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does not indicate a choice of communism by the Lao electorate but simply a protest vote against war and corruption and in favor of peace, neutrality and new faces, it is clear that the Neo Lao Hak Xat has emerged as a well-organized and disciplined legal political party whose aim is to establish communist control of Laos, probably by parliamentary means.

The conservative leaders have been badly shaken by the communists show of strength which resulted largely from conservative failure to agree on a minimum consolidated list of candidates. Available figures indicate that conservative candidates received a clear majority of the popular vote but that conservatives got only a minority of the seats at stake. It is possible for the conservatives; if given a little organization and discipline, and reasonably effective leadership, to form an all-conservative government. They have a majority of the enlarged Assembly and they possess the psychological advantage of having received a popular majority in the elections. We are now considering various possibilities relating to a re-appraisal of our effort in Laos.

26. Monetary Reform. Negotiations to achieve a single realistic rate of exchange without trade and exchange restrictions were pursued first in Vientiane and later in Washington during and after the Lao Prime Minister's visit. Because the U.S. could not guarantee that immediate devaluation would not jeopardize conservative chances in the elections, as unanimously contended by Lao leaders, the U.S. agreed that monetary reform should not take place until some time after the recent supplementary elections. The U.S. insisted, however, that new releases of aid dollars be placed in a segregated escrow account pending devaluation and assurances that the ultimate kip value would eventually be deposited into the counterpart fund. The U.S. declined to effect further dollar transfer (project aid was not suspended) owing to the Lao Government's reluctance to accept lenient escrow arrangements offered. Scandalous import licensing was stopped when negotiations led to acceptance by the Lao Government of new procedures proposed by the U.S. There have been no abuses since. The Lao Government proposed that U.S. aid dollars henceforth be placed in a segregated account in the Lao National Bank and not be used until agreement is reached between the U.S. and Laos on such matters. The U.S. agreed that this device would be acceptable until negotiations are reopened in June in the hope that this would accomplish U.S. objectives and also permit the Lao to save face.

27. Lao National Army Training. Because the French Military Mission is so reduced in strength and quality that it is unable to fulfill its responsibilities, the Lao National Army is not receiving proper training, resulting in deterioration of its capabilities and increasing lack of

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