



Economic Intelligence Memorandum

THE NATURAL RUBBER INDUSTRY  
OF SOUTH VIETNAM:  
A POTENTIAL TROUBLE SPOT  
IN THE ECONOMY



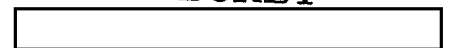
CIA/RR EM 64-24

July 1964

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

**SECRET**



GROUP 1  
Excluded from automatic  
downgrading and  
declassification

SECRET

25X1

Economic Intelligence Memorandum

THE NATURAL RUBBER INDUSTRY  
OF SOUTH VIETNAM:  
A POTENTIAL TROUBLE SPOT  
IN THE ECONOMY

CIA/RR EM 64-24

WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

CENTRAL INTELLIGENCE AGENCY  
Office of Research and Reports

SECRET

25X1

CONTENTS

	<u>Page</u>
Summary . . . . .	1
I. The Rubber Industry . . . . .	3
A. Importance . . . . .	3
B. Location and Organization . . . . .	3
C. French Rubber Estates . . . . .	4
D. Trends in Rubber Production and Investment . . . . .	4
II. Recent Problems . . . . .	5
A. Decline in the Price of Rubber . . . . .	5
B. Adverse Economic Actions by the Government . . . . .	5
C. Harassment by the Viet Cong . . . . .	7
III. Plight of the French Producers . . . . .	8
IV. Outlook and Prospects . . . . .	9



25X1

Tables

1. South Vietnam: New Rubber Planting by French Estates, 1955-63 . . . . .	6
2. South Vietnam: Volume and Value of Rubber Exports, 1960-63 . . . . .	6

Illustrations

Figure 1. South Vietnam: Natural Rubber Industry and the Distribution of Its Labor Force, 1963 (Map) following page	4	25X1
Figure 2. South Vietnam: Production of Natural Rubber, 1942-63 (Chart) following page	4	25X1

S-E-C-R-E-T

THE NATURAL RUBBER INDUSTRY OF SOUTH VIETNAM:  
A POTENTIAL TROUBLE SPOT IN THE ECONOMY\*

Summary

While attention has focused on the internal military struggle in South Vietnam, a potentially serious economic problem has been developing. The natural rubber industry, traditionally the most important source of foreign exchange earnings in South Vietnam, has declined in the past few years. This decline is demonstrated by the fall in rubber production, earnings, and investment. Although still the world's fifth largest producer of natural rubber, South Vietnam will lose its competitive position in the world market unless it restores the conditions essential for investment in replanting and expanding the stock of rubber trees.

The major potential for investment lies with the French-owned rubber plantations which, although few in number, account for most of the rubber acreage and about nine-tenths of the country's output of natural rubber. Along with other producers, these large French estates have undergone financial hardship from the abrupt fall in prices of natural rubber, from the stringent economic measures of the government, and from the harassing tactics of the Viet Cong. The French firms, moreover, have been affected economically by the government's withdrawal of financial aid and by other selective measures. They also face the threat of outright nationalization as a result of the strained relations between France and the Republic of Vietnam.

If the rubber industry, or a large segment of it, should fail, South Vietnam would stand to lose a major source of foreign exchange earnings. This loss, in turn, would aggravate its already unfavorable balance of trade.\*\* Rubber exports, on the average, have accounted for about 57 percent of South Vietnam's total annual export earnings during the past 4 years. In 1963, these exports amounted to US \$33.5 million, from which the government netted about US \$13.4 million in the form of direct taxes on such exports. Although loss of the rubber industry would not have a serious impact on gross national product, it would have a significant effect on employment and incomes in several of the key provinces of South Vietnam. Moreover, it would eliminate one of the more important industries on which South Vietnam stakes part of its plan for economic expansion, once the internal conflict has subsided.

\* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 1 July 1964.

\*\* In 1963 the trade deficit of South Vietnam amounted to US \$201.6 million; imports were US \$284.9 million, and exports were US \$83.3 million. Dollar values throughout this memorandum are based on the official exchange rate of 35 piasters to US \$1.

