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FOR THE PRESIDENT FROM BUNKER (Saigon)

Herewith my thirty-ninth weekly message:

General

As the massive Viet Cong Tet offensive subsides, it becomes increasingly possible to draw certain conclusions. What was blurred a week ago begins to come more clearly into focus. Although it will be several days before we have a fairly accurate country-wide assessment of the physical and material damages, certain things are now fairly evident:

A. The enemy has suffered a heavy military setback with nearly 33,000 killed, over 5,600 detained, and the loss of more than 8,000 individual and 1,250 crew-served weapons. A large part of the force he had committed, estimated at about 60,000, has been put out of action. A second wave of attacks against Saigon and some other major cities, which it was feared for some time might take place, has not materialized and there is increasing evidence, for the present at least, that it may not.

B. That Hanoi and the Viet Cong made a major miscalculation in expecting uprisings among the people and defections among the Vietnamese forces. While the Government of Vietnam may not enjoy great popularity among the people in general, there is strong evidence that in the city and countryside alike the Viet Cong attacks during the last two weeks have caused widespread resentment and bitterness toward the Viet Cong.

C. That it seems apparent that Hanoi's maximum objective was to take and hold many of the cities, thereby creating a political situation which would compel the Government of Vietnam and the U. S. to virtual surrender. The second and fallback objective (and this is Thieu's opinion also) was probably to put themselves in a strong position for negotiations, one in which they could insist, at a minimum, a coalition government.

D. That despite the heavy military defeat suffered by the enemy, much damage has resulted throughout the country. The number of evacuees which had climbed to 485,000 yesterday showed a decline to 457,000 today, probably an indication that people are beginning to return to their homes. The number of houses destroyed has now been reported at 48,000, although on the basis of our observations, we believe the figure may be exaggerated. The figures on civilian deaths increased to almost 3,800, and the wounded to nearly 21,000. In addition, there has been substantial damage to industry and to lines of communication. Commercial activity has been slowed, at least temporarily, and will take some time to recover.

E. The economic situation in Saigon and in most of the country is improving. Food prices, which rose rapidly in the first days of the attack, are coming down. Lines of communication are beginning to be opened up. In looking beyond the immediate crisis, economic prospects are less bright than they appeared a few weeks ago. It will take time to restore damage to industry and the loss of confidence in the business community which the attacks have caused. The Vietnamese economy, however, has demonstrated powers of recuperation in the past and hopefully, these negative factors may prove short lived.

F. That the predominant reaction of the people is that of anger, indignation, and a sense of outrage at the Viet Cong, especially its treachery in attacking during the Tet holidays, although there is also apprehension and fear of the possibility of future attacks. There is, too, surprise that the enemy was capable of attacking on such a wide scale in such force, and criticism of Government of Vietnam intelligence capabilities. But there is also a feeling of pride in the performance of the Vietnamese forces, a new confidence in the Government of Vietnam, and a welling up of support for it from many quarters. I think it is fair to say, therefore, that the Government of Vietnam is facing a crisis of confidence. If it reacts quickly and effectively, moves ahead with reconstruction and other constructive programs, the resentment of the people at the losses they have suffered will be replaced by confidence and gratitude; if not, the Government of Vietnam can be seriously weakened.

It is to meet the crisis of confidence to which I have referred that I have been pressing, as strongly as I know how, on Thieu and other leaders in the government the idea that there is a great opportunity to be seized in this situation; that if the government moves quickly to help the victims, to move ahead vigorously with recovery and reconstruction, if it mobilized the potential support available to the efforts, it can score a very significant political as well as military success. I am glad to be able to report that the government has moved ahead on a number of fronts and has received encouraging evidence of support from a good many sources, from both Houses of the Assembly, from organized labor, from the intellectual community, from other organizations (it has listed thirty-seven organizations who have offered assistance in the work of reconstruction), and from individuals.

On February 9, Thieu addressed a joint session of the National Assembly. His speech was well received both by the Assembly and the public. He asked for support in general and specifically for the special security measures now required. He informed the Assembly of the need to speed up mobilization; to accomplish in six months what had been originally planned for a year; to request that the budget be approved before the end of February; and to request power to enact by decree urgent financial and economic measures for a period of one year. Reaction from members in both Houses seems to indicate that Thieu's proposals regarding mobilization and speedy passage of the budget will have little difficulty, but that the Assembly is less favorably disposed to his request for decree power over economy and finance, and that it will want to see this clearly limited and the details spelled out.

