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CENTRAL INTELLIGENCE AGENCY

24 October 1958

MEMORANDUM FOR UNITED STATES INTELLIGENCE BOARD

SUBJECT: The Current Situation in Laos

Pursuant to the Director's request at the USIB meeting of 21 October 1958, the attached is circulated to members of the USIB for information.

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C E N T R A L I N T E L L I G E N C E A G E N C Y

24 October 1958

MEMORANDUM FOR THE DIRECTOR

SUBJECT: The Current Outlook in Laos

1. The investiture of the cabinet of Prime Minister Phoui has not as yet brought political stability to Laos or assured a halt in the growth of Communist influence throughout the country. Phoui has succeeded in promulgating monetary reform, in avoiding a no confidence motion, and in developing at least temporarily a surprising degree of unity within the old guard party, the Rally of the Lao People (RLP). The basic problem of meeting the communist threat still lies ahead, however, and, unless a sense of urgency and party unity are maintained, there is a less than even chance that this government will be able to implement a sufficiently energetic program to win the next general elections.

2. The monetary reform program was designed to eliminate much of the graft and corruption within the Lao government and to contribute

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to a more effective US aid program. The decree issued on 9 October provided for the elimination of licensing for all foreign exchange transactions, the establishment of single rates of exchange, and the adoption of free convertibility for all kinds of foreign exchange. In addition, the Lao National Bank was authorized "to sell and buy for kip American dollars at a stabilization rate of 80 kip to one dollar." To support this action, the US government through CINCPAC has transferred one half million dollars in the form of cash to the Lao National Bank.

3. In some measure, the promulgation of monetary reform is a symbolic victory for Phoui, and a demonstration of his intention and ability to implement a reform program: the monetary reform measure was opposed not only by the leftist Santiphab party and by the Communist controlled NLHX but up until the final vote by several factions within his own RLP. However, his victory in this case was a narrow one and came only after the Santiphab motion of no confidence on the substantive issue of monetary reform was treated by the RLP as a procedural question. Subsequently, the Assembly halted debate on monetary reform by a 20 to 17 vote.

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4. Since Phoui's success in maintaining an unprecedented degree of party unity on the monetary reform test was made possible in part by the threat of continued suspension of US aid, there is still no assurance of continued unity on the general range of problems facing the government. Phoui, who offended his party by defaulting on a promise to keep the members informed at each stage of the monetary negotiations, will face a continuing threat on censure from opposition parties and from minority groups within his own party until the closure of the Assembly now scheduled for 31 October. After that, he may have to overcome some adverse economic and political effects arising from devaluation and free convertibility. The two most important dangers are inflation, which could be used by the NLHX and Santiphab parties to discredit the government, and a "dollar shortage" which could result from a channeling of dollars to Communist China by leftist groups or from hoarding of dollars by speculators who might hope to profit from subsequent depreciation of the kip on the free market. Neither of these problems has appeared in the first two weeks since the promulgation of monetary reform on 10 October, but in the absence of adequate counter-measures they are likely to appear gradually as the RLG attempts to live under free convertibility and the reduced dollar aid which apparently is implied in the devaluation.

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5. If, under the most adverse circumstances foreseeable, Phoui or a successor were compelled to negate the monetary reform, and subsequently suffered a loss or major reduction in US aid, there would be a chance that the Laotian government would feel compelled to seek economic assistance from the Bloc

The Longer Term Outlook

6. Whether or not the Phoui government survives, the basic problem of meeting the Communist threat throughout the country lies ahead. RLG efforts to provide the kind of political organization and civil administration needed to prevent an NLHX victory in the general elections now scheduled for 1959 or 1960 will continue to be hampered, although to a lesser extent, by the conflict between the old guard conservatives who hold to their positions of privilege and the young CDNI leaders who are more inclined to reform the government. Although the present Phoui cabinet excludes the Communist NLHX and includes four able civilian members of the CDNI who have been given considerable leeway to date, the old guard retains the capability for dominating the cabinet at any time. The old guard commands some 38 deputies in the 59 man National Assembly, but has made little or no progress in developing organizational and popular support to maintain its position. The CDNI, which apparently commands the support of the army leadership, has made some limited progress toward establishing a grass roots organization. But these efforts

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are as yet no match for the NLHX which continues to make inroads in the lower ranks of the army, to organize the countryside, and even in some cases to take over village administration.

7. If the CDNI's efforts to implement reform in cooperation with the old guard or to displace the old guard fail, the CDNI, if it is not to lose what influence it now has, will have to assume greater risks and attempt to mount either a military coup or to form an emergency cabinet with the aid of the crown. It is uncertain whether either the young conservative group or the crown, especially the latter, has the forcefulness to carry out these drastic actions. In either case there would be a possibility of renewed NLHX insurgency supported by the DKV. And even if the young conservatives do achieve power without provoking renewed insurgency, they will be hard pressed to implement a popular program rapidly enough to meet the NLHX threat in the coming general election. Failing this, they would probably be forced into strong repressive measures against the NLHX which again raises the question of NLHX insurgency.

8. In short, although the recent successes of Phoui reflect an improvement in the situation, the prospects for Laos are still not good. If the general elections are held in December 1959

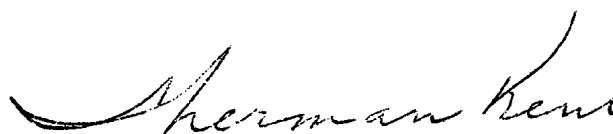
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or 1960* and if present conditions continue, an NLHX victory seems almost certain. If the governments come in time to recognize the NLHX threat and attempt to take forceful action against the communists, renewed NLHX insurgency with the support of the DRV may result. Although Phoui has demonstrated some ability to hold his party together on critical votes, the best hope for a free Laos probably continues to lie in the emergence of a CDNI-dominated government of some kind. But this is only a hope, with such a government's prospects of success uncertain and with time meanwhile running out.

FOR THE BOARD OF NATIONAL ESTIMATES



SHERMAN KENT
Assistant Director
National Estimates

* Articles 24 and 25 of the present Lao constitution set the term of office of deputies at five years, implying December 1960. However, the constitution in effect at the time of the general elections in 1955 set the deputies' term of office at four years, implying December 1959. There is considerable evidence that an attempt will be made to delay the elections until 1960 with the expectation that the conservatives can make better use of the additional time than can the NLHX.

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