



The President's Daily Brief

March 17, 1975

5

Top Secret 25X1

[Redacted]

Exempt from general
declassification schedule of E.O. 11652
exemption category, 5B(1),(2),(3)
Declassified only on approval of
the Director of Central Intelligence

FOR THE PRESIDENT ONLY

March 17, 1975

Table of Contents

Saudi Arabia: Revaluation of the currency will not
have any direct bearing on oil prices. (Page 1)

Notes: Cambodia; USSR; Argentina; Portugal (Pages 2
and 3)

At Annex we present an interagency intelligence
memorandum on The Situation in South Vietnam.

FOR THE PRESIDENT ONLY

FOR THE PRESIDENT ONLY

SAUDI ARABIA

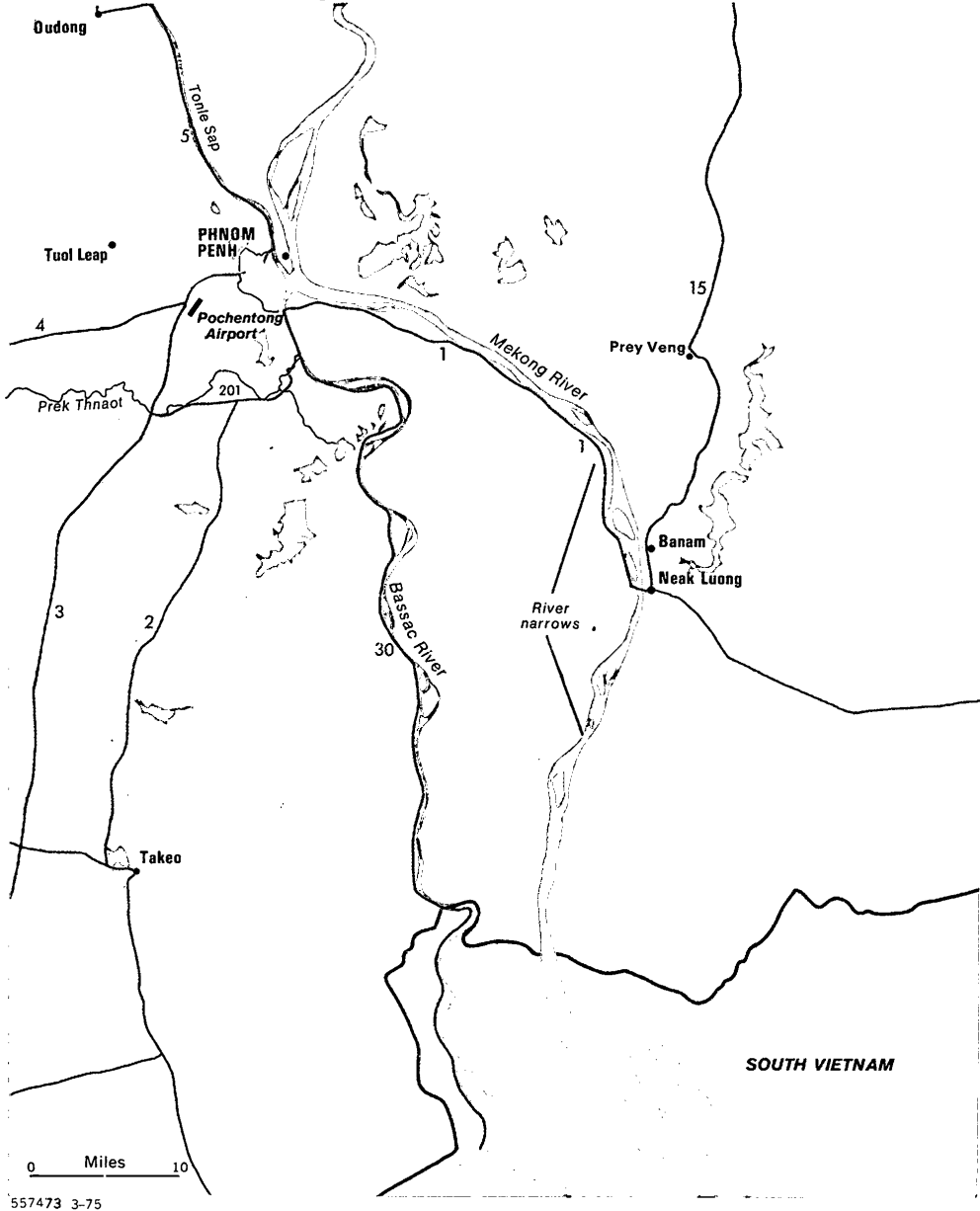
The Saudis' upward revaluation of their currency by more than 2 percent on Saturday will not have any direct bearing on oil prices, which are quoted mainly in dollars.

