

Real resort weather here now and I hear Xieng Khouang is especially beautiful this time of year. Trust you and Carl have borne up well under the Cuban crisis. <sup>and it is a shame you will miss out on the resort season in Haas due,</sup> From this distance the handling of the problem <sup>Cuba</sup> seemed astute. There is <sup>little</sup> no doubt that unless Russia is able to counter her defeat in Cuba with a victory in Berlin or elsewhere, she has suffered a major loss of prestige in Asian Communist eyes. And this took place at the same time that Communist China was dealing Russia the stingiest slap across the face in India. India, whose entire foreign policy was predicated upon Russia taking care of China, was made to play the fool in order that China <sup>could</sup> get across its point to Russia.

This leads directly into the Lao situation which now looks more favorable in the short run, but about the same or more unfavorable for the longer run. The short run looks better now only because it looked so bleak just a week or so ago when Souvanna threatened to resign publicly, and because there <sup>and here was doubt whether Souphannouvong would return,</sup> is increasing evidence that <sup>a goodly portion of</sup> KL forces, <sup>may start working with the MEU,</sup> and ~~not be lost to the PL.~~ The long run looks bleak because Souvanna has proven to be about as weak as expected and places all his hope on Souphannouvong keeping the Left in line, and because what hope there may have been that the Soviets could call <sup>the</sup> PL policy tune are, after the attack in India, even less of a hope now.

To shift to negotiations, these are now back on the track after having come quite close to a full derailment by the Right. The Right was all set to use our commodity import program as their <sup>supplier of cheap, inexpensive</sup> ~~cheap~~ goods to sell in their state stores. They have now given up on this gambit and Souvanna in his typically forceful way has said that he has no objection to our commodity import system so long as Souphannouvong will buy it. Mr. Mann and I hope to see him this week, but have no idea what line he will take. Phoumi V. has already taken a stand against it as it is aid with strings. After having talked with Phoumi <sup>N</sup> last week and receiving his blessings, we plan this week to start the nuts and bolts level discussion (the only way to find out if we really are talking the same language).

~~In~~ the tri-partite <sup>is mostly</sup> aid picture ~~there are~~ bi. The French told us last week, as you undoubtedly know, that they will not give commodity import aid or, what we call, budget assistance. They <sup>by all means</sup> ~~do not~~ want points for the free?

frances stemming from their kip purchases. These are not large and stems <sup>any augmentation</sup>  
<sup>largely</sup> probably from their expanded military mission, which is their burden from  
 the Geneva Conference. So I can not see how they have been forthcoming to  
 support the Presidents wish that the West jointly support the Lao economy  
 over the critical period ahead. I have close working relations with the  
 British and their entire attitude is constructive and positive. I can not  
 say the same for the French. Ambassador Falaize seems to be a loner and  
 likes to advise Souvanna, sometimes <sup>critically</sup> about the new proposed US commodity  
 import program about which he knows <sup>little</sup> and has shown little interest. In a word,  
 the French love to criticize the Lao budget, Phoumi, the US plans, but they  
 have no constructive ideas as to how to improve the situation. <sup>On their part, they</sup>  
<sup>feel that they have been more to partly play the game by sending military out here & moving Phoumi</sup>  
 Economic situation surprisingly keeps on its fairly steady track with  
 no major developments except that prices are up <sup>about 11</sup> per cent since I wrote  
 last and the money supply is up <sup>about the same</sup> percentage. Since January money supply is  
 up 2 billion kip, 87 per cent, and borrowing is up the same amount, about  
 2 billion kip. Foodstuffs are up 45 percent since January, but the approaching  
 harvest season should damp this rise.

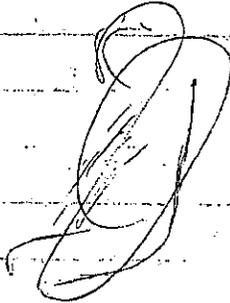
Recently Phoumi instituted a flurry of economic measures <sup>most of</sup> which pro  
 bably will not be enforced. Some of them may be salutary, but I do not take  
 them seriously. The most ominous of the recent moves is the entry of the  
 National Bank in <sup>the</sup> black market transactions attempting to stabilize the kip/  
 dollar rate. Information now is that they have expended \$1 million trying  
 to hold the rate near 150. <sup>of 10 million</sup> Announcement <sup>of 10 million</sup> our aid program <sup>on Saturday may have</sup>  
<sup>some effect in causing the rate to decline, at least for a while</sup>  
~~caused rate to fall its own accord for a while.~~ Souvanna when informed of  
 above was pleased since announcement of National Bank action for a while  
 scared the rate down from its high of 180.

