

AMERICAN COOPERATION WITH LAOS

A Vital Link in the Chain of Mutual Security

Report of the Director

United States Operations Mission to Laos

July 1, 1959

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FOREWORD

This booklet seeks to tell the story of American aid to Laos through July 1, 1959, within the overall framework of that country -- its people, resources and institutions. This approach has the advantage of increasing the general public's knowledge of that young nation; it also furnishes a backdrop for American activities in Laos. In this way a perspective is afforded which would seem necessary in any assessment of our effort in that country.

Since the preparation of this report, two important developments have occurred in Laos: (1) In October 1959, King Sisavang Vong passed away. Crown Prince Savang Vatthana, who had been appointed regent by his father two months earlier because of the latter's ill-health, became ruler of the "Land of a Million Elephants"; (2) in January 1960, Phoui Sananikone was replaced as the country's Prime Minister by Thao Kou Abhay.

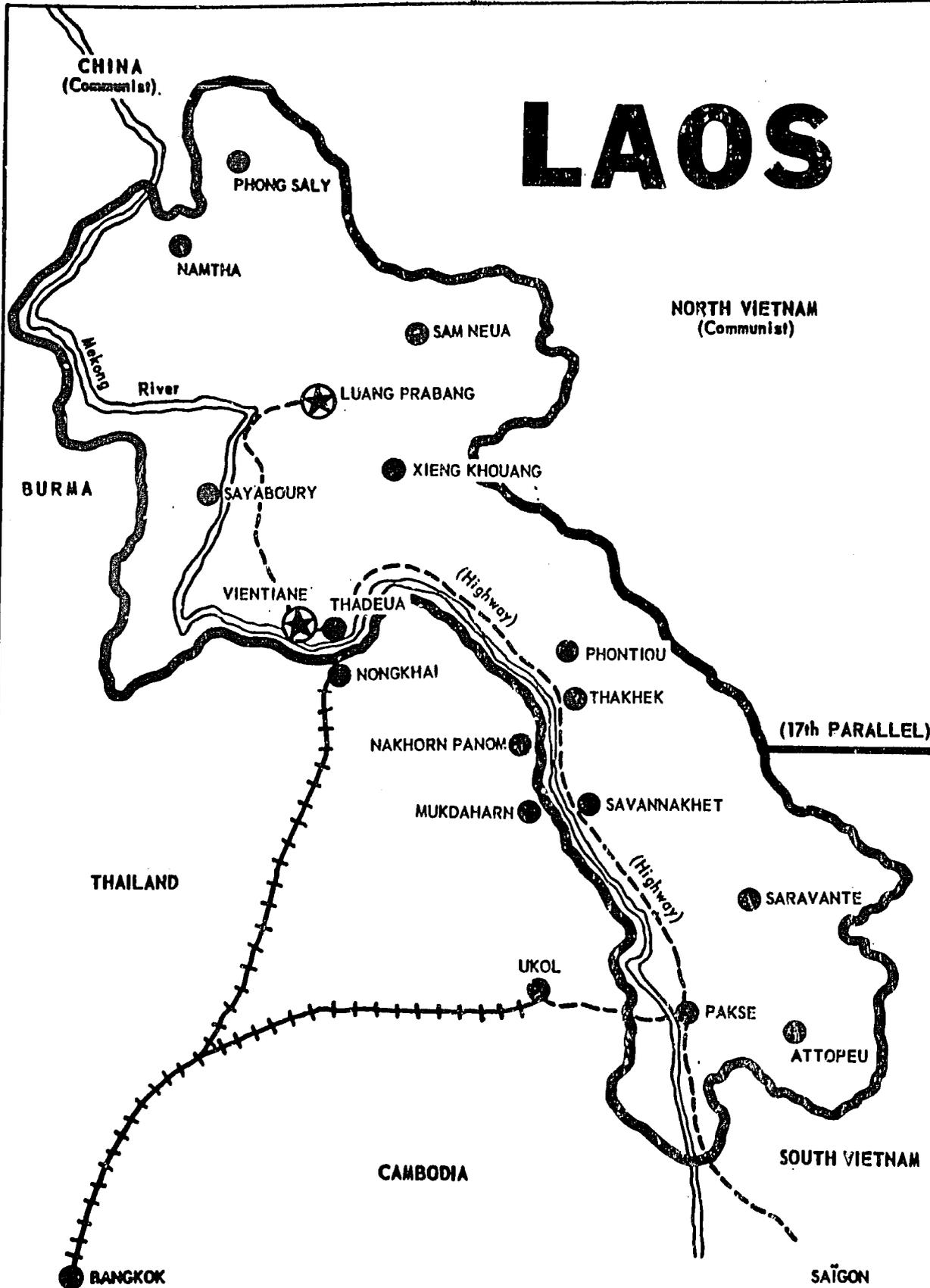
Laos is one of a number of newly-independent nations born of the upheaval that today grips the world. Since its birth a few years ago, the United States, in response to a request from the Government of Laos, has been giving positive assistance under a program of mutual security. The force responsible for this request was the threat of Communism. How long this program will continue no one at the moment can tell. All that is known is that events dictate American interest and help -- perhaps for a long time. What is accomplished in this period will depend in considerable measure upon what is done with the opportunity.

Among the American agencies directly participating in this effort is the United States Operations Mission to Laos. As Director of this organization over the past year, and at the end of the fiscal year, as well as at the close of my tour at this Mission, I should like to report on the country through July 1, 1959 to the fullest limits permissible under security regulations, and on some of the growth problems that beset it; also on the American effort to help the Government of Laos accelerate the advancement of its people and its capacity to resist the pressures of Communism.

Daly C. Lavergne, Director
U.S. Operations Mission to Laos

MAP of LAOS

LAOS



FACTS ABOUT LAOS

(through June 1959)

Approximately 12,000 miles from the United States.
Estimated area, 91,000 square miles.
Estimated population, 2 million.
Ninety per cent of people engaged in self-subsistence agriculture.
Over 90 per cent of people live in about 10,000 villages.
Estimated life span, under 40 years.
Rate of exchange, \$1 equals 80 kip.
Estimated national product, 6 billion kip.
Value of U.S. aid furnished since 1955, about \$225 million.
U.S. military budget support covers 100 per cent of pay and allowances in Lao military budget (25,000-man army).
Value of French aid for calendar year 1958, about \$5.8 million.
Political capital, Vientiane.
Royal capital, Luang Prabang.
Two-thirds of country is forested.
Main economic centers: Vientiane, Pakse, Savannakhet and Thakhek.
Main river, Mekong.
Principal mineral and export, tin.
Principal crop, rice.
Politically, a constitutional monarchy.
Prime Minister, Phoui Sananikone.*
Major ethnic groups: Lao Lum, Lao Thenh and Lao Xung.
Six hospitals in Laos; 77 physicians; 3 dentists.
Less than 10 per cent of people functionally literate.
No colleges and universities in Laos; only 5 junior high schools and 1 senior high school.
Vehicles: automobiles, 3,580, and trucks, 1,350 (excluding publicly-owned vehicles).
Road mileage, about 1,800, of which 1,000 all-weather roads.
Thirty-two airstrips, 3 of which service scheduled international flights.
"Five-Year Plan" goes into effect July 1, 1959.

* Succeeded as Prime Minister in January 1960 by Thao Kou Abhay.

SUMMARY OBSERVATIONS

The bulk of American assistance to Laos is for budgetary support to the Lao military forces. This help is essential in keeping not only Laos free and independent but also the region of Southeast Asia secure on the side of the Free World.

The value of military assistance cannot be easily measured in dollars and cents. This is also true of the economic aspects of the American aid program. In this latter connection it is important to keep in mind that an aid dollar in Laos does not carry the same weight as in other countries. The differential, of course, is due to a variety of factors, such as the stage of development of the country, the framework within which the program must function, and the shortage of professional and technically trained manpower. In the case of Laos, we cannot always get as much progress out of an aid dollar as we would like. The volume of resources we introduce may at times appear to be excessive, but the fact is that they have not been out of line with overall requirements of the country. Solid gains - economic and social - are being made.

Aside from the military assistance, American aid is intended to help the people of Laos so that they themselves can shape a society based on the principles of a free world. The task is not an easy one. It is complicated by a number of factors not the least of which are those of geography, culture and the general undeveloped character of the country. Definite progress, however, is reflected in attitudes of the people and the strengthened position of the government leadership; also in the physical and institutional development of the country.

A real basis now exists for social and economic advancement. Certainly, the future looks brighter today to the people of Laos as a result of what the American people have done to help them, especially in the fields of public health,

education, public works, agriculture and rural development. While the outlook is hopeful, the road ahead remains formidable for all concerned. Many of the problems to be faced, however, are problems of growth. Tackled in the right spirit, they will be solved and thereby promote not only the security and advancement of Laos but also the objectives of the Free World.

The problems that lie ahead underscore, among other things, a real need for

(a) Still greater coordination of American activities with those of the Government of Laos. Maximum benefit from United States aid dollars can only be obtained through an effective pooling, under proper safeguards, of all resources--technical as well as financial--available to Laos. This means that increasingly our aid planning must be effectively coordinated with the Royal Commissioner of the Plan. Laos is a sovereign nation and, as such, has the responsibility to chart its own course. Furthermore, the Commissioner's office is a logical agency to combine the requests of the various government ministries and to weigh them in the light of Laos' own limited resources and those forthcoming from the United States, France, Japan and other countries; also from the United Nations and its specialized agencies, the Colombo Plan countries and private organizations.

In this general connection, mutually desirable objectives must be sifted out and delineated. Extremely useful in this respect is the recently published "Five Year Plan" of the Government of Laos which went into effect on July 1, 1959. Here is a vehicle for furthering organization, cooperation, balance and direction to the overall effort of Free World partners in Laos.

(b) Closer American cooperation with French aid efforts in Laos. French advisors hold key positions throughout the government. A number of them have been here for years and know the country and the region well. French is the second language of Laos. Key Lao officials in government and in the Army have

largely received their training in French-speaking institutions; some studied in France. Like ourselves, France is a member of SEATO and also of NATO. The need to increase this cooperation between us is fortunately recognized by both United States and French official representatives in Laos.

(c) Some realignment of American project aid to Laos. A number of project have necessarily been continuations on a year-to-year basis of earlier efforts, developed essentially to register immediate impacts. During the past year, the Mission was able to give greater direction and purpose to these projects, in spite of issues such as Monetary Reform and budgetary deficits. The ground-work now exists for strengthening the program in the coming fiscal year, with less scatteration of effort and funds and greater effectiveness of individual projects.

(d) A greater emphasis than in the past on regional activities. Laos is the most remote and primitive and least organized of the free nations in Southeast Asia. Closer cooperation with the more advanced Free World neighbors in the region, especially with those in which the United States Government has aid programs, would unquestionably benefit Laos greatly and permit its development in a larger setting. At times this could result in more effective use of the American aid dollar. Our program has made an important start in this direction. For example, the United States is now supporting, in cooperation with other governments and international agencies, a 4-country Mekong River Project, a regional telecommunications project, a regional English language project and regional health activities. Projects of this kind can go a long way in helping to break down barriers and remove frictions. A good beginning has been made. Much more, however, must be done. In the days ahead, USOM/Laos, in cooperation with United States aid missions in other countries in the region, must strive continually to encourage new regional ties.

These are the realities that confront the United States Operations Mission as it plans further assistance to Laos. By facing them openly and courageously, the American aid program will prove to be a genuine antidote to Communism.