## I. The Rubber Industry

### A. Importance

The rubber industry of South Vietnam is small but highly developed. Ranking fifth in world output, it furnishes only about 3 percent of the world's annual supply of natural rubber. 1/\* (Malaysia and Indonesia together account for two-thirds of the world's total output.) Most of the rubber produced and exported by South Vietnam, however, is of the highest grade, and accordingly commands premium prices.\*\* In 1963, South Vietnam produced about 72,000 tons\*\*\* of natural rubber, most of which was exported at a value of US \$33.5 million. 2/

Earnings from the export of natural rubber normally exceed those from any other commodity and, for the past 4 years, have provided on the average about 57 percent of South Vietnam's annual earnings of foreign exchange. 3/ Although rubber contributes only about 2 to 3 percent of the country's gross national product, it is a major form of income in several provinces and a fairly important source of governmental revenue. From its tax on rubber exports the government is estimated to have acquired about US \$13.4 million, or about 4 percent of its estimated total revenue, in 1963.

### B. Location and Organization

In spite of its commercial importance, natural rubber is grown on only about 3 percent of the country's cultivated land. Most of the rubber trees are planted in the southern part of the country within a narrow belt of fertile red soil that extends from the South China Sea northwest to the Cambodian border. This region is shown on the map, Figure 1.†

Because of the large average investment required for clearing land and planting rubber trees in this once heavily forested area, enterprises of the plantation type have become dominant in the rubber industry of South Vietnam. In this respect the industry differs from that in Malaysia and Indonesia, where large numbers of small, family-type rubber holdings exist. In 1961, South Vietnam had 335 rubber plantations with a total employment of slightly more than 41,000. 4/ Roughly half of the rubber industry apparently is concentrated in the two provinces of Binh Long and Bin Duong. The distribution of this

\*\*\* On the contrary, rubber exports from Indonesia are generally of lower quality and therefore command a lower average price than those from South Vietnam.

\*\* Tonnages are given in metric tons throughout this memorandum.

† Following p. 4.

work force (and indirectly that of the industry),\* by province, is shown on Figure 1.

C. French Rubber Estates

The largest, most productive segment of the rubber industry is formed by about 23 large estates that are owned and managed by French interests. These estates, which have the highest yield in rubber trees, embrace about three-fourths of the land under rubber cultivation and provide most of the processing facilities and technical support for the rubber industry. The output for export from these estates in 1963 amounted to an estimated US \$30 million, or about 90 percent of the total value of rubber exported by South Vietnam. 5/

D. Trends in Rubber Production and Investment.

Production of rubber in Vietnam over the last two decades is shown on the chart, Figure 2. Output dropped off sharply in 1945 and 1946 because of the widespread destruction of the estates and the general insecurity that prevailed at the close of World War II.\*\* At the height of this insecurity, employment in the rubber industry declined about 40 percent, the area from which rubber was gathered was reduced almost 73 percent, and planting of rubber trees almost came to a standstill. 7/ Although the small, more vulnerable plantations reportedly sustained the greatest damage during this period, it is evident from the degree of the decline in output that the large estates also lost heavily. Not until 1953, or almost a decade later, did the rubber industry regain and surpass the peak level of output reached in the prewar period. This fact illustrates the great difficulty involved in reviving the rubber industry once it has encountered an appreciable loss of its trees, facilities, and personnel.

The subsequent restoration of internal security and confidence in the industry resulted in an expansion of both production and investment. The Republic of Vietnam, which came to power in 1955, helped to promote this expansion by providing financial aid to all planters of rubber and by maintaining a reasonably low level of taxation. The general rise in world rubber prices up to 1960 also promoted increased prosperity and investment in the rubber industry by the large French estates, as shown in Table 1.\*\*\*