The revaluation and the announcement that the rate would be adjusted periodically, to reflect changes in the dollar's rate vis-a-vis the International Monetary Fund's Special Drawing Rights, apparently stem from concern over the domestic inflationary impact of the dollar's decline. By severing their currency's ties to the dollar and linking it to the Special Drawing Rights, which are valued on the basis of 16 currencies, the Saudis hope to ensure that any further decline of the dollar will have less effect on the cost of goods imported from Europe. Iran made a similar move last month for the same reason.

It is possible that other OPEC countries will soon make similar decisions. Qatar may decide to link its currency to the Special Drawing Rights rather than the dollar as part of its own decision on Saturday to revalue. Coupled with the Saudi and Iranian decisions, this would put added pressure on other OPEC states in the area to follow suit.

Although none of these decisions will have any direct bearing on oil prices, it is possible that the positions of OPEC members, who want to return to a system of adjusting the dollar price of oil to reflect changes in the dollar's value relative to other major currencies, will be strengthened. This type of system was used prior to the 1973 oil embargo to help insulate the value of OPEC's oil receipts from the effects of exchange rate movements.

Cambodia: Lower Mekong



FOR THE PRESIDENT ONLY

NOTES

Cambodian army units located northeast of the recaptured town of Tuol Leap have been forced to withdraw.

Some other units committed to the Tuol Leap operation, however, are expected to reinforce and help stabilize these units in the face of this new threat. At Neak Luong the situation is continuing to deteriorate. The insurgents reportedly have entered a portion of the town and have occupied part of the airstrip. They now control the west bank of the Mekong River from the South Vietnamese border to about eight miles from Phnom Penh. Meanwhile, rocket and artillery attacks against Pochentong airport have decreased, and US airlift operations are continuing on schedule.

* * *

Soviet General Secretary Brezhnev arrived in Budapest yesterday for the opening of the Hungarian Communist Party Congress today.

It is Brezhnev's first trip abroad since his visit to Paris in early December. Most East European states are expected to be represented at the congress by their top party leaders. Romania and Yugoslavia, however, will send lesser ranking officials.

* * *

Argentine President Peron's political position has weakened during the past two months.

There are growing signs of strain within the Justicialist coalition that brought the Peronists to power. In addition, a recent survey of army and navy officers has disclosed widespread dissatisfaction with the failure of Mrs. Peron's government to improve the country's economic situation and deal a decisive blow to terrorism. The consensus among the officers is that Argentina would be better off with another president, as long as the military had a hand in the selection. This attitude is a major shift from the military's view just a few months ago that there was no alternative to Mrs. Peron.

