

SECRET

IV. LAOS

A. SUMMARY EVALUATION

19. Recent developments related particularly to the U. S. course of action to strengthen the determination of the Royal Government to resist subversion and to maintain its independence. The Phoui Sananikone Government, by announcing on October 10 its decision to undertake monetary reform, faced the first test of its ability to survive with unaccustomed firmness and self-confidence. Subsequently, it foiled an attempt by communists, neutralists and certain disgruntled elements of the Rally of the Lao People to bring it down by a no confidence vote in the National Assembly. The government emerged from this first test with increased authority and in a stronger position to proceed with the establishment of genuine non-communist political unity and the development of a grass roots organization. Its prospects of successfully warding off communist subversion and achieving stability have improved considerably since the low point reached in the May elections, but genuine non-communist unity has not yet been achieved.

B. MAJOR OPERATING PROBLEMS FACING THE UNITED STATES

20. Implementation of Monetary Reform Decision. Maintenance of monetary stability in Laos will continue to be a problem of major U. S. concern. The exchange of notes and protocol of September 30, 1958, constituting agreement on monetary reform, provided for periodic discussions between U. S. and Lao representatives to review economic developments and to consider measures which appear to be necessary to maintain a realistic rate of exchange for the Lao currency. This will involve constant U. S. vigilance and resistance to inflationary policies and proposals.

Status of U. S. Actions: U. S. officials continue to exercise vigilance in order to resist any Lao inflationary policies.

21. Planning for General Elections: The Lao Government is expecting to hold general elections for the National Assembly, probably in December 1959. The outcome of the elections may be of crucial importance in determining the future international alignment of Laos, particularly in its relations with the United States.

Status of U. S. Actions: We are discussing with the Country Team at Vientiane a Country Team plan for major U. S. effort to bring about a favorable outcome in the forthcoming general elections. The planning and execution of this effort will involve at least State, ICA, Defense, USIA and probably other agencies. The Embassy has