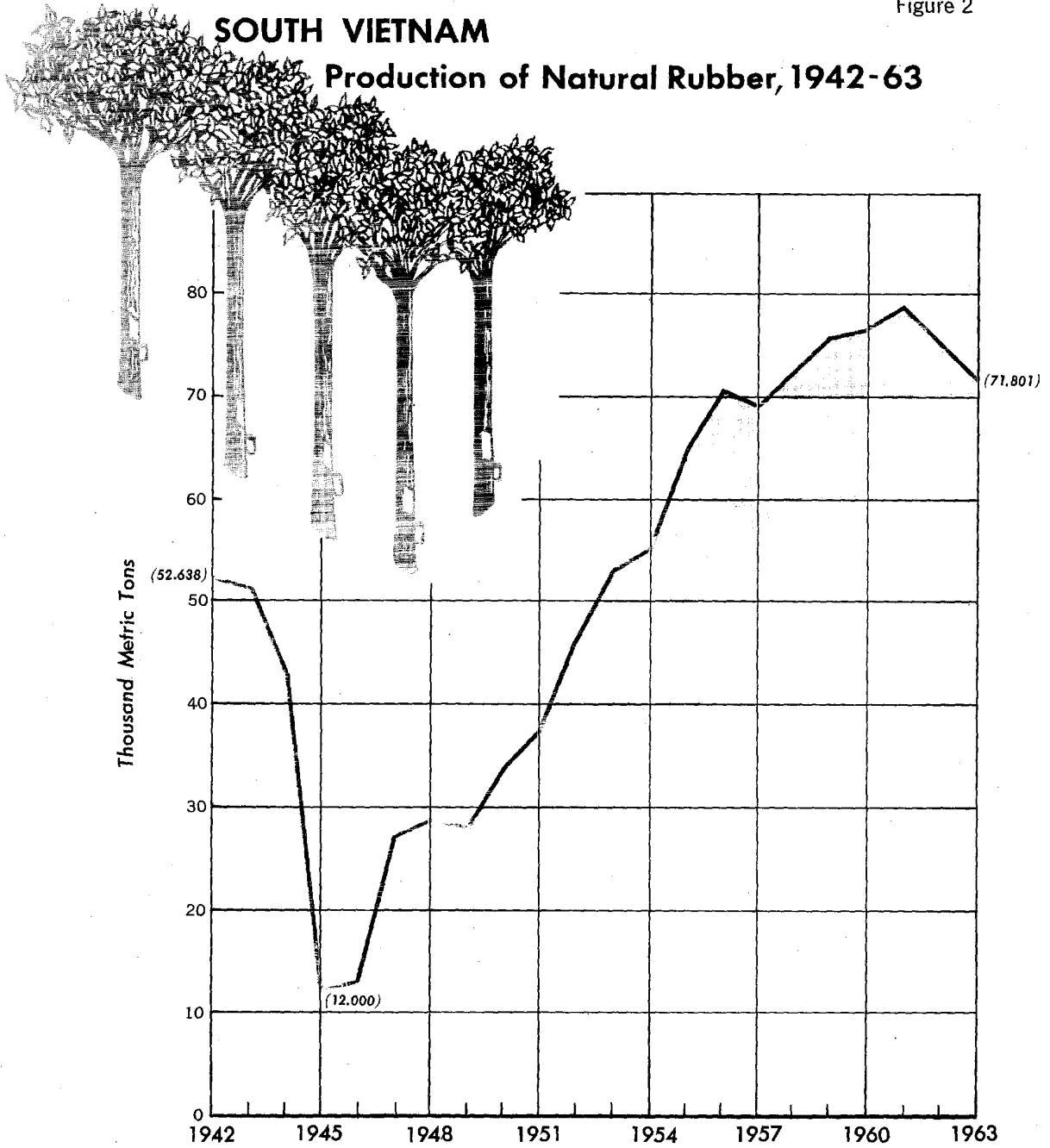
\* The actual land area under rubber cultivation in each province can be approximated from the figures on employment, using the factor of one employee to two hectares.

\*\* Although data on production for the period before 1954 apply to the whole of Vietnam, virtually all rubber in Vietnam is grown in the south. 6/

\*\*\* P. 6, below.



Figure 2



50047 7-64



S-E-C-R-E-T

In addition to the added investment by the large estates, a special program to create some 90,000 hectares of small rubber holdings (of about 5 hectares each) by 1966 was inaugurated by the government in 1957. <sup>8/</sup> Although a seemingly impressive amount of land has been planted in rubber under this program (about 25,000 hectares by the end of 1962), these efforts generally have been negated by the poor cultivation methods, inadequate training and supervision, and general lack of enthusiasm of the farmers. <sup>9/</sup> It seems doubtful, therefore, that this governmental program will produce more than a token increase in the total output of rubber in the years ahead. Accordingly, the future of South Vietnam's rubber industry seems to rest heavily on the investment attitudes of the large producers.

## II. Recent Problems

In the past few years, the rubber industry of South Vietnam has been in a decline, as manifested by the decrease in production, earnings, and new plantings shown in Tables 1 and 2\* and in Figure 2. This reversal is attributable to a loss of confidence and to a feeling of insecurity on the part of the French estate owners resulting from the decline in world rubber prices, adverse actions of the Vietnamese government, and harassment by the Viet Cong.

