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IV. LAOS

A. SUMMARY EVALUATION

24. The formation in November, 1957, of a coalition cabinet with Communist Pathet Lao participation, additional communist gains of places in army and civil service, and permission for the Pathet Lao to operate as a legal political party throughout the country were generally considered a setback for U.S. objectives. On the positive side the Royal Lao Government has gained substantial control of Sam Neua and Phong Saly and the Royal Lao Army now occupies the frontier posts bordering on China and north Viet-Nam. U.S. policy was reevaluated, following the Lao Government-Pathet Lao settlement, taking into account the Prime Minister's declaration in January that the Lao Government was determined to tolerate no subversion and his request for U.S. assistance, particularly for the purpose of winning the crucial May elections. It was decided to continue U.S. aid as before, but with the clear understanding that provision of such aid depended upon future Lao performance. Our effort has therefore shifted from the negative one of attempting to prevent disastrous concessions to the Pathet Lao to the positive one of helping the Lao Government carry out the settlement already reached, with a minimum of damage to the Free World position. In this connection, the U.S. carried out an impact program of material and administrative assistance. Solution of the exchange rate problem through monetary reform has been deferred until after the recent supplementary elections, new cash transfers of aid dollars meanwhile being placed in an account blocked by action of the Lao Government until agreement on monetary reform is reached with the U.S. Government.

B. MAJOR OPERATING PROBLEMS FACING THE UNITED STATES

25. Pathet Lao. Inasmuch as the Pathet Lao have apparently chosen to concentrate on political means to achieve their ends, the integration and demobilization of Pathet Lao forces have taken place relatively smoothly and the Lao National Army has moved into the two former Pathet Lao provinces. The Pathet Lao made an all-out effort in the May 4 nationwide election campaign for 21 National Assembly seats, utilizing well-organized grass-roots cells and demobilized Pathet Lao soldiers as propaganda agents. Firm final results have not yet been announced but it may safely be assumed that the communists (Neo Lao Hak Xat) have won 9 seats and the Neutralists (Santiphab) have won 4 out of 21 seats at issue in the elections. Since there are 8 leftists in the National Assembly already, a leftist coalition could possibly control about one-third of the seats in the new enlarged Assembly (as many as 21 out of 59 seats). Although Lao officials claim that the strong showing of communist candidates

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