vietnamese trade statistics, IMF analyses, and CIA estimates. Japan and Hong Kong together account for almost 40 percent of Hanoi's relatively small hard currency trade of \$500 million. [redacted]

25X1

25X1

however, if Hanoi is successful in its efforts to centralize control of the largely ethnic Chinese foreign trading companies in Ho Chi Minh City. [redacted]

25X1

Thailand. Although Bangkok bans the export or transit through its territory of "strategic goods" to Vietnam, it is Hanoi's second largest ASEAN trading partner. Official Thai exports increased from about \$400,000 in 1983 to nearly \$10 million last year, largely because of a sharp rise in Hanoi's rice purchases. Even so, we believe Thailand's official statistics substantially understate trade with Vietnam. [redacted]

25X1

[redacted] rice exports to Vietnam may have topped 350,000 metric tons last year, compared with the 51,000 tons in official statistics. The US agricultural attache in Bangkok believes most rice exports from Thailand to Vietnam list the Malagasy Republic as final destination. The purchases are largely handled by Japanese and Soviet trading companies, according to the US Embassy in Bangkok. Hanoi apparently pays hard currency or barter tropical commodities for the rice. [redacted]

25X1

25X1

Much unrecorded trade--especially of textiles and consumer goods--goes by land across Cambodia and by sea across the Gulf of Thailand to ports in southwestern Vietnam, according to the US Embassy in Bangkok. A few private Thai companies are pressing for Bangkok to regularize this trade and expand into other products. They are sending representatives to Hanoi in search of new business, and one Thai company signed an agreement last year to provide timber equipment to Hanoi in return for timber and a letter of credit, according to the Thai press. [redacted]

25X1

25X1

Indonesia. Hanoi's trade with Indonesia is small in contrast to that with Singapore and Thailand. The value of direct bilateral trade fluctuates between \$2-4 million annually. Although we cannot estimate precisely the value of indirect trade through Singapore, we believe it is substantial. [redacted]

25X1

Both Jakarta and Hanoi are looking for ways to expand direct trade, mainly by cutting out some middlemen in Singapore. The two governments last month signed a memorandum of understanding calling for expanded bilateral trade--the first such agreement between Hanoi and an ASEAN country since 1979. The MOU included an agreement for Vietnam to buy 600,000 yards of Indonesian textiles, worth about \$350,000. If carried out, this contract would roughly double Vietnamese imports from Indonesia. The MOU also states that Indonesia will consider supplying Vietnam with fertilizer and fuel oil on credit. [redacted]

25X1

Malaysia. Hanoi's direct trade with Malaysia amounts to only a few hundred thousand dollars annually. A substantially larger amount is traded indirectly through Singapore--perhaps as much as \$5 million a year. In 1983, according to press reports, Guthrie--a Malaysian-based multinational--sold \$375,000 of rubber

processing equipment to Vietnam. Small Vietnamese ships trade directly with the Chinese community in Penang. [redacted]

25X1

The Philippines. Trade with Vietnam has steadily dropped since 1980, when Manila exported goods worth roughly \$10 million. Official exports in 1983 were less than \$2 million--largely high yield rice seed.<sup>2</sup> Vietnamese sales to the Philippines are negligible, according to Philippine statistics. Longstanding plans by Marcos crony Enrique Martel to develop joint ventures in oil, glass, and textiles have yet to materialize. [redacted]

25X1

Brunei. The staunchly anti-Communist government of ASEAN's newest member has refused to establish diplomatic relations with Hanoi and bans trade with all Communist regimes. [redacted]

25X1

The Future of ASEAN-Vietnam Trade

The View From Hanoi. Hanoi's severe foreign exchange shortage and lack of access to both commercial and longer term foreign borrowing have forced the leadership to consider opening the economy more to non-Communist trade and investment.<sup>3</sup> Increased trade with ASEAN countries plays a major role in these plans, according to diplomatic reporting. Hanoi's goals are to increase exports of seafood and rubber and other tropical products through Singapore to pay for increased imports of fertilizer, petroleum, industrial raw materials, and consumer goods such as textiles. We believe that Hanoi has also targetted Indonesia and Malaysia for increased direct trade. [redacted]

25X1

The View From ASEAN ASEAN governments hold differing views on commercial relations with Vietnam. Despite the extended political confrontation with Hanoi, however, neither ASEAN as an organization nor its individual members have embargoed trade with Vietnam. The "hardline states" of Singapore and Thailand in fact conduct the bulk of ASEAN's trade with Vietnam. On the other hand, ASEAN leaders remain opposed to granting economic or development aid.

- o Thailand bans export of or transit through its territory of "strategic goods" such as petroleum and steel destined for Vietnam and discourages but does not restrict imports. A distinct minority position--put forth by

<sup>2</sup> Vietnamese agricultural technicians regularly attend training sessions at the International Rice Research Institute in the Philippines. [redacted]

25X1

[redacted]

25X1

[redacted]

25X1

former Prime Minister Kriangsak and Deputy Prime Minister Phichai--advocates expanded trade as one means of creating a better atmosphere for talks with Hanoi over Cambodia, a position the Prem government has so far rejected. Thai officials do not publicly acknowledge the extensive, unofficial trade across Cambodia and maintain that Singapore's much larger trade with Hanoi undermines ASEAN solidarity on Cambodia.