THE SETTING

The Royal Kingdom of Laos is not a country of factories, highways, power dams or large structures. It is a low-income nation, with a largely self-sufficing agricultural economy, and underdeveloped in nearly all respects. Emphasis is on bare essentials, be it in terms of the food that is eaten, the implements used, the goods exchanged, or the shelters of most of the population. Practically the entire country is still in its unchanged natural state. It is the least developed in the region, lacking proven material resources, physical and institutional development, and most classes of even semi-skilled workers and entrepreneurial leadership. The difficulties of the situation are further aggravated by recurring political instability. Despite all this, the Lao continues to live unaffected and unruffled -- and undeveloped, quite removed from 20th century ways of life. Forces, however, well beyond the control of these people are now changing all this, mainly because of the country's geography which places it in the front lines -- on the side of the Free World.

Laos is one of the most distant countries from America. It is on the opposite side of the world on the mainland of Asia. This country cannot be expected to develop within the economic orbit of the United States, or even of Western Europe, in spite of the direct and very substantial assistance from such sources to its security and development. Major dividends, however, will surely accrue in due course in the contribution our aid will make in helping these people to shape a society based on principles the Free World can accept.

A look at the map tells us that Laos is wedged in as a buffer between the Free and Communist Worlds. Bordering the country on the north and east are Communist China and the Communist satellite, North Vietnam. While its other immediate neighbors--Cambodia, South Vietnam, Burma and Thailand--are among the world's free nations, the pressure of Communism on them is also intense. Together with Laos, these countries hold the key to all of Southeast Asia, including Malaya, Singapore and Indonesia. In this region live many millions of people. Here, also, are a number of critical raw materials, the greater part of which for many years have found markets in the Free World, with an important share entering the American economy. If Laos were lost to Communism, not only all of Southeast Asia would be placed in serious jeopardy but also South Asia as well.

It is in this setting that the American program of assistance--an antidote to Communism--is being administered.*

FRAMEWORK OF OPERATIONS

The American operation in Laos, aside from being influenced by forces operating beyond the borders of the country, is also conditioned by a complex of internal factors--social, political and economic. Here are a few thoughts to be kept in mind in this general respect.

Environment: Laos is in the tropics, between the 15th and 25th parallels north of the equator. It covers about 91,000 square miles, or nearly the size

* For specifics of the USOM program, see Appendix "B".

of the State of Oregon. It is located inland and is completely isolated geographically from the Western World. Access to the sea is mainly by way of Bangkok, Thailand, although limited use is also made of exit routes via Saigon and Tourane in South Vietnam. Use of these Vietnamese port facilities should increase in the wake of intransit agreements concluded in June 1959 between Laos and Vietnam. Upon completion of the Port of Sihanoukvi and the signing of the necessary commercial accords, Laos will also have access to this new Cambodian port.

Laos enjoys a long frontage on the Mekong, one of the world's great rivers. The value of this waterway and its tributaries, however, is severely restricted by natural obstructions. Its use as a source of power and for irrigation is yet to be tapped, although its potential in these respects is great. An initial project for the regional development of this capital resource is now under way.

Laos is a matrix of highlands, plateaus and plains. The highlands are in the north and cover a substantial part of the land area of Laos. They are generally infertile. Their crests range around 5,000 feet, with one peak rising to 9,200 feet. The slopes are forested. Slash-and-burn subsistence agriculture is practiced here by tribal people. In the north-central part of the country are the relatively unproductive Xieng Khouang and Sam Neua plateaus whose average elevation is about 4,000 feet. Much of the rolling terrain of these regions is covered with high grass and pine. In the south is the Bolovens plateau, whose soil is probably the best in Laos. Here is where the French once experimented with small plantations of coffee, rubber, tea and fruits. More recently, the Japanese and also the Nationalist

Chinese have evidenced serious interest in the economic possibilities of the region. Finally, there are the plains, mainly along the Mekong and its tributaries, where most of the country's staple food crop of glutinous rice is grown.

Climate: Seasons are well-defined in Laos. Generally, from November to February a movement of cool dry air from the continent passes across the country, followed by a hot dry period which continues usually through May and often into early June. During these two periods the average monthly rainfall is about half an inch, with showers on an average of only 2 days a month. April is the hottest month, with an average maximum of 93°F and an average minimum of 72.5°F. Beginning in late May or June, the winds shift, moving in from the sea and carrying with them heavy rains. These generally last through October, averaging between 11 and 12 inches per month. When the rains come, most of the people turn to their small plots with their buffalo, readying them for rice planting. During this season a number of the roads throughout the country become impassable, thus cutting off the major link of communication and exchange among the people. The rainy season also marks the end of any real progress on road construction throughout Laos.

Main Centers: The major economic communities of Laos are Vientiane, Pakse, Savannakhet, Thakhek and Luang Prabang, the seat of the Royal family. Other towns throughout the country, including the remaining provincial capitals, are undeveloped and sparsely populated. For a good part of the year, i.e., during the rainy season, many of the country's towns and villages may be isolated.

Vientiane - This city is the political capital of the Kingdom and the administrative and economic center of the nation. Latest estimates place the city's population (including the suburbs) at from 45,000 to 80,000.

Vientiane is located on the Mekong River. It is serviced by an airport capable of accommodating international flights and a river port (Thadeua) with ample dock and ferry facilities (constructed with American aid) for importations, via Bangkok, Thailand. Thadeua is the largest single port of entry for Laos.

The metropolitan area of Vientiane is the center of what little industry there is in Laos. There are reportedly over 300 small industries and businesses scattered about the city or its environs. The principal ones are charcoal plants, brick kilns, sawmills, carpentry shops and rice mills; also, printing shops, ice plants, hotels, movie houses, aviation companies, weaving shops and a cigarette factory. There are several open markets in Vientiane. A high percentage of the vegetables sold here are brought in daily across the Mekong from Thailand.

Vientiane serves as a center for the export of limited quantities of cattle, mainly to Thailand. The stock involved are buffalo, beef cattle and hogs.

Vientiane has grown considerably during the past few years. Much of this is attributable to the American and other aid programs. Currently USOM emphasis is in the rural districts of the country.

About 280 new structures were put up in Vientiane in 1957, about 170 in 1958, and about 40 in the first half of 1959. Eighty per cent of these are of wood and bamboo-and-thatch, constructed in a style which has not changed

in centuries by family and friends out of materials that are largely free; the remainder are hotels, offices and the more substantial homes. It is estimated that the value of all construction did not exceed \$1 million (U.S.) in 1957, perhaps as much as one-half million dollars in 1958, and about \$150,000 through June 1959.

Living conveniences in the city and its environs are limited. There is inadequate city water supply, and only the most rudimentary inter-provincial communications system. The city has open sewers. Not more than one-fifth of the houses in Vientiane have limited electrical services, and only a very few have electrical appliances of any sort. Most homes are illuminated by candle. Kerosene is imported in large quantities for lighting both in the homes and shops. About a tenth of the homes (mostly rented to foreigners) have limited and uncertain indoor plumbing. There are only 50 miles of paved road in the city. Some of the roads which connect with other towns and villages are impassable during the rainy season. There are camps scattered throughout the city which accommodate a sizable number of refugees from North Vietnam, perhaps as many as 15,000. To date, there has been practically no expenditure of public funds on new housing.

The cost of living in Vientiane is quite high relative to average income. It is estimated that the wages for laborers range from 50 to 80 kip a day. (80 kip = \$1). A few Vientiane stores are fairly well-stocked with imported items, such as canned foods, household materials, drugs and sundries. Most of this merchandise is sold to the foreign community and the small Lao upper class group.

Pakse - This city is located on the Mekong River near the frontiers of Thailand, Cambodia and Vietnam. It is in the heart of the Bolovens Plateau. The chief occupation of the people is farming. Pakse can be reached in about 2 hours by plane from Vientiane. The population of Pakse and suburbs is estimated

to range from about 6,000 to 10,000.

The economic condition of the city, by Lao standards, is relatively good. The few main roads within the city are fairly well-paved. Outgoing arteries into the province are in need of repair and extension in order to facilitate movement of goods and people to and from the markets. This is particularly important since Pakse is the center through which rice is regularly supplied to the provinces of Vientiane, Thakhek and Savannakhet. Pakse is also the market through which livestock is exported to Cambodia and Vietnam.

Pakse has two ports of entry on the Makong River, one at Vang Tao and the other at Kinak. Imports from Thailand come in through Vang Tao, while Kinak receives goods from Cambodia and Vietnam. Prior to Monetary Reform, the value of total imports was quite high and the Customs offices there collected an estimated 4 million kip per month. Since devaluation, however, they have collected about 1 million kip per month. Principal items imported include gasoline, oil, cement, salt, flour, milk, spare parts for cars, sheet iron and household articles. The limited exports, in addition to cattle, include unginning cotton, red pepper, coffee, soybeans and dried hides. The overall value of imports into Pakse is about 20 times the value of exports.

Savannakhet - Total population of this city and its environs, which is near the frontiers of Thailand and Vietnam, is placed at from 7,000 to 10,000. This community has several small lumber mills and a tannery for cow and buffalo hides; also limited hotel facilities, movie houses and a number of small restaurants. The central market is too small to serve the population, with the result that most of the merchants have now opened their own little places of business just outside the market area.

The Savannakhet province has long been a principal supplier of cattle. It is estimated that there are at present 90,000 buffalos, 70,000 cows, 1,000 horses

and 100,000 hogs throughout this area. Cattle are exported to Saigon, Thailand and Hongkong. The province does not produce enough rice to feed itself, because of floods. About one-third of its rice requirement is obtained from Thailand or from other Lao provinces.

There are thousands of acres of virgin forest in the province; also evidence of mineral deposits, mainly of iron and gypsum.

Savannakhet has about 50 miles of asphalt roads and some 35 miles of unimproved roads. This city also has three ports of entry: one is located in the town proper, one in Seno, about 20 miles from town, and one third in Chipon. The last-named is south of the town and is largely used for Cambodian trade.

Thakhek - This city is located in central Laos, about one and a half hours from Vientiane by plane. The city has a small airstrip which can accommodate only light planes. Population is estimated at from 4,000 to 7,000.

Thakhek is located on the Mekong, opposite the Thai city of Nakhorn Panom. The majority of the people earn their livelihood from farming, fishing, weaving and trading. There are a few wells in the city, most of the water being obtained from the Mekong. A small power plant supplies slightly over half the population with electricity. There is one hotel which is partly owned by the provincial government. Industries are few. There is a tannery for cow and buffalo hides exported to Saigon, an ice plant and two lumber mills. There are also a couple of movie houses, a few small textile shops (which produce for local consumption only), and a number of shops which cater to the general living requirements of the populace.

It is interesting to note that Thakhek usually must import from Thailand about a third of the amount of rice needed for the city and the province of which it is the capital. The cost of living in Thakhek is somewhat lower than in Vientiane, especially for pork, beefsteak, fish and vegetables. The price of canned food, however, is higher than in Vientiane.

Thakhek is a river-port city. Imports include textiles, canned foods, salt and bicycles. Exports include mainly buffaloes, beef cattle and hogs. The volume of imports exceeds exports by a ratio of about 20 to 1.

With respect to the above four cities, which are also the capitals of their respective provinces, a few general observations are in order. There are, for example, deficits in the public budgets of all of them, and there are deficits in the balance of trade at each of the ports which service these cities. These individual deficits are reflections of the hard fact that the whole Lao economy operates at a deficit and that the provinces are unable to produce enough to maintain even their present very low standards of living. Furthermore, in none of these centers are the city services at even a minimum level of adequacy. Except for some administrative direction, each city is typified by the scarcity of the services it performs for its citizens. Each of the four cities has one hospital at the present time. A second hospital is nearing completion in Vientiane. The only other cities in Laos with one hospital are Luang Prabang and Xieng Khouang. There are 87 dispensaries throughout Laos, 51 of which are in the four cities under reference. All of these communities have open sewers and none has a municipal water supply; furthermore, not one of them has more than the most rudimentary fire-fighting organization. Electric power facilities of each are small, uncertain and insufficient.