Thieu also took an active and effective role in the Cabinet meeting on February 1. It is reported by one of the members present that he ran the meeting well, was in full command at all times, and knew what he was talking about. He announced that mobilization will be speeded up, and the bases on which civil defense units would be formed; that he would request the Assembly for emergency powers for one year in order to deal quickly with situations and to avoid debate over potentially unpopular measures such as tax increases; announced that there would be an immediate increase in excise and sales taxes; and asked for cuts in all but absolutely essential expenditures. Thieu also said that he planned to give top priority to implementation of provisions of the constitution and will ask the Assembly to provide enabling legislation for the establishment of a national security council and armed forces council as well as laws governing the press and political parties. And he emphasized the fact that he did not want the crisis used as an excuse to prevent action on the recovery program of the government.

In an effort to build confidence, Thieu is getting out in the provinces this week. He is visiting one corps area each day, talking with the officials and people and making an on-the-spot personal assessment of the situation. This is the sort of thing I have been urging him to do, and I am sure it will have a beneficial effect.

I have made the same point in talking with Ky and with Prime Minister Loc. Loc noted that he will be appearing on TV today to talk about the situation and the government's response to it. He mentioned that he has himself visited four of the most affected provinces the day before, and that he plans additional trips throughout the country.

I have also been advising Thieu to try to broaden the political base of support for his government, that by forming something akin to a government of national unity he could mobilize enthusiasm for the recovery program, for the fight against aggression and for the government's top priority programs. I suggested several names, which he noted down, including people such as

On a second visit, Thieu told me that he is planning to call in various leaders, one at a time, to get their views and seek their support. After he has done this, he may ask some of them to join in an advisory council.

I have also been continually urging Thieu to make frequent appearances on radio and TV, to inform the people of what the government is doing, and to show its concern for them, to take them into his confidence.

The recovery program. In the meantime, the central people's recovery committee is moving quickly and effectively in its efforts to provide for the evacuees and in getting Saigon and the countryside back to normal. A shrewd Vietnamese observer told us that the new committee under Ky had accomplished more in ten days than the Government of Vietnam normally could have managed in two months. This may be exaggerated, but I am convinced that this group, with quiet U. S. participation and prodding, has been the prime mover of the Government of Vietnam's relief and recovery effort. Without it, we would not be as far along toward restoring the situation as we are today.

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The central committee, with Ky and Thang as its sparkplugs and Komer and his able deputy as behind-the-scenes expediter, has:

1. Arranged special distribution of over 8,000 tons of rice in Saigon, till commercial channels took over yesterday; this has also stabilized the price;
2. Provided 77 Saigon refugee centers and 40 in Gia Dinh Province to care for an estimated 196,000 refugees;
3. Divided Saigon into blue (secure) and red (insecure) zones as a device for phased return to normalcy;
4. Set up countrywide recovery committee operations on the Saigon model;
5. Laid plans for urban reconstruction to replace destroyed housing; and
6. Has moved out on a host of other pressing emergency problems.

From a series of inspection visits to the provinces, Bob Komer is convinced that initial evacuee and damage estimates were somewhat exaggerated. Many so called refugees, for example, did not have their homes destroyed but rather left insecure areas for safety's sake or to get food. They are now trickling back to their homes. While we still face plenty of acute relief problems, we are more hopeful now than a week ago of a relatively fast recovery. To this end, the Military Assistance Command in Vietnam is placing great emphasis on reopening key roads. Many of them have already been repaired.

Meanwhile, it will take at least two weeks or so to get a good picture of what has happened to pacification in the countryside. Our recent focus naturally has been on the towns and cities. Many Revolutionary Development battalions, Regional and Popular Forces and Revolutionary Development teams were called in from hamlets to assist in their defense and are now in relief activities. Though the enemy does not appear to have hit the Revolutionary Development hamlets, but rather to have by-passed them en route to the towns, Bob Komer is concerned that a vacuum has developed which the Viet Cong could easily fill. At any rate, the longer the Viet Cong are allowed a free hand in the countryside, the greater the set-back to pacification.