- o Singapore officials maintain that they run an open economy whose private businesses can deal with all countries except those subject to a UN trade embargo, which Vietnam is not.
- o Indonesia believes it has a special relationship with Vietnam, based on a shared anti-colonial heritage, and promotes the view that Vietnam is an integral part of the Southeast Asian community. There is a general feeling in Jakarta that Indonesian-Vietnamese trade should be larger, if only to attempt to draw Hanoi more into that community and away from near total reliance on Moscow. Jakarta also seems willing to consider expanded economic relations with Vietnam and has offered to provide oil drilling assistance to Hanoi once the delineation of their joint maritime boundary is resolved. Indonesia is also pursuing the possibility of marketing its surplus textiles in Vietnam.
- o Malaysia in principle strongly opposes trade with Hanoi. More importantly, increasingly sophisticated Malaysian businessmen find little to tempt them in Hanoi's wares. Malaysian academics who recently visited Vietnam came away saying they did not understand their government's rigid objection to bilateral trade, given Singapore's nearly open door trade policy.
- o The Philippines and Vietnam signed a trade agreement in 1978, but Manila has since issued strict instructions that while "regular commercial practices" could be maintained, no longer term projects could be initiated. In practice, Manila does not monitor trade with Vietnam.

25X1

### Trade Prospects

Over the next two years Hanoi will probably attempt to promote increased official trade with ASEAN, using the Indonesian agreement as a starting point. We believe Hanoi is also likely to attempt to set up some joint ventures with businesses from ASEAN countries. It would especially use help in natural rubber production and processing, in which Malaysia has a special expertise.

25X1

Despite these efforts, we believe Vietnamese-ASEAN trade is likely to stagnate near its current level without a major revision of economic policy by Hanoi. Vietnam's ability to pay

25X1

for hard currency imports has shrunk markedly over the past year and is unlikely to improve without an IMF-sponsored debt rescheduling. [redacted]

25X1

Hanoi will also have a tough time expanding exports to ASEAN unless it can acquire the technology to improve product quality. In addition, it will have problems increasing the supply of goods for export unless it can divert some of the goods now going to the Soviet Bloc into ASEAN trade. [redacted]

25X1

Because the ASEAN economies, especially Singapore and Thailand, are dominated by dynamic, freewheeling private sectors with relative freedom of foreign currency transfers, it is unlikely that their governments could substantially curtail the trade that exists even if they wanted to. By the same token, these companies will expand trade with Hanoi only if it is profitable. [redacted]

25X1

Table 1  
Vietnam's Trade with ASEAN, 1983<sup>a</sup>  
\$US million

	<u>Brunei</u>	<u>Indonesia</u>	<u>Malaysia</u>	<u>Philippines</u>	<u>Singapore<sup>b,c,d</sup></u>	<u>Thailand<sup>b</sup></u>
<u>SRV Exports to:</u>	--	1.8	.1	.1	33.4	1.0
Typical products		coal	soybeans corn vegetables	coal spices seafood	frozen seafood, spices, peanuts, rubber, tea, coffee, coal	timber
<u>SRV Imports from:</u>	--	.4	.2	1.5	45.0	10.0
Typical products		textiles cooking oil	rubber processing equipment	rice, high yield rice seed, cement	petroleum products, chemicals, textiles, milled wheat, steel, consumer goods	rice machinery textiles medicine

<sup>a</sup>Data come from the ASEAN countries trade statistics, supplemented by CIA estimates. Unrecorded trade is probably of roughly the same magnitude.

<sup>b</sup>1984.

<sup>c</sup>IMF figures for Singapore (obtained from Vietnamese side) are substantially higher.

<sup>d</sup>Figures for Singapore exports to the SRV include substantial reexports from other countries. A large percentage originates in Indonesia.



SUBJECT: Vietnam-ASEAN: Trade Overrides Political Considerations

25X1

Distribution:

- Original - OEA/SEA/ITM
- 1 - Richard Childress, NSC
- 1 - Byron Jackson, Commerce
- 1 - Alan Kitchens, INR/State
- 1 - Dottie Avery, INR/State
- 1 - Bill Newcomb, INR/State
- 1 - Lyall Breckon, EAP/VLK/State
- 1 - Paula Causey, INR/State
- 1 - Cora Foley, INR/State
- 1 - Joseph Winder, EAP/IMBS/State
- 1 - John Maisto, EAP/PHL/State
- 1 - Frazier Meade, EAP/TB/State
- 1 - Larry Greenwood, EB/OMA/State
- 1 - Doug Mulholland, Treasury
- 1 - Barry Newman, Treasury



25X1

- 1 - Richard Rice, Dept. of Defense
- 1 - John Finney, Dept. of Defense
- 1 - William Wise, Dept. of Defense
- 1 - Robert Emery, Federal Reserve Board
- 1 - Greg Moulton, STR
- 1 - Executive Director
- 1 - DDI
- 1 - NIO/EA

[Redacted] C/DDO/PPS

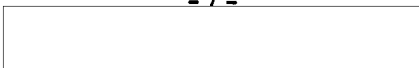
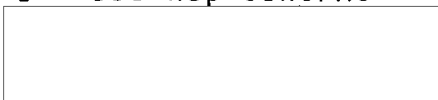
25X1

- 1 - CPAS/ILS
- 5 - CPAS/IMC/CB
- 1 - DDI/OCR/EA/A
- 1 - C/DDO/EA, [Redacted]
- 1 - DDI/OCR/ISG
- 1 - C/DDI/PES
- 1 - PDB Staff
- 1 - C/NIC
- 1 - OGI/ECD/IF
- 1 - D/OEA
- 1 - OEA/Research Director
- 1 - Ch/NEA/OEA
- 1 - Ch/CH/OEA
- 1 - [Redacted] NIC/Analytical Group
- 1 - OEA/SEA/IB
- 1 - Ch/SEAD/OEA
- 1 - DCh/SEAD/OEA
- 1 - DDI Rep CINCPAC

25X1

25X1

25X1



25X1