Although Vientiane, Thakhek, Pakse and Savannakhet are the economic centers of Laos, they are deficient in real capital (plant, equipment, and housing). Furthermore, the flow of monetary savings available for investment into these facilities is inadequate. Those existing at the present time are meager indeed. Except for a very few wealthy families in each of these cities, the accumulated capital of the Lao population consists mainly of a little livestock, a little light equipment, some crude ornaments of precious metal, and housing that ranges from simple to primitive.

Each of the four cities under review is a rather important river port as well as a marketing center for their respective provinces. Yet each is faced with a severe problem of transport. In each instance the problem of marketing local products involves the problem of overcoming space. Laos is a difficult terrain with a small population and few cities. The distance from farm to the city markets is in each case an obstacle of major proportions, especially during the rainy season. Moreover, the geographic position of Laos poses the problem of transporting her products to foreign markets at costs low enough to permit profitable sale. This is true in Vientiane; it is equally true in the other three centers. While the transport of non-perishable goods poses a difficult problem, that of perishable goods is even more severe. As for the Mekong River, it is navigable only in parts and at certain periods of the year. Air transport, of course, is much too expensive for the kind of products Laos offers for export.

In all of these cities the housing problem is enormous. The population of each is divided into classes of different economic status and, accordingly, there are differing housing needs. Overcrowding in these cities is not merely a question of insufficient housing space; it rises in part from traditional Lao social customs, the most important of which is the tendency for the family to include more than the parents and children. According to one Lao source, nearly 20 per cent of the urban families live in family units of seven or more members. In Vientiane, the housing problem is aggravated by the influx of a large number of refugees from North Vietnam.

In three of the four cities (except Vientiane), it is estimated that some 80 per cent of the people are absorbed in agricultural activities, 10 per cent in small industry and handicrafts, and the remaining 10 per cent in administration, commerce, transport, domestic services and religion. In the

surroundings of Vientiane, the approximate ratios are: agriculture 65 per cent; industry, business and handicrafts 20 per cent; and administration, commerce, transport, domestic services and religion about 15 per cent. A number of women and children between 10 and 14 years of age are also part of the Lao work force, particularly in agriculture and handicrafts.

The level of technical competence of the Lao labor force in each of these main cities must be improved. There is practically no skilled Lao labor, while on the other hand, the unskilled is composed almost entirely of Lao. Also in the more modern commercial sector of the economy, and in technical and professional personnel, the number of Lao is small at the present time. The few handicraft workers are usually paid by standards determined by the employer, depending on demand and supply in the market and the profit margin of the enterprise. Skilled workers, of course, enjoy much higher wages.

Political Framework: Laos is a constitutional monarchy. The King of Laos, Sisavang Vong,* ascended the throne of the Kingdom of Luang Prabang in 1904. He was a direct descendant of the thousand-year-old Khoun Lo dynasty of South China. King Sisavang Vang was crowned in 1905. His reign is therefore longer than that of any other living monarch. His Majesty was deposed by a provisional assembly in October 1945, but was reinstated--as King of all Laos--when the provisional government was driven into exile in Thailand in May 1946. The Crown Prince, Savang Vatthana, is very active in affairs of state and has represented his father on many

* His Majesty passed away in October 1959. He was succeeded by his son, Crown Prince Savang Vatthana.

occasions.

The present Government describes itself as neutral in the East-West struggle. Nevertheless, the Government has expressed itself on many occasions as being sympathetic to the side of the Free World. It does not maintain diplomatic relations with any Communist country. Diplomatic representation is limited at the moment to only a few countries, due to the lack of qualified persons for such assignments and the costs of such representations.

Laos is a member of the United Nations. It also holds membership in UNESCO, FAO and WHO, as well as in the Universal Postal Union, the International Civil Aviation Organization, the International Telecommunications Union and the World Meteorological Organization. Laos also is a member of the Colombo Plan and, in due course, expects to associate itself with other agencies, such as the International Monetary Fund and World Bank. It is not a member of SEATO, although it enjoys the protection of this regional organization which has assumed important responsibilities for the maintenance of the political integrity of Southeast Asian countries.

The Royal Kingdom is divided into 12 provinces, each with its own governor and local officials. The provinces are not yet effectively integrated into a strong national unit, due mainly to the woeful inadequacy of transport and communications facilities, as well as ethnic distinctions and lack of common traditions. The political, social and economic implications of this deficiency are well recognized by the Royal Government which, in cooperation with USOM, is giving high priority to remedying this condition at the earliest possible date. Each province is divided into districts and

sub-districts. Only a few of the village and sub-district heads can read or write, although the national government is now providing instruction to overcome this deficiency. Village political organization often follows tribal concepts.

The People: The population of Laos is a heterogenous collection of numerous groups, each with its own distinct characteristics and way of life. There are some fairly well defined ethnic groupings which, in turn, are subdivided into well over 30 tribal units. Together, all of these people total about 1,700,000 to 2,400,000 although some estimates run well above these figures.* Sound estimates are difficult to make primarily because of the isolation of many of the villages and the wide practice of slash-and-burn-and-move-off farming. "If you tell us where the villages are, we'll put them on the map," observed a responsible official of the government recently. The figure generally used for purposes of measurement is 2,000,000. Reasonably accurate census data will not be available until the first national census is taken in 1961.

Nowhere in Laos is there evidence of population pressure on the land. The Lao and the French are completely free to move and re-establish themselves with little concern for restrictions of any sort, including those of land tenure. The movement of other nationals among the provinces is restricted by the central government. In this general connection, it should be added that Indian, Chinese and Vietnamese nationals cannot enjoy the right of real property ownership in Laos.

The majority of Lao are rural people whose lives follow tribal patterns. Customs, culture and language have been heavily influenced over the years by the cultures of India, China and the Khmer. The state religion is

* See Appendix "A" for latest population estimates, by province and principal communities.

Buddhism. A sizable number of tribes are animists.

Over 90 per cent of the people live in some 10,000 small villages, many of which are isolated. A great number of these people are completely uninformed about their national government and, for that matter, of anything outside of their own village. Reasons: mountainous and jungle terrain, absence of communication and transportation facilities and a serious lack of government administrators, technicians and educational institutions.

Ethnic differences are of long standing in Laos. These must be recognized before an understanding of the country is possible. The largest single group of people is the Lao Lum, a branch of the Thai race.* They account for barely over half the population of Laos and are settled in permanent villages, mainly in towns along the rivers. These people are the most socially advanced of the population. The second largest group is the Lao Thenh. These people are believed to be of Indonesian origin. The majority of them are settled in the small clearings on the mountain flanks. They are commonly referred to as the "kha", meaning slave, because for centuries they were subjugated by all other groups in the region. There are quite a number of tribal units that make up the Lao Thenh, such as the Oi, Xu and Lavel. A third branch of the Lao population is the Lao Xung, a general grouping which includes such tribal units as the Meo, Lolo and Yao. Although of Chinese origin, these people have over the years developed close ties especially with the Lao Thenh. Like

* While the expression "Thai" identifies citizens of Thailand, it also applies to an ethnic group which does not include all citizens of that country. Thus, it includes, for example, the "Thai" of Thailand, the Lao of upper Thailand; the Lao Lum, and also the Shan of Burma.

the latter, the Lao Xung live in the highlands. Their chief occupation is subsistence hunting and the farming of such staples as maize and rice. They also cultivate poppy fields of opium.

In addition to the foregoing groups, there are important minorities, mostly in the cities: Chinese, engaged in the main population centers as merchants and traders, restaurant-keepers and semi-skilled workers; Vietnamese, who pursue such occupations as tailoring, barbering, etc.; and small groups such as Indians who are primarily vendors of imported fabrics; also the Thai, who are mainly small merchants or in the general worker class. Then there are the Filipinos, 182 of them at the present time of whom a number are employed by USOM, USIS and Operation Brotherhood (a program of key value sponsored by the Philippine and Lao Junior Chambers of Commerce under which over 50 Filipino personnel, divided into nine teams, provide medical facilities in remote areas of the country); the remainder are in private employment. It might be added here that the 41 Filipinos now with USOM occupy positions as engineers, automotive and diesel mechanics, electricians, accountants and clerks. They were recruited in the Philippines for service in Laos. Their contribution continues to be of high order, particularly in imparting to the Lao technical knowledge and skill about electricity, engineering, plumbing, masonry, painting and carpentry. In addition, there is a French colony of about 6,500, mostly government officials, technicians, teachers, business men and missionaries; and a group of some 500 Americans, all but 70 of whom are in the employ of the United States Government. In addition to all these, there is a scattering of other nationalities who are either

engaged in business here or are representatives of international government agencies.

History: The story of Laos, as well as that of American participation in the country, is enmeshed in that of the politically strategic and economically valuable Indochina peninsula. The interest of nations that have sought to establish a hegemony over the area has been primarily in the peninsula, with involvement in Laos always incidental thereto.

Earliest references to Laos date back to the 11th century, when the Lao first began to move down from Yunnan in South China. The major exodus from this Chinese province, however, did not really begin until the 13th century under pressure of Mongol hordes. These emigrés formed petty states in Upper Thailand and along the Mekong. In 1353, a number of them joined to form the "Kingdom of the Million Elephants." Its leader, Fa Ngum, is credited with introducing numerous Khmer bonzes and men of wisdom in the area of Luang Prabang (now the Royal capital). His purpose was to revitalize Buddhist culture, originally introduced years before by the Dhmers (who formerly ruled over all territory from Luang Prabang south to the region now comprising South Vietnam, and west to the territory that today makes up Thailand).

Luang Prabang continued as the national center of the Kingdom until 1563 when, following its capture by the Burmese, the capital was moved to Vientiane. This location had the advantage of promoting closer relationships with the people of Thailand, to whom the Lao looked for protection against the Burmese.

Events moved slowly in the area now known as Laos until about the middle of the 19th century, when the Thai succeeded in establishing suzerainty over Lao principalities. They were followed by the British

and French, with the latter's claim to the territory comprising Laos firmly established by the turn of the present century.

The French, understandably, were able to invest relatively little capital in Laos. This country was, and remains, the most inaccessible portion of Indochina and the French were more concerned with other parts of the peninsula. Nevertheless, the French can be proud of what they did accomplish, especially in the field of education and road construction (which was later destroyed in the Indochinese conflict).

The outbreak of World War II found the Japanese using the region as a vital base for carrying on their war against the Allies. In the battle of the peninsula, nationalistic movements, although limited in character, were given encouragement by both the Japanese and the French. As the war began to favor the Allies, the French position improved. With the capitulation of the Japanese in 1945, a new chapter opened for the region of Indochina.

Although the French, with the aid of British occupation forces, succeeded in re-establishing civil administration in southern Indochina, it soon ran into a number of difficulties. In Laos, a demand for independence resulted in the formation of the Lao Issara (Free Laos). France gave Laos the status of a separate political entity in 1946. This was followed by the election of a National Assembly in the closing days of this same year. This body drew up the present constitution, which was promulgated by the King in May 1947. These developments did not satisfy the Lao Issara, which immediately formed a "government" in exile (in Bangkok). Dissension among its leaders (which included a number of currently

prominent Lao leaders) subsequently led to a split in the movement into right and left wings. The latter, headed by Prince Souphanouvong, was closely linked to the Communist-controlled Viet Minh in Vietnam. In 1949, as a result of activities in this respect, Prince Souphanouvong was dismissed from the Lao Issara, which then disbanded and joined in support of the Royal Government of Laos. As for Prince Souphanouvong, he and a number of his followers went to what is now Communist North Vietnam. In December 1952, the North Vietnamese Communists invaded Laos, entrenched themselves in the northeast where (in Sam Neua) Prince Souphanouvong established his Pathet Lao headquarters.