Therefore, we are pressing our advisors to get out and assess the situation, encourage the Republic of Vietnam Armed Forces and Revolutionary Development teams to get back on their rural jobs as fast as possible, and push out the Viet Cong where it has moved in. This may prove a lengthy process in some areas, though we have firm reports that yet others were untouched.

Along this same line, the Viet Cong Tet offensive offers another opportunity we are trying to seize. In many areas the elusive Viet Cong infrastructure surface to propagandize people, assist attacking units as guides and in some cases join them as fighters. Now they are known to the populace and ripe for picking by police-type operations.

In Nha Trang, for example, the Viet Cong city committee emerged from hiding almost to the man and joined the invading forces. Alertly, the Government of Vietnam city police chief sent his special police in civilian clothes to roam the city and spot enemy agents. Once enemy military forces were driven out, police and friendly army units cleaned up the infrastructure which had exposed itself.

The economic situation. We have been trying to make some assessment to both the immediate economic situation and of the impact of the Tet attacks beyond the immediate economic crisis.

The economic situation in Saigon is much improved over the near chaos of the first few days after the attack. Government rice distribution to the public picked up last week and in Saigon at least has been more than adequate to meet requirements. In Cholon, distribution has been far less satisfactory although it should show rapid improvement with improved security conditions. Sales of rice through commercial channels have been resumed and, with the exception noted of Cholo

the rice distribution crisis appears to be a thing of the past. The government has also begun to release significant quantities of frozen pork from its stocks. Other foods are available but in limited supply and prices are still substantially higher than before Tet. A crude price index indicates that retail prices are about 80 percent above their level of late January. Food is coming in from the nearby countryside and small quantities are arriving from the traditional coastal and Delta sources of supply.

In other cities both the problem of food distribution and the manner of coping with it has followed much the same pattern as in Saigon. In many places the food situation is better than in Saigon. In the countryside, the peasants seem to have resumed their economic activities. Transportation remains a serious problem as much for security reasons as because of physical damage to roads.

In looking beyond the immediate economic crisis, no economic collapse appears likely, barring a major deterioration in security, but economic prospects are less bright today than they appeared a few weeks ago. In cities there has been significant destruction of industrial facilities. The largest and most modern of the textile factories have suffered extensive damage.

Significant stocks of raw materials and inventories of imported goods have also been destroyed. Perhaps of most concern is the effect the attacks have had on business and commercial confidence. Saigon had been viewed by the commercial community as a safe area where the risk of war damage seemed relatively slight. This confidence has now been badly shaken and it is unlikely that the importer business community will function with as much vigor as it has in the past for some time to come.

The inflationary problem is likely to become more serious because of increased government spending to cope with the emergency, a loss of confidence in the currency, less importer activity, and less rapid growth in domestic production. How serious the stabilization problem will be is not yet possible to ascertain. President Thieu's determination to increase taxes and his request for emergency powers to implement these measures should help. Finally, the remarkable technical and economic revolution which had begun to take place in the rural economy may be slowed. It is unlikely that the burgeoning commercial distribution system in the countryside will operate as effectively as we had previously hoped it would. This was an important element in the continuation and acceleration of the rural economic progress that was such a notable feature in 1967. The rural economy of the Delta has performed as well as it has over the past half decade because military activity there has been limited. If the Viet Cong offensive in the Delta is maintained or if it signals a shift by the Viet Cong to a policy of cutting the flow of goods between Saigon and the Delta, it could prove costly to the rural economy.

Nevertheless, one must remember that the Vietnamese economy has demonstrated time and again in the past a remarkable resiliency. As time goes on, if the commercial community regains its confidence in the security situation, these negative factors may prove shortlived and the basic strengths of the economy reassert themselves.

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It is still too early to tell what motivations, if any, there will have to be in the aid program as a result of the Viet Cong Tet offensive. We are beginning to make an assessment of this problem and should have a better picture of it in the next week or so.