(continued)

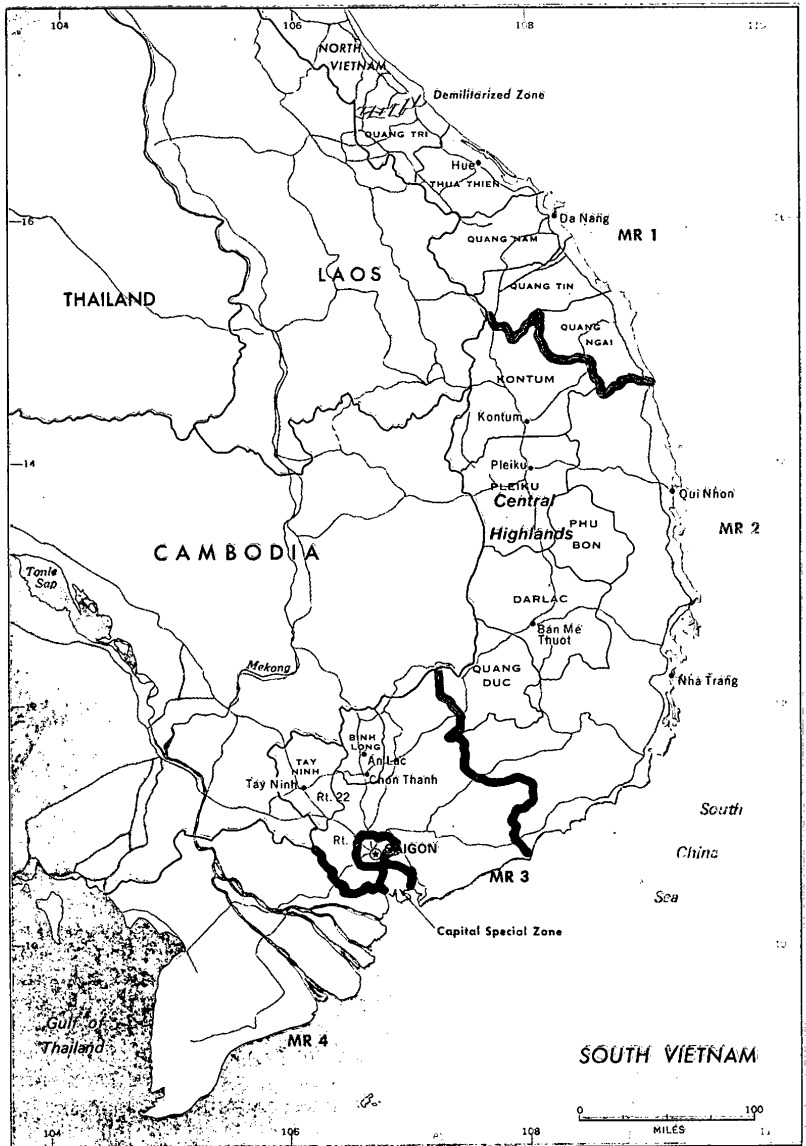
FOR THE PRESIDENT ONLY

* * *

The leftist-dominated Portuguese government has extended its control over the nation's financial sector, following up its nationalization of the banking system with the takeover of the major insurance companies.

The nationalization of banking and the insurance companies is a major blow to the oligarchy that has dominated Portugal's economic life and will give the government a strong hand in directing business and industry. The government also announced over the weekend that it is considering a request from a Portuguese transport company to give the Soviet merchant fleet use of refueling facilities on the island of Madeira. General Spínola, meanwhile, was finally given asylum in Brazil on Saturday.

FOR THE PRESIDENT ONLY



557488 3-75

FOR THE PRESIDENT ONLY

THE SITUATION IN SOUTH VIETNAM

At the beginning of the communist dry season campaign last December, the intelligence community concluded that Hanoi was prepared to increase military action in the South sharply, possibly including the commitment of part of its strategic forces in order to change the political and military balance in the South. We also concluded that the North probably would not launch an all-out offensive this spring using all or most of its strategic reserve, except in response to a major opportunity to achieve a quick victory. In the recent pattern of events in Indochina and in the US, particularly the US debates and actions on the question of aid, the North Vietnamese appear to have sensed just such an opportunity.

Recent developments make it clear that the North Vietnamese already have increased their military activity and that Hanoi's leaders have decided to step up the level of military pressure even further in the weeks and months immediately ahead.

--During the past few months recruitment and training have been sharply accelerated in the North while large numbers of replacement troops continue to infiltrate to the South.