In the months that followed there was no peace in Laos, the Communists having occupied most of Sam Neua and Phong Saly provinces. In October 1953 the Kingdom of Laos was given a status of a fully independent and sovereign state by France; however, it freely affirmed its membership in the French Union. In this period, the young country passed through some sobering experiences with Communism. In July 1954, agreements to end hostilities in Indochina were signed at Geneva. Under their terms, an International Commission was set up to supervise the carrying out of the agreements. The war's end, however, brought only an uneasy peace to Laos. The Lao Government was confronted with the need to find a basis for a political settlement with the Pathet Lao, within the wider setting of world politics. On the local scene, this immediately put the focus on the December 1955 elections. It also underscored, in Washington, D.C., the need to cooperate directly and solidly with the pro-Western leadership in Laos. Faced with this reality, our government in January 1955 replaced

its mission to the Associated States* with separate missions to Laos, Cambodia and Vietnam. It also agreed to furnish military budget and economic support assistance directly to Laos. A small United States Operations Mission (the present USOM) was set up in Vientiane in a tent (which served as both home and office) in a pasture belonging to the Royal Government.

The election of December 1955 was won by the conservatives of the Royal Government, but the challenges and threats in the political field persisted. In the months that followed there were plenty of skirmishes. Not until November 1957 was a "final" agreement reached on the civil and military reintegration of the Pathet Lao into the Kingdom. Under the terms of this accord, the Pathet Lao returned the two provinces of Sam Neua and Phong Saly to Royal jurisdiction, together with the troops, military equipment and civil servants of the Pathet Lao. At the same time, as part of the settlement, two Pathet Lao leaders were taken into the newly-formed Government of National Union as Minister of Planning, Reconstruction and Urbanism, and as Minister of Religion and Fine Arts. The agreement with the Pathet Lao did not spell a full victory for the Royal Government. In fact, the results of the May 1958 elections found the opposition's position considerably strengthened.

In August 1958 a new government was formed with Phoui Sananikone as Prime Minister.** His cabinet did not include any former Pathet Lao

* This operation, based in Saigon, had been established for Laos, Cambodia, and Vietnam under the Mutual Security Act. Even prior thereto, the United States Government had been indirectly operating in the area under a program of assistance, in the form of equipment, supplies and budgetary support, via the French Government, for the war in Indochina.

** Phoui Sananikone was succeeded as Prime Minister in January 1960 by Thao Kou Abhay.

leaders. It was his government, incidentally, which instituted Monetary Reform in October, a move that eliminated many opportunities for corruption. In January 1959 the Prime Minister called the National Assembly into Special Session and asked for full powers. These were granted to him. In February 1959 he formally announced that the obligations of Laos under the terms of the Geneva Agreement had been completely fulfilled. The above actions have set the stage for the days ahead.

Language: One of the difficulties with which the American aid program has to contend is that few American Mission members have any substantial command of the Lao language. This is not unusual, since very few outsiders, including the French, possess this competence. (To be fluent in Lao, it is estimated that several years of intensive study would be required.) The Lao language is closely related to Thai. It is written in script of Indian origin. Incidentally, not all the tribes speak Lao. Each has its own tongue as well as its own customs.

The Lao leadership generally has a background of French education, training and discipline. Only a few speak or understand English. French, of course, is the most useful foreign language in Laos at the present time. It is a second official tongue.

PUBLIC HEALTH

There are virtually no communicable disease statistics available in Laos, except for malaria and, to a lesser extent, yaws. Diseases of the gastro-intestinal tract are the most prevalent in Laos and vie with malaria for both the highest morbidity (proportion of sickness in a locality) and highest mortality rate. Dysentary, both amoebic and bacillary, are common and responsible for serious illness or death among the children

and the very old. Typhoid is common in Laos, and cholera is at times reported. Colds, measles, whooping cough and other sicknesses are quite common. Tuberculosis is found in all parts of Laos and in all age groups.

Smallpox has been a problem in the past but vaccination has practically eliminated it. Here it might be pointed out that there is no difficulty in getting people to take medicine or injections. This fact is important because it will indeed help to reduce the incidence of disease. Yaws was found in the southern part of Laos with an incidence of about 4 per cent of the population. A combined project in which the Ministry of Health, WHO (World Health Organization) and ICA participated, has practically eradicated this disease. Eye infections are found in all of Laos but no estimate of their prevalence is available.

Malaria is one of the most important problems of Laos. Surveys have shown rates as high as 80 per cent among children and its effect is evidenced by its very high prevalence and mortality. Over the past two years, a malaria eradication program has been under way. It is estimated that some 750,000 persons have been protected against the disease as a result of annual spraying campaigns.

Typhus is found but may usually be traced to immigrants from China or North Vietnam. Yellow fever has never been reported in Laos, but the carrier mosquito is present. Rabies is potentially a serious problem because of the large number of stray dogs.

Malnutrition is one of the major health problems in Laos. Beri-beri and pellagra (dietary deficiency diseases) are common. Due to Laos' landlocked position, the people have little food containing iodine and therefore simple goiter is quite common.

Prior to 1945 public health matters were assigned to the Office of the Inspector General of Hygiene and Public Health of Indochina, which had its headquarters in Saigon. This organization had centralized services for administration, laboratories, preventive medicine, medical education, the control of drugs, etc. Unfortunately, none of these facilities were located in Laos. Each of the Associated States, including Laos, had a Director of Health, and under him Provincial Chiefs. All of these positions were filled by Europeans. The few Lao personnel in the picture were assigned to subordinate positions on the staffs of the European officials. With the advent of independence, Laos, therefore, found itself with very limited health facilities and extremely short of trained personnel.

In 1946 the Royal Ministry of Public Health was established in Vientiane. Until recently this ministry relied heavily on French counselors. Today, a good part of the staff is Lao. Limited French personnel are now assigned to military sections of hospitals but give assistance to the ministry wherever possible in connection with its civilian activities.

Each of the provinces has a medical chief with a modicum of training in administration. Six provinces have hospitals, each with room for about 100 patients and with a government physician in charge. The Lao Army shares some of these hospitals. The remaining provinces have infirmaries. Some 80 dispensaries, staffed by government physicians or nurses, serve the large villages throughout the country. The greater part of the population does not have access to medical facilities.

There are at present six hospitals in Laos. One each is located in Vientiane, Luang Prabang, Savannakhet, Pakse, Xieng Khouang and Thakhek. A second small one is now under construction in Vientiane. There are

87 dispensaries in the country, most of which are in the provinces listed above. Approximately 74 physicians, mostly trained in Vietnam or Cambodia, staff all these various medical institutions. The remaining three are in private practice.

Summary of Physicians in Laos, as of December 1958

Lao Physicians trained in Indochina.....	31
Lao Physician trained in France.....	1
Lao Physician trained in Thailand.....	1
Thai Physician.....	1
Japanese Physicians.....	2
French Physicians (Three in private practice; 13 in Army Service).....	16
Filipino Physicians with Operation Brotherhood (1959).....	19
Iranian Physician (on USOM staff).....	1
World Health Organization Physicians.....	2
U.S. Physicians.....	<u>3</u>
Total.....	77

Some 450 Lao "infirmiers" (male and female nurses) are on the payroll of the Royal Government. Their nursing education is very sketchy. Fewer than 12 French nurses are in the Lao Army and other government installations. About 30 Filipino nurses are in the Operation Brotherhood establishments located in eight provinces. There are no known trained Lao dentists, but there are two French dentists and one Filipino dentist in Laos. There are a number of Chinese and Vietnamese dental cabinets of the painless type of the "Ol'e West."

Eighty-seven technicians and four doctors have been sent to Thailand under aid auspices for training in malariology and 20 additional technicians and one doctor are scheduled to go shortly; also, 16 Lao nurses are now taking special work in Bangkok and 14 more will go soon. Other USOM assistance includes one Lao physician who is studying Rural Health in

the United States; two more are scheduled to go this fall. In addition, 10 male nurses are taking a year's course in rural health and sanitation at the Cholbury School in Thailand. Upon their return they will spearhead a program of sanitation and health education in rural areas.

The Nursing School in Vientiane, with advice and commodities from USOM, has been reorganized and recently reopened. A Thai nurse with post-graduate training in the United Kingdom is in charge. Other staff nurses are slated for a brief refresher course in Bangkok.

There are several outside agencies active in medical work in Laos.

These are:

USOM: Operates a program of preventive medicine working in cooperation with the Lao Government. The staff consists of two doctors and one nurse. Plans call for the addition of a sanitarian (public sanitation expert) and a public health educator.

WHO: Its staff includes two physicians. One is a laboratory specialist and the other conducts the campaign against yaws in collaboration with USOM. This year WHO plans to send a Maternal and Child Health team to Laos; also a physician's aide and one or more nurses.

IVS: The IVS team is located at Phon Savanh. It includes a nurse who operates a dispensary with commodities supplied by USOM.*

MEDICO: This private voluntary medical organization is independent of U.S. Government activities. In Laos, it is operated by Dr. Thomas A. Dooley and a team of two hospital corpsmen. They operate a dispensary at Muong Sing on the Laos-China-Burma border.

Operation Brotherhood: Under the aegis of the Philippine and Lao Junior Chambers of Commerce, this organization operates nine teams in eight provinces of Laos. USOM provides commodity support to the medical and health program of Operation Brotherhood. This program, which is entering its third year in Laos, supplies from 50 to 60 trained Filipino personnel. These teams are

* A team of seven American technicians working under contract with International Voluntary Services is conducting a diversified program of community leadership activities for the improvement of health, education, agricultural production, housing and small public works. About 15 young Lao men and women are receiving in-service training by daily association with IVS team members. More than 100 government workers and villagers are also receiving regular English instructions from these young Americans.

engaged in medical activities primarily in remote areas of the country. Located in nine centers, they operate hospitals, out-patient clinics and mobile clinics. They also train Lao nurse aides. From January 1957 through November 1958, they treated a total of 170,614 new cases and 209,547 follow-up cases, for a grand total of 380,161.*

Catholic Missions: There are a few in Laos which offer dispensary services in the communities in which they work. Some of these missions have Western-trained nurses (nuns); others are served by priests who furnish some medical services.

Most of the physicians now in government employ have received their training in medical schools patterned after the French system, in Vietnam or Cambodia. At present, about a dozen Lao students are in medical school in Paris and some 30 at Phnom Penh, Cambodia. These are nearly all on French and Lao Government scholarships and it is expected that they will be employed in the Lao Army.

A small school of medicine has been started in Vientiane under the sponsorship of French army physicians. Twelve students are in the first year and five are in the second year of a projected four-year course of instruction, which is in French. Few midwives in Laos have had formal training, but most of the hospitals have an experienced midwife in charge of deliveries.

EDUCATION

A national education system is a unifying influence in any country, and particularly in an area like Laos which is comprised of so many different tribal groups. As education is developed here and activated in the more remote regions, the schools will have a considerable part in the unification of language, the development of literacy, and in the dissemination of the type of learning which will contribute to the development of improved health, institutions of all kinds and economic welfare.

* Members of Operation Brotherhood teams are fully accepted by villagers and officials. Aside from the medical aspects of their work, they live among the people, imparting knowledge and skills in all fields of endeavor.

Probably less than 10 per cent of the people of Laos are literate.