In the days ahead, we shall be continuing to make further assessments of the situation, of the material and physical damage countrywide, an estimate of both time and resources required for reconstruction, and the effect of the Tet offensive on other priority programs; and we shall especially want to see what the effect has been on pacification. It is apparent that there are minuses in the situation but I believe there are also many pluses. In the field of both the Republic of Vietnam Armed Forces reorganization and civil administration there should be an excellent opportunity to evaluate performance, to reward those who have performed well, to get rid of the incompetent and corrupt. This will be one means of speeding up the attack on corruption. Thieu's prompt move on speeding up mobilization is a constructive development, as are the other measures he proposed to the Assembly and to the Cabinet at its meeting on February 11. There is an opportunity to do something positive about the situation in the overcrowded cities, especially to provide better housing in the destroyed areas.

In all of this, the psychological factor is the most important. The mood of the people is always difficult to assess but so far as we can determine the Tet attack have resulted in a widespread reaction against the Viet Cong. The destruction caused by the attacks is not always blamed on the enemy but there is near universal condemnation of the Communist exploitation of Tet. In Saigon, those not directly caught in the fighting tend to see the attacks as an impressive demonstration of Communist strength, but also as a major defeat for the enemy. In areas still more or less contested by Viet Cong forces, people are understandably apprehensive about the possibility of further Viet Cong attacks. The Viet Cong have frightened them and shaken their confidence in the government and the United States to provide security.

Most important in the psychological picture, however, is the fact I have mentioned previously that nowhere did any significant numbers of people respond to Communist appeals for voluntary support. With the right kind of action to meet this crisis, the government acts promptly and vigorously (and I believe it has made a good beginning), it should be possible to improve its popular image and to increase the degree of positive, active support which it can call on in any emergency. There is a long way to go in this respect, and I believe Thieu and the other top leaders understand and agree with this analysis. It is now a question of what they are capable of doing. But I have impressed on them, and will continue to impress on them, that this is a golden opportunity.

A final question relates to the enemy's intentions. General Westmoreland believes that the enemy may be preparing to go all out militarily in the next few months in a continuation of his efforts to end the war on his own terms. I have reported Thieu's views that Hanoi's principal objective in the recent Tet offensive was to put itself in an advantageous position for negotiations so that it could demand

recognition of the Front and its inclusion in a coalition government. Failing in this immediate objective, he believes that Hanoi's plans will include three major elements: a) an effort to launch major attacks in the northern provinces of the First Corps and in the central highlands in order to tie down as many U.S. and Army of the Republic of Vietnam troops as possible; b) to continue efforts at harassment and infiltration of the cities, including political "spoiling" operation i.e., propaganda and subversion efforts; and c) an effort to regain and hold territory lost to pacification.

Thieu believes that Hanoi's objectives are the same as those of his Tet attack, it put itself in a strong position for negotiations by demonstrating at a minimum that militarily, the situation has reached a stalemate. In carrying out this plan, he believes the enemy, as in the Tet attack, will be ready to accept heavy losses, commenting that Giap did this in the siege of Dien Bien Phu. But failing in this effort as he did in the Tet offensive, Thieu believes that Hanoi may well begin to withdraw or "fade away." It seems to me that General Westmoreland's views and Thieu's theory about enemy intentions are not contradictory, for Hanoi may well be ready to gamble heavily on the possibility of either military victory or the belief that they can attain equivalent results through negotiations; it is certainly consistent with Communist philosophy and strategy to mesh military with political and psychological aims.

I do not want to get into the business of prophesying, but I believe we have never been in a stronger position than now to meet anything the enemy can throw at us. Our own forces have performed magnificently and are being strengthened. The Vietnamese forces have been alerted by their preliminary intelligence failure and have proved their mettle in combat, have taken heavy losses (more than twice ours) and they have gained confidence in themselves. The Government of Vietnam is showing energy and effectiveness in getting the country back to normal. If it seizes the opportunities now on the other fronts I have mentioned, it should gain wider and stronger support from the people.

In retrospect we may well look back on these recent events as a turning point in the war, when the people in the heretofore relatively secure cities realized it was their war too; and that out of it has come a sense of national unity, or nationhood, that under other circumstances would have been long in developing. But this will depend, in great measure, on how well Thieu and the other leaders seize the occasion. From the earliest days of the Tet attack, I have tried about everything on him I know except Shakespeare; "There is a tide in the affairs of men which, taken at the flood, leads on to fortune: omitted, all the voyage of their life is bound on shallows and in miseries." But as always the gap between the ideal, which we want to attain, and what actually is achieved is affected by, and dependent on the limitations of the human resources with which we have to work. But we shall keep pushing.