--In-country communist units have been shifting into areas which previously have seen little combat.

--Major elements of two North Vietnamese strategic reserve divisions have arrived in the South.

--Communist propoganda has been taking an increasingly strident line regarding "US impotence" in Indochina.

Saigon's Response

Faced with stepped-up communist military action and the prospect of further escalation, President Thieu has decided in the past few days to adopt a new military posture.

(continued)

A1

A
Z
Z
E
X

FOR THE PRESIDENT ONLY

Heretofore, Saigon's approach to the war has been to contest the communists in most areas, launching preemptive attacks whenever possible and generally trying to regain lost territory.

Under the new concept, the government is withdrawing its forces from major portions of northern and central South Vietnam and now plans to concentrate them in the southern half of the country and around the large population centers along the north-central coast. The objective is to retain control over as much of the heavily populated and economically important areas of the country as possible, at the cost of virtually writing off the remainder.

The major country-wide communist attacks that have occurred since early March and the declining prospects for US military assistance are the principal factors contributing to Saigon's decision to reorder its priorities and change its military strategy. In recent weeks the South Vietnamese have been expending very large quantities of munitions in an attempt to meet the communists head-on, and President Thieu appears to have decided that they cannot continue to do so without seriously jeopardizing the government's ability to cope with the communists over the longer term.

President Thieu's decision, in short, appears based on a recognition that--given the government's deteriorating logistic situation--the costs and risks of trying to defend all areas of the country would probably be prohibitive now. In Thieu's mind, a drastic consolidation of units and supplies appears to offer the best hope of containing communist attacks this dry season and of buying the additional time to prepare for another North Vietnamese campaign in 1976.

President Thieu late last week met with the commanders of Military Regions 1, 2, and 3 to discuss his strategy and provide guidelines on how he wanted them to use their forces in support of his program. In the case of MR 1, the President turned down Lieutenant General Ngo Quang Truong's request to keep the Airborne Division at Da Nang and ordered him to proceed with the transfer of the division to Saigon. One of the division's three brigades will go to Saigon early this week, and the others are scheduled to move by the end of the month. (They will be replaced by a newly formed and incompletely trained Marine brigade, possibly augmented by rangers, from MR 3.)

25X1

(continued)

A2

FOR THE PRESIDENT ONLY

FOR THE PRESIDENT ONLY

President Thieu stated that Da Nang must be held at all costs but acknowledged that other positions in the northern provinces would have to be given up.

General Truong has already issued orders for government troops to withdraw from two district towns in central Quang Ngai Province. He also plans to shift some of his remaining forces. Two brigades of the Marine Division will be transferred from north of Hue to the Da Nang area to replace the airborne troops. A substantially weaker force, including the newly activated Marine brigade and ranger group from MR 3, will be assigned the task of defending the northern approaches to Hue. The 1st Infantry Division will remain deployed to the west and south of Hue.

These redeployments will seriously weaken the government's position in MR 1, outside Da Nang, especially in view of recent shifts by North Vietnamese divisions in the Quang Tri - Thua Thien area. Large-scale communist attacks in this area are almost certain, and General Truong believes Quang Tri Province will be lost. He is also not optimistic about his chances for holding Hue, and we share his view.

In MR 2, Thieu's strategy concedes most of the central highlands to the communists. President Thieu has told the regional commander, Major General Phan Van Phu, that the recapture of Ban Me Thuot--the capital of Darlac Province occupied by the communists last week--was the single most important military objective in the region.

General Phu has been ordered to concentrate his military resources on accomplishing this task and to move his forces out of Kontum and Pleiku for the effort. The evacuation is already in progress. When it is completed, Kontum and Pleiku provinces will, in effect, be abandoned.

Although President Thieu's decision can be explained in terms of military expedience, it nonetheless risks a psychological unraveling within the South Vietnamese army that could seriously complicate an orderly consolidation of the government's military position.

--The permanent relocation of some South Vietnamese units away from their traditional areas of operation could impact sharply on the fighting esprit of soldiers in these units.