Indications are that corruption is increasing even beyond normal Lao  
 levels and Souvanna has shown no interest in exerting ~~some~~ discipline. In  
 the budget area, I am now ~~very~~ doubtful we can get Souvanna to take much  
 of a lead. The Ambassador has suggested this to Souvanna as have others  
 including a French advisor. Souvanna will <sup>often</sup> blily decry <sup>the</sup> budget and  
 Phoumi's <sup>responsibility</sup> ~~leadership~~, but when it comes to action, no show. Souvanna responds  
 to these budget problems instinctively, <sup>not what action should be taken, but what disputing parties should be</sup>  
<sup>fold to as find a solution.</sup> ~~who should be solving them and who~~  
~~should get together.~~

to work with them

insert DEMOB

Given the many indications that the PL have no real intention of playing ball, which is reinforced by <sup>the</sup> innumerable chance <sup>missed</sup> they have had to play the great champion of Souvanna (such as escorting him to Sam Neua to prove VC gone or making a big thing out of a fake demobilization of the PL), it would seem that on balance our best strategy toward demobilization is a half-way house. That is, demobilize a sizeable group of the FAR and place them <sup>original by file</sup> in work groups ~~essentials~~ keeping intact officer and Non-com leadership. At the end of this dry season we can let them go, or at any time before ~~10/11/68~~ Phoumi can call an intact unit to service. US AID has proposed such a demob project with some <sup>no</sup> essential frosting and it seems to me that this would be our best policy for the present situation.



At the present time, of the three dimensions of the Lao problem, military, economic and political, the economic are now merely supporting actors. For the near future it appears that the military or near military events may be center stage. <sup>currently</sup> At present there is a wave of optimism sweeping across Vientiane because Souphanouvong has <sup>returned</sup> agreed in principle to the establishment of a mixed general staff, and the permission of the ICC to investigate <sup>(upon each night in Vientiane - maybe 5 kilometer radius in which to move)</sup> while Phoumi has agreed to partially dismantling of the DNC and to a civilian police under a joint staff. Yet the recent and continuing developments on the Plain des Jarres may indicate a toughening of the real PL line which is partly <sup>lost sight of because of</sup> ~~concealed by~~ the good news in Vientiane.

Since late this summer, supplies have been ~~largely~~ withheld from the KL forces and the PL have increased pressure <sup>or harassment of</sup> on KL areas and infiltrated KL villages. Just recently the PL marched onto an airfield where USAID supplies had just been landed for KL forces and demanded that they receive the supplies and decide who gets what. The KL said niet. The station chief here, Whitehurst, is of the opinion that a whole series of events since September ~~ago~~ indicate clearly that the PL have decided to choke off and finish Kong Lae as an independent force. There are reports that, as the KL troops and officers realize that <sup>is position becoming increasingly untenable</sup> Kong Lae ~~cannot support~~ the KL officers are spinning off right and left. This is clearly a tinderbox. Unless a balance of forces is established (assuming the <sup>above</sup> analysis is correct), any incident will precipitate a dash by both sides to gain (capture) the allegiance of the KL forces. <sup>of</sup> The PL are trying to choke off KL, our bringing in supplies may itself precipitate the struggle or it may force the KL into alliance with the Meo. The latter has started already and this <sup>may be</sup> is the only hope for a new balance of forces which the PL <sup>could</sup> understand.

In determining future policy a key question would appear to be: Is the above policy of toughness (erasing a worldwide symbol of Lao resistance to imperialism) the real policy and the return of Souphanouvong and the array of new promises just tinsel, or is it somehow vice versa? I recommend the Whitehurst paper to you, <sup>TDCS</sup>

The above is a fairly short run question and whether it is optimistic or not I am not sure. In terms of the longer run picture I am persuaded <sup>remains</sup> that the picture ~~is~~ not bright.