### A. Decline in the Price of Rubber

In common with the world's other primary producers of natural rubber, South Vietnam has suffered financially from the sharp decline in prices of natural rubber during the past few years due primarily to the intense competition from synthetics. The effect of falling prices, indicated by the drop in export value per ton of rubber, is shown in Table 2. Table 2 also indicates the quantity of rubber exported and the earnings during the period 1960-63. The decline in the world price of natural rubber in 1961 completely negated the potential gain from increased volume of exports, and total returns declined by US \$4.1 million. In 1962 and 1963 the decline in total earnings came about because of both the fall in prices of rubber and the reduction in the volume of exports. This situation appears to be continuing in 1964, and the probability is that total export earnings from rubber will continue their downward trend in 1964.

### B. Adverse Economic Actions by the Government

Although the South Vietnamese government has indicated its interest in helping the rubber industry, some of its actions in recent years seem to run counter to this objective. A notable example of such actions is the apparent high tax that the government has levied on rubber exports while problems from the falling prices of natural rubber

\* P. 6, below.

S-E-C-R-E-T

S-E-C-R-E-T

Table 1

South Vietnam: New Rubber Planting  
by French Estates a/  
1955-63

	Hectares
1955	130
1956	590
1957	1,500
1958	2,100
1959	3,900
1960	4,248
1961	2,754
1962	1,060
1963	600

a. Extension and new planting each year. 10/

Table 2

South Vietnam: Volume and Value  
of Rubber Exports a/  
1960-63

Year	Net Exports (Thousand Metric Tons)	Value of Exports (Million US \$)	Export Value per Ton (US \$)
1960	73.9	48.0	650
1961	83.4	43.9	526
1962	74.5	37.9	509
1963	70.3 <u>b/</u>	33.5 <u>c/</u>	476

a. Except where otherwise indicated, all data are from source 11/.

b. 12/

c. 13/

S-E-C-R-E-T

have been plaguing the industry. Since 1960 the tax on rubber exports has been raised to the present rate of 40 percent. The current effective tax on rubber exports, however, probably is 23 to 24 percent, because the government gives a subsidy on all exports. By comparison, Malaysia's estimated tax on rubber exports is only 14 percent, and Ceylon apparently did not collect any export tax on rubber during most of 1963 because of the price drop.\* In spite of complaints that the present tax imposes a significant financial burden on rubber producers, the government currently shows no inclination to reduce the tax rate or to adopt a sliding scale, similar to those of Malaysia or Ceylon, that would permit tax rates to fluctuate with the price of natural rubber. 16/

Difficulties also appear to stem from the government's administrative procedures and, in particular, its stipulations regarding export of rubber. One reported obstacle is the certificate of ownership that the government has required of exporters in order to keep export rubber from falling into the hands of the Viet Cong. 17/ This measure, however, reportedly is costly and cumbersome to the rubber industry and, moreover, has been termed of no value. The industry also objects to the short validity period of government export licenses on rubber, claiming that it does not allow the spacing out of deliveries over a sufficient length of time to take advantage of price changes of natural rubber. 18/

A few of the government's recent actions have affected primarily one sector of the rubber industry -- the large French estates. In recent years the government has reversed its earlier policy of providing financial assistance to the large estates to help defray the cost of planting rubber trees. 19/ Smallholders, however, still receive a form of this assistance from the government. The withdrawal of this assistance is considered to be one of the reasons why the large estates have cut back on investments in rubber planting in recent periods. 20/ Another measure likely to affect the costs and investment attitudes of the French firms is the government's fiscal reform of 1962, which both limits the percent of profits that can be remitted to investors abroad and requires such remittances to go through the government's currency exchange office where, in effect, they are taxed. 21/

### C. Harassment by the Viet Cong

The Viet Cong exercise an element of control throughout the region where rubber is grown. These forces have engendered an air of insecurity and uncertainty among the rubber producers, although to date they have not engaged in any mass destruction of rubber facilities. The Viet Cong,

\* Ceylon's tax on rubber exports takes effect when the price of rubber exceeds 0.94 rupee (Ceylon) 14/; the average price in 1963 was 0.927 rupee. 15/

however, have interfered with efforts to extend these plantations and have engaged in economic harassment, including the taxing and exacting of other tribute from plantation owners. Another Viet Cong tactic, which has become increasingly frequent and costly, is the kidnapping for ransom of plantation officials. 22/ These harassments have reached such serious proportions in recent months that a few owners have abandoned their rubber plantations, and many others now question the feasibility of continuing their operations. 23/

The Viet Cong undoubtedly realize that they would lose an important source of revenue if their harassing actions caused the rubber industry to fail, but they are aware, however, that the Republic of Vietnam also would suffer considerably from failure of the rubber industry. The Viet Cong may reason, moreover, that the large number of unemployed plantation workers not only would add to the government's cost but also would make recruiting easier for the Viet Cong. 24/ For these reasons, therefore, it seems unlikely that the Viet Cong will relax its economic harassment of the rubber producers.

