

SECRET

4

800,000 to 1,000,000 tons in 1956, permitting an export of 300,000-500,000 tons. By the end of 1956 cement production may reach its former annual rate of 300,000 tons. The large textile plant at Nam Dinh returned to limited production in December 1955 but even when operating at full capacity it will provide only about half of North Vietnam's requirements and it is dependent on imported cotton.

17. With Chinese Communist technical and manpower assistance, rapid progress has been made in restoring transportation and communication facilities. The rail link from Hanoi to the Chinese border at Nam Quan has been restored and the Haiphong-Kunming line will probably be fully restored this year. This construction will link southwest China with sea transport at Haiphong and the main Chinese rail system at Nam Quan. The line from Hanoi to the 17th parallel is also being rehabilitated and it is possible that service south to Vinh will be established by the end of the year. With Chinese assistance, the DRV has also made rapid progress in rehabilitating North Vietnam's highway system. A bridge building program for 1956 is aimed at eliminating most of the ferries on primary roads. Rehabilitation of the Hanoi-Lai Chau route and of roads south from Hanoi toward the 17th parallel will facilitate the movement of troops and supplies to any point along the borders of Laos and South Vietnam. Soviet assistance is making possible the improvement of port facilities at Haiphong which will further expedite the distribution of Bloc military and economic supplies.

18. The chronic deficit in the balance of payments position of the North Vietnam area has been deepened by the failure to restore agricultural and industrial production and by the abnormal requirements for foreign goods and technical aid. The foreign exchange position has also been worsened by the break in complementary trade relations with the south. A measure of the deficit and of the critical economic situation is suggested by the magnitude of Bloc grants to the DRV. In July 1955, Communist China granted the sum of 800,000,000 yuan (about \$330,000,000 at official rates) and the USSR promised 400,000,000 rubles (\$100,000,000 at official rates). Smaller

grants have been extended by several of the European Satellites. A substantial portion of the aid received has been in the form of consumer goods.

19. We believe that during the period of this estimate the DRV will continue to concentrate, with moderate success, on efforts to increase agricultural, mineral, and light industry production. The DRV has the resources to increase exports and to support a modest industrial development. However, at least for several years, it will require substantial Bloc assistance to support even a minimum standard of living and there appears little prospect for substantial forced saving to support rapid industrialization in the near future.

DRV Military Strength

20. The "Vietnam People's Army" (VPA) now has a total strength of about 266,000 men organized in 16 infantry divisions, 2 artillery divisions, 1 AAA groupment, 10 separate infantry regiments, and 5 border and coastal security regiments. As the VPA continues its evolution toward a modern force, several more divisions may be organized using existing separate regiments. Although further substantial increases in the numerical strength of the army appear unlikely, a ready pool of semitrained manpower exists among the 117,000 men now in regional and popular troop units. The recent announcement by the DRV of a troop reduction probably reflects the release of unfit personnel since the Armistice.

21. More extensive training was probably made possible by reduced commitments to internal security missions and reconstruction projects, and multidivisional maneuvers were reported in late 1955. We believe that about half of the major combat units are combat-ready and the remainder probably will reach that status during 1956. Even at its present level of training, the VPA is capable of defeating the total military forces of South Vietnam, Cambodia, and Laos.

22. There were no significant changes in the dispositions of VPA units during the past

SECRET

1070