Although there is compulsory education, this requirement is of little consequence since there are no penalties for non-attendance; moreover, there are not nearly enough schools for either students or the training of teachers. Current estimates place the number of children in the present compulsory age bracket (6-14 years) at over 300,000. Of this number about 100,000 are presently enrolled. There are 1,287 public primary (grades 1-3) and elementary (grades 4-6) schools serving the needs of these children. In addition, there are a number of private and elementary schools authorized by the Lao Government. These include 16 Catholic schools, 3 Chinese schools, 7 French schools, 4 privately-owned schools, and 1 school for children of American government personnel in Vientiane. Enrollment in these schools numbers about 5,000.

The problem of elementary education is complicated by the fact that the country is predominantly rural in character, and that many of the villages are accessible only by ox-cart or on foot, with attendant difficulties during the rainy season. Only 6 of the 12 provinces have public secondary schools to the 10th grade level, and of these only Vientiane has a 13-year Lycee, based on the traditional French system of education. There are also public professional schools at the secondary level in Vientiane. These are for teacher-training, public administration and medicine. Two provinces have vocational schools, with activities in drafting, wood-working, metal-work and auto mechanics. Higher education, i.e., colleges and universities--does not yet exist in Laos. The few professionally-trained people have been educated abroad, mostly in France and Thailand. College-level education in Laos, of course, would be dependent upon the further development of secondary education and the development of college-level institutions. Approximately 400 Lao are now studying at the

college level abroad.

There has been considerable progress in the development of education in Laos. For some time now, the schools have been getting both their leadership and support through the national government which notes that it can develop the schools no faster than funds are available. Perhaps the time is here when the communities should be organized to support the costs of the teacher and the costs of simple school structures, and that these be subsidized by the national budget only in instances of extreme need. This would release national funds for the training of teachers and for the production of textbooks and other educational materials.

Foreign influences and aid to Lao education are substantial. It is understandable why the French have influenced education in Laos as much as they have, and still do. Currently, French aid supplies about 125 teachers and pays their salaries and housing. Most of these teachers work in the upper elementary schools, secondary schools, vocational schools, or in advisory capacity to the Lao Government. French aid also makes contributions in the form of books and materials; it also sponsors and finances the Lycee in Vientiane.

Then there is UNESCO, whose major contribution to date has been a survey of education in Laos. This was started in 1956 and reported in 1957. The present UNESCO staff consists of technicians working on administration, elementary education, technical education, fundamental education and textbook production. UNESCO pays the salaries of these individuals but it does not provide an operating budget to cover project costs. These, as a matter of practice, are underwritten by others, including USOM.

The Colombo Plan is also in the education picture of Laos. It has thus far supplied teachers of English. Then there is the Asia Foundation, which

plans to supply litho duplicating equipment for a pilot textbook project which the Ministry of Education proposes to undertake with the aid of UNESCO and USOM.

As for USOM's own program in education, past efforts have been in the elementary and vocation education fields. Elementary education was stimulated in the rural areas through in-service training, paying teachers' salaries in rural project schools, furnishing hard-to-get materials and equipment, through the training of selected participants in the United States, Thailand, and through observation study community schools in the Philippines. Technical education was supported by USOM with equipment and materials for vocational schools. USOM is also supplying funds for a dormitory at the vocational school in Vientiane. This will make it possible for the school to enroll students from the provinces.

Currently, USOM is actively promoting the advancement of education in Laos through projects, namely, Teacher Education and Education for Rural Development. The prime undertaking of the Teacher Education project is the construction and operation of the Teacher Training School. This is the initial development at a 35,000-acre site which has been set aside for a National Education Center near Vientiane. This center will include model provincial elementary and secondary schools, workshops, laboratories, warehouse facilities, dormitories and utilities installations. The classroom-administration building is now completed. In connection with the Teacher Training School, a four-country Regional English Project is active in the training of Lao instructors for the teaching of English, in the development of materials, and for guiding the first groups of Lao English teachers in their initial assignments.

As for the Education for Rural Development project, this undertaking will give support to the development of education in the rural areas in the Royal Government's plan for (a) building a Rural Education Center for the training of

school workers to go into the remote villages to build and operate schools; (b) assisting in the development of provincial education centers, which will eventually make a model elementary and secondary school available in each province; and (c) increasing the availability of educational materials and the development of school books suitable for use in Laos.

One fundamental problem which must be solved with the growth of literacy is the availability of reading materials in the local language. If directed in the proper channels, such materials can represent a veritable extension of the school system which will reach the adult population. In the absence of such materials, literacy tends to deteriorate or lapse. In this general connection, it should be noted that there are certain possibilities for economic development which would stimulate education and the production of reading materials. The potential for the manufacture of paper and paper products would seem to be considerable here. Paper can be made from both bamboo and from wood cellulose from trees which do not have good qualities for lumber production. At present, paper is being imported from as far away as the Scandinavian peninsula.

AGRICULTURE

Over 90 per cent of the people of Laos are engaged in agriculture, many of them in "rai" farming.* Agriculture is almost wholly pursued on a subsistence basis, with glutinous rice the major commodity produced. Other crops grown include corn, soybeans, peanuts, coffee and tobacco. Sugar cane is cultivated in many parts of the country. It is used in the production of the family

* Rai farming, often referred to as "slash-and-burn" agriculture, is widely practiced in Laos and especially by the mountain people. Trees are burned during the dry season and plantings made just after the first rainfalls in April or May. The consequences of this system are harmful. Thick forests are changed into meager vegetation areas, resulting in erosion, floods, silting of rice fields and drying up of streams.

staple, brown sugar, and for chewing. Other crops include peppers, beans, leafy legumes and a variety of tropical fruits. Coco trees are found near river banks and styrax trees (which produce benzoin), rubber trees, and the special trees on which sticklac is found, exist in some quantity. As for opium, the poppies are grown in two small northern areas of Laos. Some of it may be locally consumed but most of it is illegally exported. Aside from opium, very little of the agricultural production is sold.

Animal production in Laos is also low. Taking agriculture as a unit and including the value of products consumed by the producer at the source, the contribution of this sector (which takes in the majority of the people) to the national product can hardly be much more than a quarter of the total.

Irrigation is one of the greatest needs in Laos. The dams most commonly built here are of mud, sticks, wood and stone. USOM has given technical and financial assistance in the construction of eight small dams and distribution systems in the past year. These are located in six of the 12 provinces, and furnish a domestic water supply for about 3,000 families.

USOM, in cooperation with the Laos Government, has improved a type of glutinous rice which resulted in increased yields, where planted in 1958, by about 25 per cent over the previous year. About 500 tons of this variety were grown in Laos during the past year, and eleven other improved varieties are now being tested in the hope of further improving the grade of this basic commodity.

Sixteen purebred female and 24 male Berkshire pigs were brought from Japan in April 1958 under a USOM project. More than 100 of the pigs from the first litters have been placed in cooperating villages for upgrading local stock. Twenty-one of the imported males have also been placed in villages throughout Laos.

Two poultry stations have been set up by the Lao Government with USOM

assistance for the purpose of upgrading local chickens. About 1,000 breeding birds have been placed with farmers in the provinces. The USOM technician in charge of this project has provided training to Lao veterinary personnel on improved poultry feeding, breeding and incubation practices.

Sixteen Lao agricultural technicians have been sent to Thailand and the Philippines for short-term organized training under USOM sponsorship. Some of these have finished this training and are now working in the Lao Agriculture Services.

Industry and Crafts: This sector is almost completely undeveloped, probably accounting at the present time for not much more than 5 per cent of the national product. It should, however, show definite improvement in the early future as a result of American aid which is bringing about an increase in demand for a variety of items which can be produced locally and profitably. Another positive factor in this picture is Monetary Reform (effected in October 1958), which has helped to improve the investment climate of the country.

In recent months several small new industries have been established for the making of such items as matches, cigarettes and soft drinks. In addition, a number of existing ones are improving and expanding facilities to meet demands. Among these are sawmills producing rough lumber, shops producing rattan and wood furniture and small cement plants; also, charcoal ovens, brick kilns, salt works and sheetmetal shops. The need for additional industries, of course, is increasing rapidly. Opportunities, for instance, exist for the manufacture of farm tools and small hand tools; rice mills; food-processing plants; tanneries; rope making; small boat construction; paper making; small machine and welding shops for the repair of automotive and other types of equipment; also for more cement works (since Laos has unlimited quantities of limestone). Facilities of this kind, and the list could be added to substantially, would help

greatly to save precious foreign exchange, service the civilian economy as well as the military establishment, in addition to providing an opportunity for the employment of indigenous resources, human and material, a justification for the development of infrastructure and also of institutional facilities without which real progress cannot be made.

Helpful in these respects are the arrangements now being made by USOM in cooperation with the Lao Government to have an industrial development survey made to determine the number of existing small industries throughout the country, potential industrial requirements, available raw materials, present imports which could be replaced by local manufactures, and exports which could be increased; also cost estimates and other requirements.

Mining - Although the contribution of this activity to the national product is currently not much more than one per cent, it is expected, to the extent that effective American and French assistance is forthcoming, to play an increasingly more important role in the economy of Laos in the days ahead. At the moment, the principal mineral being produced is tin, the country's main foreign exchange earner. Output of this commodity is already on the rise as a result of the recent installation of modern plant equipment at the SEEMI Tin Mines at Phontiou. Latest information indicates an increase of from 50 to 70 metric tons of tin ore concentrate per month as a direct result of the new equipment which was privately financed but procured under the ICA dollar import program.

There are strong indications of the presence of other mineral resources in Laos. Among these are coal, chemical-grade manganese, gypsum, iron, lead and petroleum.

Coal - Drilling operations have been underway these past months (May and June) under a USOM contract executed with the Royal Thai Department of Mines.

The contract calls for core-drilling operations to determine the extent of the San Padou coal deposit. Samples have been obtained which are now in the process of being analyzed.

Gypsum - Samples of a high grade gypsum and chemical-grade manganese have been obtained through surface prospecting in western Laos, regionally adjacent to developed deposits in north Thailand.

Iron - On the basis of recommendations of a U.S. Bureau of Mines geologist, a contract is being negotiated for an aerial geophysical survey of an indicated iron deposit in western Laos, adjacent to similar geological formations in northern Thailand. Purpose: to determine the extent of the deposit in Laos and to fix sites for initial drilling explorations.

Lead - This mineral is believed to be present in northern provinces of Laos. Samples received by USOM from its field offices have been sent to the Philippine Bureau of Mines for analysis and report.

Petroleum - A French company has a concession from the Lao Government to undertake explorations for petroleum at a site which geologists have found to have encouraging geological structure.

In addition to the above minerals, a search for others is continually under way. For example, the French Economic Aid Mission to Laos supports a continuing survey, during each dry season, of mineral possibilities.

Building and Construction - In the current growth pattern of the country, building and construction now account for about 10 per cent of the national product. In the urban centers a number of new structures are rising, giving some investors a profitable opportunity to employ savings at home, and the people some visual evidence of progress. There is, and there will be for some time to come, a considerable demand for new homes, offices, shops, public

buildings and small industrial plants. The generating force of all of this is primarily American aid.

Forests - This resource is abundantly present in Laos. Forests cover about two-thirds of the country and include rich preserves of teak and other hardwoods and also pine. Very little of these woods is being exploited, due mainly to their inaccessibility. Forest products at present account for not more than 2 per cent of the national product. However, given the growing demand for lumber and the gradual opening up of forest preserves under the program of road-building, it is expected that this indigenous resource will prove its real worth to the country in the not-too-distant future.

USOM gets into this picture through the improvement of methods and equipment for the production of forest products in connection with its forestry project; also through the assistance it is giving in the construction and maintenance of roads.

Transportation and Communications - In the past, the scarcity of these facilities has largely been responsible for the slow development of the country, the low level of exchange of commodities, the material poverty of its people, and its isolation from the outside world. Even at the present time this sector contributes not much more than 3 per cent to the national product.