Withheld from public release under the  
National Security Act of 1959, 50 U.S.C.  
3605 (P.L. 86-36)

Recapping the obvious ~~and~~ Lao policy is built on two possible eventualities, ~~---~~ a pull by Moscow and Hanoi to render the countryside vacant ~~deprive~~ of VC and hence passive, or a push by Souvanna using propoganda, and embarrassment and ICC investigations to force the VC to withdraw.

Though it has always been doubtful that Moscow really could push Hanoi to pull out ~~its~~ <sup>the</sup> VC there was a chance that the Soviet stake in this piece of real estate vis a vis China was ~~signifi~~ <sup>Russia</sup> such that ~~she~~ would one way or another seduce and pressure Hanoi to at least partly play ball. With the new major thrust by China to take over in Asia the job unsuccessfully attempted last by the Japanese, the credibility of Soviet power and will is further lessened.

The possibility of a Souvanna push or tough Souvanna <sup>Solution</sup> ~~development~~ still remains. Souvanna could use the tool of public embarrassment of Phoumi V. on certain subjects, of Phoumi N. on other subjects (such as squandering of public funds); he could forcefully use the ICC as a tool to his own ends of strengthening his position and making people dependent on him instead of the reverse. Such a line would have to be played adroitly since it could easily backfire, but it appears now as the only real card left for obtaining a countryside neutralist solution.

The discouraging factor is that the above description does not fit Souvanna. He is an inside fighter and wailer, not a public fighter. It has been suggested to him that if he got tough, he would rally support and start a real <sup>center</sup> movement. ~~at 100%~~ He shrugs <sup>off</sup> such action by himself ~~as~~ as impossible. One of the most significant events of the last month or so was the unmasking by Phoumi V. and Quinim before Souvanna when they practically commanded him to behave thus and so. Souvanna told them to take a flying leap. Nevertheless such communist mouthings so close must have been a real shock to him. Yet the best opinion here is that he will not take a similarly tough stand publically. All indications are that he attempts to solve problems by delegating them to others to solve. He has the asset of discontent in PL areas, but he is not willing to exploit it.

Clearly whether Souvanna can or cannot pull the show off is ~~a~~ difficult ~~judgment~~

to judge. But even if we cannot tell now, it is not too early to start planning for "beyond Souvanna". There is a hesitation to plan beyond present policy here, because this might be interpreted as devionist policy. This seems less than ~~realistic~~ <sup>practical</sup> and I offer the following ideas.

My culling of the situation is that a neutralist solution comprising the major portions of Laos (and not just the Mekong valley) is unlikely under Souvanna. We have purshased time with the Souvanna solution, but if he will not complete the race, who do we finish with? We may have purchased respectability in that if the coalition splits open Souvanna will side with the FAR/Right, but very likely this won't be worth much since Souvanna will be in Paris.

What are we buying with the time we are now purchasing? I suggest we attempt to use the time to set ourselves and the <sup>Situation</sup> Right for a new leader, probably the only man strong and capable enough to make a Neutralist solution work here, namely SPV. In the following my thinking is greatly influenced by Col. Law. The following argument is built on <sup>three</sup> ~~two~~ premises and a quasi-fact. First, a leader of an Asian buffer state must be tough and cagy, able to keep control in the rough and tumble. Second, SPV has learned by now that he will never be number one man in Laos via the Hanoi route. If he finally arrives on top, he realizes that he will only be a puppet. Third, SPV is primarily a Lao nationalist <sup>motivated by a</sup> ~~compulsively~~ fierce ambition ~~to~~ which ~~he~~ holds ~~it~~ ~~is~~ ~~his~~ ~~idea~~ that he rightly by blood and ability should be ruler of Laos. and Fourth, CAS reports that the PL in Laos is split into a hard faction led by Nuhak taking direct instructions from Hanoi and a soft or nationalist faction under Souponnouvong. It is interesting to note that if you ask PL in the countryside whose army they are in, they often say Souponnouvong's.

It seems to me that these pieces lead to at least serious consideration of making an approach to SPV now. Exactly what we say or how we hedge our bets or even if we deal in Souvanna I do not pretend to know. However, if we decide to make an approach we could not have a better man to do the job than Col. Law. One objective of such an approach would be to ~~bring~~ <sup>bring</sup> ~~S.P.V.~~ <sup>S.P.V.</sup> or a portion of the PL to the Center of the present government break open a Souvanna travels to Paris, Paris.

*(i.e. right of the Memo. PL group)*