(continued)

A3

FOR THE PRESIDENT ONLY

FOR THE PRESIDENT ONLY

--The withdrawal from Kontum and Pleiku provinces is already causing serious morale problems among government troops there.

--We expect this is likely to be the case in other areas of the country as the scope and nature of Saigon's plans become known.

--The government still plans to have regional and territorial forces continue to defend some remote and expendable areas, but these irregulars cannot be expected to fight without close support from main force units.

--President Thieu's military judgment is already being seriously questioned within the South Vietnamese military establishment. General Truong, the MR 1 commander, for example, has termed the decision to transfer the Airborne Division to Saigon "irrational."

What Now?

President Thieu's decision to move to a defensive fallback position appears to put earlier communist military goals for 1975 in easy reach. It will also give Hanoi a wider range of opportunities and confront it with new decisions. We believe that Hanoi will move quickly to exploit Saigon's new vulnerability in the northern provinces.

According to a recently captured prisoner from the North Vietnamese 324B Division, the communists already had been planning for a major move against Hue this dry season. Hanoi now has a far more realistic and less costly opportunity to take the city. The communists still have a large reserve of five combat infantry divisions north of the demilitarized zone, and we believe that if necessary Hanoi will commit some of this force to achieve the city's capture.

The North Vietnamese will probably choose to bypass the strong government defenses around Da Nang, but they should be able to make significant gains in southern MR 1, including large parts of Quang Nam, Quang Tin, and Quang Ngai provinces. In the central highlands of MR 2, the North Vietnamese will soon occupy Pleiku and Kontum cities and should have little difficulty in establishing control over the inland portions of the whole northern half of the region.

(continued)

A4

FOR THE PRESIDENT ONLY

FOR THE PRESIDENT ONLY

The South Vietnamese clearly intend to make an all out effort at Ban Me Thuot. They are now assembling a large combat force to send back into Darlac Province to retake the town, which North Vietnamese troops now largely occupy. In the immediate area there may be the equivalent of two communist infantry divisions--possibly including elements of the North Vietnamese 316th Division from the strategic reserve.

Government troops have taken up positions on the eastern edge of Ban Me Thuot, and reinforcements are moving toward the town. The government will begin its counterattack with the 23rd Division and two ranger groups, supported by airstrikes, tanks, and artillery.

We believe that General Phu's estimate that the town can be retaken in about three weeks is overly optimistic, particularly in light of increasingly constrained mobility of the South Vietnamese armed forces. The battle probably will be costly for both sides and apparently not decisive.

Hanoi may view the developing battle for Ban Me Thuot as a good opportunity to inflict a crippling blow on the South Vietnamese army--not only weakening its physical capabilities but, even more, jarring its morale and self-confidence. To achieve this objective, Hanoi may be prepared to commit substantial new forces to the fight.

In any case, further substantial communist inroads are likely in Darlac and Phu Bon provinces, and the government's position in Quang Duc Province will probably be untenable. In May, the weather begins to deteriorate and this should slow the fighting in this area.

The coming fighting in the South Vietnamese heartland of MRs 3 and 4 will provide the most critical test for President Thieu's fallback strategy and also shed light on the extent to which Hanoi is now prepared to push its military campaign. The communists can be expected to apply intermittent pressure in the delta and seize some additional territory in the outlying reaches of MR 3. Saigon is already preparing to abandon An Loc, the isolated and vulnerable capital of Binh Long Province, and Chon Thanh--its only two enclaves in Binh Long Province.

(continued)

A5

FOR THE PRESIDENT ONLY

FOR THE PRESIDENT ONLY

[redacted] the principal communist objective in MR 3 this year is Tay Ninh Province, an area which Saigon clearly does not consider expendable. Thus far, the communist effort has been directed at isolating Tay Ninh Province from resupply and reinforcement. The communists, supported by tanks and heavy artillery, have mounted large scale attacks on government positions along Routes 1 and 22 in the southern part of the province and have also kept heavy pressure on South Vietnamese outposts on the eastern and western borders of Tay Ninh.