### III. Plight of the French Producers

Although all rubber plantations, regardless of size, are having difficulties at the present time, the plight of the large plantations, owned by French interests, seems to be more serious and immediate. For the various reasons indicated in II, above, it appears that these plantations are finding it difficult to meet production costs and to make a profit.\* Some producers indeed appear to be losing money. 25/ This financial hardship is evidenced not only by the decline in earnings shown in Table 2 but also by the report that owners recently were forced to draw down their normally large bank deposits. 26/ In an effort to meet costs, some plantations reportedly tried to cut the wages of their workers; but this measure was thwarted by the local authorities.

In addition to their current economic difficulties, the French plantations face possible nationalization by the government. This

\* Although it is not possible to arrive at a complete analysis of costs, an estimate based only on labor and capital expenditures indicates that there is little, if any, margin for profit from production of rubber at current prices. According to this estimate, the large, efficient producers must meet costs of upwards of 8.98 to 10.22 piasters per pound of rubber -- returns from the sale of such rubber approximate 10.89 piasters per pound in 1963 after deduction of the government's tax of 40 percent on exports. Although there is an implied profit of 21 percent, at the lowest cost range, it is likely that the inclusion of other governmental taxes and assessments and Viet Cong taxes will eliminate most of this profit. The inclusion of such additional costs will bring total costs for some producers beyond the amount received.

action reportedly is being considered as an economic reprisal for the French proposal to neutralize Vietnam. With this possibility in the offing, French interests appear to have little incentive for expanding their investment in the rubber industry.

#### IV. Outlook and Prospects

The present outlook for the rubber industry is gloomy. As indicated previously, the current tide of economic and political events seems to be working against the rubber producers. The decline in world prices of natural rubber is expected to continue, according to most forecasters. This means that output of natural rubber must increase by an equal percent if total returns to producers are to remain unchanged. But, as pointed out previously, South Vietnam's production of natural rubber has been on the decline since 1961, and there are no indications that this trend will be reversed.

The unfavorable economic climate has affected investors' attitudes and in turn has clouded the competitive future of the rubber industry. It is recognized that without sufficient efforts at replanting and improving the yield of rubber, South Vietnam will not be able to hold its place in competition for world markets. To hold its own at present levels of production, it is estimated that plantings and extensions each year should amount to at least 1,700 hectares.\* During the past few years, however, new plantings have fallen well below this level and may continue to decline.

The small body of French firms, on which investment prospects heavily rely, are not likely to expand their holdings in the rubber industry. On the contrary, the prospect is that these firms will gradually disinvest by continued exploitation of existing holdings and by refraining from making improvements. Their complete withdrawal from the rubber industry, therefore, would be simply a matter of time. As indicated earlier, the demise of the French firms might come about abruptly if the government carries out its rumored plan to nationalize all French investments in South Vietnam.

In the event of French withdrawal from the rubber industry, the government faces a seemingly hopeless prospect of operating these French plantations. In the first place, the government lacks a cadre of experienced personnel to replace the estimated 150 French technicians and managers. Moreover, it would take considerable time to import or

\* As a general rule, replanting should be done at an annual rate of 3 percent of the existing trees in order to maintain a proper turnover of new trees and to keep production at a uniformly high level. 27/ Based on the area of 57,813 hectares under exploitation in 1963 on French estates, 28/ an annual requirement to replant a minimum of 1,700 hectares is indicated.

train the necessary replacements. As the government moved in to operate the plantations, the Viet Cong undoubtedly would counter with efforts to destroy the trees and other facilities. Even if the government were able to divert troops to the defense of the plantations, it is unlikely, on the basis of earlier experience in 1945 and 1946, that it would be successful in preventing severe damage to the exposed rubber plantations.

The prospect exists, therefore, that if the French firms withdraw from the rubber industry, severe economic losses will develop. In its most extreme form, this would mean the loss to South Vietnam of its most important form of foreign exchange earnings. Besides creating additional unemployment and weakening the government's financial capacity to conduct the current struggle, it would eliminate one of the major industries on which the government stakes its plans for postwar reconstruction.

25X1

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070014-0

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070014-0

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070014-0

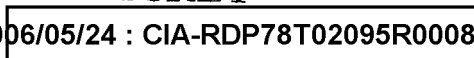
SECRET



25X1

SECRET

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070014-0



25X1