There are no railways in Laos. The numbers and types of transport vehicles currently in the country are indicated below:

<u>Type of Vehicle</u>	<u>Number</u>
Samlers (bicycle taxis)	5,000
Motor Boats	300
Motor Cycles	958
Trucks	1,350
Automobiles	3,580

(By way of contrast: in 1952 there were only 45 trucks and 48 automobiles in Laos.)

The country now has about 1,800 miles of roads, about half of which are all-weather roads. The balance are usable only during the dry season, mainly because of the lack of bridges which were either destroyed during the war periods or by the elements. About 250 miles of the major roads are black-topped. Most of these, however, require betterment. The most important road, 780 miles long in Laos, begins at Saigon in South Vietnam, crosses Cambodia and runs due north through the main towns of Laos, terminating at the Capital of Luang Prabang. This road and its existing bridges are in fair condition. Three hundred forty miles of this road, running from Thakhek to the southern border, are asphalt-surfaced. Around Vientiane and Luang Prabang are about 155 miles of all-weather passable roads, a few sections of which are black-top surfaced.

The need for linking the thousands of villages throughout the country with each other and with the urban centers, and also the need for opening up the nation's productive centers, is desperate, one fully recognized by the Lao leadership and emphasized by USOM. In cooperation with the latter, and also with the French, the government is now constructing new roads and bridges, repairing and improving existing ones. The tempo of work on the road program is indicated, for example, by the fact that since the rainy season of a year ago, the Lao, with USOM's cooperation, have repaired 500 miles of roadway for dry season use. When required bridges are constructed on these roads and mountain slides eliminated, they will be usable the year around. The magnitude of the overall bridge program is indicated by the fact that recent surveys reveal the need for 952 bridges in seven provinces. About 25 of them are sizable structures, ranging from 150 to 900 feet long.

There are 32 airstrips in Laos, three of which are at airports which serve

international flights. These are at Vientiane, Seno and Pakse. A few of the airstrips can handle craft up to C-47, but the majority can accommodate only small craft. None of the airports is equipped for night landing, and only a few have ground-air communications. All of them, of course, are of fundamental importance to the security and advancement of Laos. Preliminary studies indicate an urgent need for the rehabilitation and improvement of the Vientiane air terminal. In this connection, USOM is moving ahead with plans for the construction of a new runway and drainage systems in the next dry season, and the French will construct a terminal building for this airport. As for the other 31 airstrips throughout the country, USOM, in cooperation with the Lao Government, is making repairs on 12 of them and investigating requirements for the others.

In addition to roads, bridges and airfields, increasing attention is being given to that great natural artery, the Mekong, one of the world's great rivers and an important water-shed of the Himalayas. This river for 600 miles forms an international border for Laos, with several hundred miles more running through the country. Several important tributaries add to its value. Located on the Mekong are the nation's most important cities: Vientiane, Pakse, Savannakhet, Thakhek, and Luang Prabang. Through passage on the Mekong to the sea is impossible because of natural obstructions. It is navigable, however, in parts, such as from Luang Prabang to Vientiane to Savannakhet, but limited to shallow craft during the low water season.

Located about 10 miles outside of Vientiane on the Mekong is Thadeua, where a modern international ferry and ramp facilities have been installed with American aid. This facility links the nation's capital and chief economic center to Nongkhai in Thailand, from which point the Thai Railway

System connects with Bangkok. At Thadeua a terminal customs warehouse was constructed with American aid. Traffic crossings on the ferry in the first five months of this year totalled 9,572 metric tons, carried in 1,915 trucks. Two other Mekong River ferries and ramp facilities are scheduled for installation in 1960-61 at Pakse and Savannakhet. At Pakse, thought is being given to the extension of the railway from Ubol in Thailand to the Mekong, where the ferry would link up with Pakse. Such a development would give Laos a second major link with the port of Bangkok and an outlet for the agricultural crops of the Bolovens.

In connection with transport facilities, mention should also be made of a receiving and forwarding warehouse established with American aid at the Port of Bangkok for handling cargoes destined for Laos from world-wide shippers.

One other important development involving the Mekong and its tributaries is a regional survey of the Mekong River Basin already under way. This project is being sponsored by ECAFE with the United States financing the initial phases of the planning stage. This includes providing the services of an American engineering firm to set up a basic data collection system, training of nationals of benefitting countries in this system, and financing some of the initial equipment needed. Other ECAFE countries are making contributions in the form of services and equipment.

The project is aimed at opening the Mekong River and its tributaries for navigation, irrigation, flood-control and hydroelectric purposes. By its very nature, real dividends from this project will be long in being realized.

One of the major deficiencies in the economy of Laos, with important political and social implications, is the general lack of domestic and

international communication facilities. An adequate network would, of course, be of inestimable value to the commercial community as well as to the government as a link with the provinces and for security purposes. In the entire country, excluding private lines installed by foreign groups, there are only 600 telephones installed by the Lao Government. There is, in addition, a public telecommunications system whose facilities permit the sending of commercial telegrams to the major centers of Laos, as well as cables throughout the world.

A particularly important effort in the field of communications is the Regional Telecommunications Project. This undertaking falls into two parts, namely, (1) the evaluation of the economic feasibility of the project and the preparation of the basic engineering plan; and (2) the actual construction of the telecommunications system. The first phase was completed in 1958 with the drawing up of a fundamental plan by an American engineering firm. The second phase has as its objective the development of telephone and telecommunications systems within Laos. These will link with those of neighboring countries where comparable efforts are under way. An automatic dial telephone system is being installed in Vientiane. French aid is financing the equipment while American aid is underwriting the costs of installation.

A vital communications medium is the press. There are 16 "newspapers", 9 of them in the Lao language, 3 in French, three others with both a French and Lao edition, and one in Chinese. These journals are, with two exceptions, small mimeographed bulletins of two to six sheets which usually are published on a weekly or twice-monthly basis. Most of them are typified by a highly personalized journalism similar to that prevalent in the United States in the

early part of the 19th century. Also, most of the papers are the specific organs of a single political figure or of a political party or organization. The one exception is the LAO PRESSE, which is a semi-official publication of the Royal Government. It is a daily paper and is published in both French and Lao editions.

A brief analysis of these papers follows:

1. "ANAKED" (The Future) is published irregularly in Vientiane by Oun Sananikone, who is both owner and editor. It is said to have a circulation of 5,000. Its political affiliation is with Lao Hom Lao.
2. "KHAM MOUAN" is published bi-monthly in Thakhek by Mouphat Chounramany, a deputy in the National Assembly, and has a reported circulation of 2,500. Its political affiliation is with the Lao Hom Lao, and with the Progressives. It is published in the Lao language only.
3. "LAO HAK SAT" (The Patriotic Lao) is published weekly in Sihom and in Vientiane in the Lao language only. It is owned by Khamphai Boupa, a deputy in the National Assembly and edited by another deputy, Sisana Sisane. Its circulation is reported as 10,000 and its political affiliation is NLHX.
4. "LAO HAKXA SAT" is published weekly in its Lao edition and bi-monthly in its French edition (which incidentally is printed rather than mimeographed). It is published in Vientiane and is owned by the National Defense Protecting Organization (CDNI). Its total circulation is said to be 25,000.
5. "LAO HUAM LAO" is published in Vientiane on a bi-monthly basis by its owner, Ngo Sananikone, a deputy in the National Assembly. Its affiliation is the Lao Hom Lao and circulation is given as 5,000. Its editor, Khamleune Bounngaseng, is a deputy in the National Assembly. Printed in Lao only.
6. "LAO HUAM SAMPHAN" is owned and edited by a National Assembly deputy, Bong Souvannavong. It appears weekly and reports a circulation of 5,000. It is an organ of the National Union party. Printed in Lao language only.
7. "LAO LAN YANG" is published bi-monthly in Vientiane by Pheng Phonsavan, President of the National Assembly and is affiliated with the Lao Hom Lao. It is printed in Lao only.

8. "LAO PRESSE" is published by the Information Service of the Royal Government and is the semi-official government organ. It appears daily in both Lao and French. The Lao edition has a circulation of 2,000 and the French edition 1,600. Its editor is Thao Soukhoum.
9. "MIDTHAHARN" is the paper of the Military Information Service of the National Army of Laos (ANL). It is published weekly in the Lao language and has a reported circulation of 3,000.
10. "PRACHATHIPATAY" is published irregularly in Vientiane by Bouthong Voravong. It is in the Lao language and is affiliated with the Democrat group. The circulation is given as 1,500.
11. "SIENG RAJSADORN" The French Edition is called LA VOIX DU PEUPLE. It is published in Pakse in Lao and in French by Katay D. Sasorith, a deputy in the National Assembly and Vice-President of the Cabinet of the Royal Government.* It is affiliated with the Lao Hom Lao. The circulation of the Lao edition is unknown, but the French edition is said to have a circulation of 2,000. It appears bi-monthly.
12. "TAMRUAJ SAMPHAN" is published weekly in Lao by the Police Department and has a reported circulation of 10,000.
13. "L'INDEPENDENT" is published weekly in Vientiane in the French language only by Phoui Sananikone. The political affiliation is Lao Hom Lao. Its circulation is unknown.
14. "L'AVENIR DU LAOS" is a bi-monthly paper in French only with a stated circulation of 1,500. It is also published by Katay D. Sasorith.*
15. "LAO TRIBUNE DES JEUNES" was published monthly by a National Assembly deputy, Bounlap, in the French language until about a year ago. Its circulation was very limited.
16. A Chinese language paper.

All of these publications have generally been mild in their attitudes on the American aid program and the foreign policy of the United States. The one exception is the Communist-oriented Neo Lao Hak Sat (NLHX) publication.

Trade and Finance - The level of development of this sector is a reflection of the degree of well-being. Where, for example, the level of

* Katay died just prior to the resignation of the Phoui Cabinet.

trade and finance is low, we can be sure that the standard of living of the people is low. This, in fact, has been the picture in Laos where the economy is yet to develop an important surplus of commodities for domestic or international exchange and, accordingly, a capacity for importing. Today, the contribution of this sector to the national product is perhaps running at about 10 per cent of the total, as against about 25 per cent in 1958.

As a result of American aid, the demand for goods and services is slowly on the rise due to an increase in purchasing power. Result: the commercial community is beginning to show signs of growing. Wholesalers, manufacturers' agents, merchants and financial institutions are slowly on the increase. Business associations are taking more active roles. Laos now has a National Chamber of Commerce with regional offices; also an active Junior Chamber of Commerce and a Rotary Club.

The absence of a developed market economy is a good measure of the primitive character of the country. Moving goods from producers to consumers is quite difficult just about everywhere in Laos. Transportation and communication facilities, as already noted, are still very limited and, in most areas of the country, non-existent. Under existing conditions, where consumer demand for goods and services is very limited, the need for such intermediaries as wholesalers, retailers, commission merchants, bankers, transporters and salesmen is understandably not great. The retailers, it should be noted, are mostly small merchants all carrying about the same stock of merchandise. There is little variety in the goods handled and, in fact, outside the principal cities, a good part of their trade is often on a swapping basis with customers.

Prior to Monetary Reform, the number of importers was abnormally high,

as was the volume of imports, due to abuses encouraged particularly by an unrealistic rate of exchange and the poor administration of an import license system. Since October 10, 1958, with Monetary Reform in effect and licensing abolished, the number of "importers" dropped sharply and import volume was brought more in line with the legitimate needs and demands of the economy.

The Government - Measured in terms of national product, the Government of Laos currently plays the major role in the economy, mainly through its purchase of goods and services, including the employment of civil servants and police, and the maintenance of the nation's armed forces. The contribution of this sector to the national product in 1958 was probably 25 per cent. The apparent exaggerated character of this sector is due to the emphasis given to security, in which respect the American aid program is a most significant element. Aside from military assistance, which covers all costs of the Royal Army, American aid also supports the greater part of the Lao police establishment. Here is a summary picture of what USOM is doing in just the field of public safety.