25X1
25X1

Saigon has indicated that it will fight hard to hold on to Tay Ninh City and its surrounding area, and the communists thus far have refrained from making a frontal assault. The government appears to have the advantage in troop strength and firepower in this area and the arrival of the Airborne Division from MR 1 will add to this edge.

Time is also a factor in this area. In another two months or so deteriorating weather conditions in MR 3 will begin to limit large scale military operations. If the communists choose to make an all-out effort to break the back of the government's strong defensive position in MR 3, they will have to make a quick decision to bring additional reinforcements into the area.

As indicated above, President Thieu's new strategy and the likely consequences of fighting this spring will give the communists substantial territorial gains. In addition, there will clearly be some expansion of the population under communist control in South Vietnam as a result of this spring's campaign. The North Vietnamese and Viet Cong now have meaningful control over about 1 million of South Vietnam's total population--roughly 22 million. Even allowing for a substantial flow of refugees to the government side, the territorial gains which the communists are likely to make in the next few months could easily double the number of people under their control.

Economic Impact

Although Saigon's new posture will have serious economic consequences, these should be manageable--at least in the short term. Most of the territory which will be lost, though potentially important to economic development, has not provided significant resources to other areas of South Vietnam for some time.

(continued)

A6

FOR THE PRESIDENT ONLY

FOR THE PRESIDENT ONLY

The most immediate problem will be a sharp rise in the number of refugees, many of whom will have to be supported from public funds and stocks. The size of this problem depends on how much territory the government loses along its moderately populated northern coastline. After a good rice harvest, the government has large food supplies that can be moved quickly to the deficit areas; and even with urban income depressed, traditional family sharing and private charity will provide considerable support.

More important than the direct economic consequences in MRs 1 and 2, however, will be the psychological impact on businessmen and consumers in government strongholds farther south. The absence of large-scale commodity or currency speculation in 1972 was an important plus for Saigon. Although the markets have reflected no significant response to military reverses so far this year, it is too soon to predict how they will behave in coming weeks. Prices for key goods and black market exchange rates, however, will be important indices of popular confidence in the weeks to come.

The Outlook

The leaders in North Vietnam will view Thieu's moves as a clear sign of weakness. They may decide to follow a conservative course and digest the substantial gains afforded by the South Vietnamese fallback strategy without running the risks inherent in a strike for total victory.

Hanoi, however, may decide that very heavy pressure now--particularly if Cambodia collapses or if the US Congress curtails or cuts off further aid to South Vietnam--would deal the army's and the government's confidence and will to resist an irreparably shattering blow.

Our net judgment of the most likely course of events over the next several months hinges on psychological imponderables. A mood of defeatism in South Vietnam--produced by government reverses, communist gains, dwindling supplies, South Vietnamese perceptions of US behavior, or any combination of such factors--could become infectious and rapidly self-confirming.

We believe that there is a good chance that South Vietnam, its government, and its army can avoid this kind of attitudinal collapse unless the South Vietnamese see a major change in US assistance policies. Barring such a psychological collapse,

(continued)

A7

FOR THE PRESIDENT ONLY

FOR THE PRESIDENT ONLY

we believe that the government will survive the communist dry season campaign still in control of most of the heavily populated and economically important areas of the country, essentially the southern third of South Vietnam and portions of the north central coast, including the major cities of Da Nang, Qui Nhon, and Nha Trang. This will be at a heavy cost in supplies and materiel so that the communists will be in an even stronger position for subsequent fighting than we estimated last December.

At best, the results of this year's campaign are bound to contribute to popular frustration and war weariness within government areas and will fuel public and private criticism of Thieu. For the time being, we see little prospect of new negotiations between the government and the communists. The communist military and political position in the South will have been substantially strengthened, and Hanoi will have more reason than ever to stick to its demand that Thieu step aside and allow the formation of a coalition government before the fighting can stop.

Top Secret