A police academy was opened this past February in Vientiane. In addition, 100 civil police officers have completed training courses in the Philippine Constabulary School. Ten police officers recently completed a one-year course in Radio Maintenance at the Police Radio School at Korat, Thailand. Approximately 70 other Lao police officers will be sent this year to the well-known British Police Training schools at Singapore, Kuala Lumpur and Hong Kong for specialized training. Three Lao police officers have already completed this course which is jointly financed by our government and the British. Other Lao police officers will go to Vietnam and the United States this year for training. The Lao Police, with USOM assistance, has also estab-

lished a comprehensive and efficient radio network of 33 police radio stations throughout the country, and plans have been developed to establish nine more this year.

International Payments - To get a balanced picture of the economy of Laos, it is necessary to examine not only the domestic situation, but also the picture of the country's economic relationships with the outside world.

Laos exports few commodities. Their recorded value is under \$2 million. The most important of these is tin, which usually accounts for about half of the foreign exchange earned each year by the Royal Government. Other exports include benzoin, coffee, cardamon, sticklac, wood and wood-products, hides and skins and unginmed cotton. Opium is exported illegally. As for imports, this country depends heavily on the outside world for such items as processed foods, including beverages, chemical products, textiles and clothing, metal products, transport equipment and parts; also mineral products, vegetables and fruits (mainly from Thailand). The import volume officially recorded reached \$35 million before the Monetary Reform and now has fallen to an \$18 million yearly level.

Data on the international trade and payments of Laos are not very reliable. One fact is certain, namely, that the gap between the value of exports and imports is very great. A second fact is that the trade deficit reported before the Monetary Reform in the amount of approximately \$34 million (in U.S. equivalent), in 1947 and \$25 million in 1958 in no way reflected imports which actually had been received. A large part of this deficit, in fact, represented foreign exchange import licenses obtained at the attractive pre-Monetary Reform rate of 35 to 1, but not fully used for import of commodities. With Monetary reform in effect, we can now expect this trade gap to narrow considerably. Reasons: adoption of a more realistic exchange rate of 80 to 1; elimination of

foreign exchange allocations and licensing; and the institution under Monetary Reform of a free and competitive economy which rid the country of abuses in trade practices and speculative operations, bringing imports more in line with legitimate requirements of the economy, i.e., currently at about the level of \$18 million. One further observation should be made here with respect to this trade gap. Exports, with the institution of Monetary Reform, are expected to increase greatly, perhaps as much as 50 per cent over 1957. This does not take into consideration the strong possibilities that export volume should be on the rise in the days ahead as a result of the emphasis currently being given by the government to the exploration and development of the country's natural resources and the creation of new local industries as well as the expansion of existing ones.

To the foregoing picture must be added the "invisibles" in the payment picture. At the present stage of the country's development, debit invisibles are sizable due to such factors as capital flight, which relates itself to the economic and political instability of the country. This same condition lessens the attractiveness of the country to domestic and foreign investors.

MONETARY SYSTEM

The national currency of Laos is the kip. This unit is not defined in terms of a metal content. It is a paper currency whose value is pegged by decree (a) to the American dollar at the official rate of 80 kip to 1 U.S. dollar, and (b) to the French franc at the official rate of 6.1713 francs to 1 kip. The National Bank of Laos and authorized institutions may freely buy and sell U.S. dollars against kip in cash at the above rate of 80 to 1. The National Bank may also freely sell French francs, but it may only buy under specified conditions from the French Treasury at the above rate. All other

authorized institutions may freely purchase and sell any foreign currency at rates determined by supply and demand.

Due to the primitive character of the economy, transactions outside the several urban centers are not monetized. In this connection, wages paid the Lao Army, the National Police and the many day laborers under the American aid program, are contributing importantly to the monetization of the economy. The use of checks throughout the country is very limited, most transactions being settled on a barter basis or in cash. This is reflected in the money supply of the country which showed notes in circulation totalling 1.6 million kip on April 30, 1959, or about 84 per cent of the total.

All kip currency is issued by the National Bank of Laos. The law requires a legal reserve of 30 per cent in foreign exchange or gold against all currency issued. Most of this reserve is held in dollars in depositories in the United States. On April 30 of this year the reserve against this institution's note and demand deposit liabilities was about 95 per cent, or about 3 times that required by law. Such a high coverage is required to maintain confidence in the currency, since its value rests almost wholly upon the government's capacity to redeem kip freely into dollars, as provided for in the law. In other words, the present political and economic climate of Laos cannot fully support or justify a free convertibility rate of 80 kip to the dollar.

On October 10, 1958, Monetary Reform was instituted by the Royal Government. Objectives were: (1) to eliminate corruption and exploitation which resulted from disparities between the official rate of 35 to 1 and open market rates, mainly in Bangkok and Hongkong, of over 100 to 1; (2) to create conditions which would increase the benefits of the American aid program; (3) to establish a parity of purchasing power for the kip with foreign currencies,

in order to give greater value to the kip in foreign markets (as a result of the revaluation of the kip this currency is no longer unfavorably discounted in terms of other currencies); (4) to help in the promotion of an investment climate (regarded as indispensable to the development of real resources and exports of Laos); (5) to check capital flight and excessive drawdowns on the government's foreign capital flight and excessive drawdowns on the government's foreign exchange reserves; (6) to create conditions essential to the political stability of the country; and (7) to bring about a stabilization of the price structure by allowing the forces of supply and demand to operate freely throughout the economy.

There are good indications to date that most of these objectives have been substantially attained. These benefits have put the economy of Laos on a more solid foundation and on a basis which should permit the Lao people to move forward. This is not to discount the fact, however, that some of the effects of Monetary Reform have created additional problems for the Lao Government. Among other things, it resulted in the immediate withdrawal of the major portion of commercial bank deposits these institutions maintained with the Royal Treasury and which the latter used as current operating funds. Free convertibility gave the commercial banks an opportunity to convert such holdings into dollars, which were preferred over kip, and to invest such funds at a higher rate than the one per cent per annum paid by the Lao Treasury. There was also a substantial drop in imports which, in turn, resulted in a sharp decline in customs receipts. The latter, in the past, accounted for upwards of 70 per cent of government receipts. Furthermore, public expenditures abroad have increased in terms of kip.

Reference to Monetary Reform and its effects also puts the focus on

the dollar reserve position of the Royal Government. These reserves (net), on the date Monetary Reform was effected, stood at nearly \$30 million. As of May 31, 1959, the net position dropped to nearly \$20 million. The drawdown for all purposes is currently averaging less than \$2 million a month. Dollar additions to these reserves accrue mainly under American aid.

Laos has never issued any silver coins. However, native traders, particularly producers of opium and benzoin, require payment in silver coins or silver bars. Silversmiths also use coins and bars in their handicraft to make bowls for ceremonies, belts for women, and other items of adornment. Silver coins seen in Laos are French Indochinese piasters, in denominations of 50-20-10 centime pieces, and Chinese coins. The silver bars currently sell for 800-1,400 kip, depending on the weight of the bar and the purity of the silver. No information is available on the quantity of silver coins or bars in the country. Most of the latter are said to be smuggled into the country from Thailand or China. The coins apparently pass from hand-to-hand in trade.

FINANCIAL AND CREDIT INSTITUTIONS

There are only a few financial institutions in Laos. These are inadequate to meet the expanding requirements of the economy of the country. Structurally, these institutions include only five commercial banks and Credit National Lao, an industrial-type bank, and a national bank. There are no insurance companies, although agencies representing a number of foreign companies service needs in the various specialized fields.

The oldest banking institution in Laos, Banque de l'Indochine, dates back to 1953. It is a French institution. The other four commercial banks opened their doors during the last two years. The National Bank of Laos was established in January 1955. Credit National Lao was created by the government

in October 1956. The growth of these institutions, given the stage of the economy's development, has been impressive. In 1953, there was only one bank. It performed all commercial and central banking functions, with exclusively French and Vietnamese personnel. Today, there is the complex indicated above, with a good portion of the second echelon personnel being Lao nationals. These institutions now link the economy of Laos with the outside world. A sign of this growth is reflected in the fact that several large American banks are now competing actively for correspondent and depository ties with these institutions.

Owing to the political instability of the country, the banks have tended to follow the practice of maintaining a high liquidity position. Their financing has been restricted to short-term loans mostly for the financing of imports. Due to this practice the government felt it necessary to create the Credit National Lao, an agency intended to assist in the promotion and development of various industrial and agricultural projects which would be of benefit to the economy of the country. This institution has the authority to make medium and long-term loans to commercial, industrial and agricultural enterprises at reasonable interest rates.

Commercial Banks - All five institutions are located in Vientiane, with one bank operating a branch in Pakse and Savannakhet. The banks are as follows:

	<u>Date Established</u>
Banque de l'Indochine.....	1953
Banque Lao-Vieng.....	1956
Bank of Tokyo, Ltd.....	1957
Banque Lao-Thai.....	1957
Lao Commercial Bank.....	1957

Operations of commercial banks* of Laos are subject to the Commercial Banking Act, enacted in March 1956. This law invests the General Council of the National

*Individual statements of condition of these institutions are treated as "confidential" and therefore are not available for publication. In December 1958, their aggregate resources totalled 876.4 million kip; cash and due from banks and correspondents, 281 million kip; loans and discounts, 166.2 million kip; and deposits, 311.5 million kip.

Bank of Laos with broad powers to assure the proper observance of the provisions of the Act.

Under the Banking Act, commercial banks are permitted to perform all the customary services of their specialization, provided their operations are compatible with the laws of the Kingdom. Notwithstanding this broad authority, the services of these institutions are mostly utilized by importers and exporters. Only a few individuals and businesses make use of either the checking or savings facilities of these institutions. On the lending side of their operations, these banks do not extend medium or long-term credits. Most of their lending, as already noted, is in the form of self-liquidating short-term loans, and these primarily are for the financing of imports.

The National Bank of Laos - This Bank was created in January 1955 to replace the former Institute of Issue which was dissolved the previous month under an agreement signed by Laos, Cambodia, Vietnam and France at Paris in December 1954. Actually, the National Bank does more than just replace the Institute of Issue since it has the usual powers and attributes of a central bank. The Institute, on the other hand, was essentially an organism charged with furnishing currency and also making advances to the State.

The major powers of the National Bank include the exclusive issue of currency, control of credit, the supervision and control of commercial banks, and the making of loans for production and processing. It also acts as fiscal agent of the Royal Government.

The National Bank is required to hold 10 percent of the legal reserves of the country's commercial banks*. Furthermore, it has the authority to fix the prevailing

*Commercial banks are currently required to maintain a legal reserve of 15 percent against all their demand deposits. Ten percent of this total must be kept with the National Bank and five percent with the Royal Treasury. The upper limit on legal reserve requirements is fixed by law at 50 percent.

discount rate as well as to limit the volume of loans (commercial and certain others) that can be made by commercial banks. These powers are the principal means at the disposal of the National Bank to exercise its authority to control the volume of credit in the country. To date, very little use has been made of this authority. Up to the present time, in fact, the National Bank has not even discounted or rediscounted any commercial paper, nor has it granted any loans for production or for processing.

The Banking Act confers on the National Bank the right to conduct periodic inspection of the records of the nation's banking institutions. It also has the power of authorization of new banks and new branches or agencies of existing banks. The National Bank to date has obtained few reports from the commercial banks on their activities and has made little use of the reports thus far received. Among the drawbacks is the serious lack of trained personnel. To help this institution overcome some of these difficulties, French advisors have been working with the directorate. USOM also has assigned a Banking Advisor to it. Since December 1957, he has concentrated on, among other things, training of personnel and the introduction of modern procedures.

The National Bank maintains the general account of the National Treasury. It is authorized to make temporary advances to the latter. The total amount of such advances, however, cannot exceed 25 percent of all types of receipts acquired for the account of ordinary, extraordinary or annexed (includes foreign aid) budgets during the preceding year. Any such loans outstanding at the end of five years are to be replaced with interest-bearing negotiable Lao Treasury bonds bearing maturities of three months but subject to renewal for additional three-month periods. As of May 31, 1959, the balance of temporary advances to the Royal Treasury was 138.3 million kip. As a result of Monetary Reform, the Lao Government was able to repay from "profits"

accruing from the revaluation of the kip a major portion of its borrowings which previously reached a high of 757.8 million kip.

The Credit National Lao - This is a Lao Government institution. Its purpose is to promote the social and economic development of the country by making available medium and long-term loans to commercial, industrial and agricultural enterprises. It is also authorized to participate directly in the stock ownership of enterprises. Funds used in its operations may be obtained from the sale of its own securities, from international lending agencies, or from funds provided under foreign aid.

Since its inception in 1956, the financing operations of this institution have been greatly hampered by the inadequacy of appropriate legislation defining the rights and obligations of lenders and borrowers, particularly where liens on real and personal property are involved. Entering into this picture also--i.e., the low volume of loans made--have been several other important factors including the lack of qualified personnel and the generally prevailing unfavorable climate for expanding or establishing new enterprises, especially in the pre-Monetary Reform era. One of its very few loans, made in 1957 for 8 million kip, was for the purpose of financing the construction of a cement plant in Thakhek.

While Credit National Lao to date has not played the role expected of it, nevertheless progress has been made which may materially change this picture in the near future. For example, essential legislation on the subject of financing has recently been enacted and business conditions have been stabilized considerably due to Monetary Reform. The Five-Year Plan envisages an active role for Credit National Lao in connection with the financing of projects in all major sectors of the economy.

ELECTRIC POWER

The economic development of Laos has reached the stage where electricity has become a necessity, especially in urban centers, to provide light and power. The

Royal Government, recognizing this fact, is planning to establish a utility company for water and electricity at an early date. This would be a mixed company (capital supplied by government, a commercial company and individuals) with the Royal Government subscribing one-half and the commercial company and individuals supplying the balance of the 10 million kip initially needed. According to present plans, the company would begin operations in six cities: Vientiane, Luang Prabang, Pakse, Savannakhet, Thakhek and Saravane.

Output of any significant quantities of electric power is now limited in Laos to the six cities mentioned above. In addition, the tin mine at Phontiou, operated by SEEMI, has a large electric generating plant fueled with wood. It has an annual production of three million kilowatt hours. An electric power survey of Laos (published in June 1958), financed by ICA and conducted by a team of American experts, estimated that the six cities have a yearly need of 10 million kilowatt hours, ranging from Vientiane's yearly requirement of nearly 7.6 million to Saravane's 94 thousand. Last year, according to these experts, the combined yearly output of these communities was 4.1 million KWH, leaving a total insufficiency of 5.9 million KWH, distributed as follows: Vientiane, 4.8 million; Luang Prabang, 200 thousand; Thakhek, 150 thousand; Savannakhet, 400 thousand; Pakse, 300 thousand; and Saravane, 50 thousand. In the case of Vientiane, the new powerhouse, equipped with 3 generators of 2200 KW and with fuel storage, was installed under the USOM program. Negotiations are in process, under a USOM project, for contracting engineering services to survey and design improvements to the distribution system of Vientiane.

One of the obvious reasons for the disparity between the need for and the output of electrical energy is that the generally old and inadequate power plants used in the six major cities of Laos cannot be economically utilized. This factor is aggravated by the lack of experience and skilled operators.

The survey team of American experts, who conducted the electric power survey referred to above, believed that most of the electricity generated in Laos for some years to come will be powered by diesel engines, unless other sources of fuel are located and developed. Diesel oil, of course, must be imported. According to their report, there are at present insufficient data with respect to the country's hydroelectric potential.

Development Effort - On July 1, 1959, the Royal Government's "Five Year Plan for the Economic and Social Development of Laos" goes into effect. It is not the first effort of the Lao leadership to introduce a rational approach to the development of the country and the advancement of its people. The first attempt came in 1952 when the government (then administering Laos) drafted a five-year program in an effort to come to grips with difficulties common to most developing nations. Project-wise, emphasis in that draft was placed on agricultural production, transport and communications, and government services. The cost of the program was set at 900 million Indochinese piasters. (The currency used in Laos before January 1954 piasters 34.82 equalled \$1 U. S.). The war in Indochina and the resulting confusion throughout the country held up approval of the program by the National Assembly until May 1953. This act, however, was rendered meaningless for a variety of reasons, including the unavailability of domestic resources or of French aid (mainly because of the heavy costs of the Indochina War), administrative difficulties, and national conditions in general. Except for the establishment of the National Planning and Foreign Aid Council in June 1956, substantive progress was slow indeed during this period.

Not until the latter part of 1958 was the government's development project reactivated. In August of that year a formal program was published by the Royal Government. At this point, other problems of national concern took the spotlight

away from any active consideration of the Plan. The Phoui Government, however, did not lose interest in this document. Over the next few weeks the August draft was re-examined, a few changes made in it, and then republished on a limited distribution basis under a September 1958 dateline. At this point, the Plan once again got sidetracked by more pressing national problems, including that of Monetary Reform, a Royal Treasury financial dilemma, and a political crisis which finally was broken on January 14, 1959, when the Prime Minister obtained special powers to govern by decree for one year. It was April 4, 1959, before any further public reference was made to the project. This came in the form of a Presidential Decree promulgating the Five-Year Plan, which had been approved by Royal Ordinance dated March 19, 1959.

The principles on which the Plan is based may be summarized as follows:

- (a) To provide effective and equitable distribution of foodstuffs throughout Laos so that the people are assured of a proper diet;
- (b) To promote and develop those industries for which raw materials are available locally and which are necessary to the economic and human development of the country;
- (c) To increase the production of goods for export in order to improve the country's balance of payments;
- (d) To develop facilities necessary for the desired circulation of goods, people, and ideas throughout the country;
- (e) To promote the general well-being of the people through improvement and expansion of educational and public health programs; and
- (f) To undertake studies in areas necessary to the development of indigenous natural resources of the country, e.g., mining, hydroelectric power, etc.

If the Plan is to be kept in correct perspective, the major assumptions on which it apparently rests must also be borne in mind. These would seem to be as follows:

- (a) American aid, along with at least that of France, the Colombo Plan countries, and the United Nations and its specialized agencies, will continue to be

forthcoming in support of the economic and social objectives of the present government*; and of the Plan. In this general connection, Article 3 of the Presidential Decree promulgating the Plan is pertinent: "The Commissariat of the Plan will coordinate with the Ministry of Finance, the National Budget, Foreign Aids, and interested private organizations, the means to be used in financing."

(b) American project aid in the future can be effectively integrated into a long-range, legally based, development program formulated by the Royal Government, one which expresses the national will;

(c) The Plan at this stage is intended to serve more as a "working paper" than as a final blueprint;

(d) The level of financing at which the Plan is pitched is realistic in terms of the Lao reality and potential, the absorptive capacity of the country, and the present assumed level of national income; also that it is within the capability of the Lao leadership to administer; and

(e) Laos can continue to exist as a free and independent nation over the long run only if it begins now to build a sound productive base, develops and makes increasingly greater use of indigenous resources--human and material, creates the necessary institutional structure, etc.

Areas on which the Five-Year Plan would focus are as follows:

(a) The Social Sector, with emphasis on public health and national education. Allotment: 1 billion kip;

(b) The General Equipment Sector, covering such activities as roads and other public works, housing, city planning, civil aeronautics, river facilities, post offices, and telecommunications. Allotment: 1 billion kip; and

(c) The Economic Sector, including rural economy, agriculture, animal husbandry, and forestry; also industrial undertakings of a semi-public character, such as water and electric power, and those of a private nature, such as industry, mining, and artisanship. Allotment: 500 million kip. (Realization of this sector is based on the expectation that a supplementary 1.5 billion kip will be forthcoming from additional sources.)

As regards the economic sector, the government indicates that while it expects to spearhead the development effort, it plans no interference with private initiative and free enterprise. Its role, it explains, would be mainly to make basic studies and to orient private capital and initiative toward those areas where it has not yet appeared, except timidly. In this general connection, the Plan

*See Appendix "C" on Summary of other aid activities in Laos.

indicates that government loans to business and incentive legislation are contemplated; also measures to help artisanship and village enterprises which, it is believed, will encourage the development of rural communities. In this latter respect, special emphasis is placed on improving methods of cultivation and basic equipment. Mechanized cultivation is also to be encouraged due to the lack of manpower and the need to raise per capita production.

As regards domestic private capital, the Plan recognizes that it is not yet inclined to invest in industrial enterprises. For this reason, the device of "mixed companies" is anticipated in order to permit Lao Government control of operations while it is facilitating the extension of credit. The importance of private capital, however, is clearly recognized. In the view of the planners this capital, both domestic and foreign, would be oriented insofar as possible to those activities encouraged by special legal and financial advantages.

As for "borrowed capital," an immediate and primary source would be the Credit National Lao. According to the Plan, borrowed capital would be handled by this public institution in accordance with flexible formulas satisfying the institutions providing these funds, and adjusted to the exigencies of the national economy. In due time it would be expected that sources of such funds would be expanded, both within (domestic savings) and from outside the country.

The Royal Government notes that the execution of projects and the realization of programs of the type indicated in the Plan, beyond financial necessities, require the assistance of a complex of qualified technicians at all levels of technical direction. While a few of these, especially at lower echelons, can be recruited within the country, it is recognized that the greater number would have to be recruited from abroad and given certain legally guaranteed advantages. In this general respect, the Plan calls for the accelerated formation of cadres and replacement personnel.

As a vital part of the development effort, a broad range of programs is contemplated. These would include, for example:

- (1) Construction of housing, mainly in urban centers;
- (2) Road building to assure, for example, movement of products from the interior of the country to the urban centers;
- (3) Improvement of the central channel of the Mekong River to make possible the shipment of heavy freight within the country as well as to link up the regions of Vientiane, Thakhek and Savannakhet;
- (4) Development of internal air transport facilities to permit movement of people and the exchange of goods among the regions;
- (5) Extension of postal, telephone and telegraph facilities;
- (6) Expansion of basic educational facilities; also of sanitary and hygienic institutions; and
- (7) Initiation of city planning with focus on development and improvement of such basic facilities as water, markets, sidewalks and drainage systems.

Aside from the domestic factors that must be considered in any meaningful development effort, the Royal Government is also conscious of the necessity to improve its commercial balance with the outside world as a sound means of promoting the economic stability and social well-being of the nation. This is evidenced by the fact that the Lao Government would pursue concomitantly with the domestic effort a program of (a) suppressing certain imports (e.g., food products, construction goods, etc.); (b) reducing gradually imports of certain items (e.g., fuel) as increasing sources of domestic energy are developed; and (c) increasing exports of mineral, agricultural and forestry products.

In examining the Plan, it must be remembered that Laos is still an undeveloped country in practically all particulars. Centuries have passed it by. Today, it is confronted with the complex of problems peculiar to many new nations. For example, at the present time Laos does not yet possess:

- (a) A stable political climate or structure;
- (b) A unified country;
- (c) A sound fiscal policy;
- (d) A favorable atmosphere for the attraction of enterprises;
- (e) Adequate basic facilities required for economic growth; pure water supply, health and education facilities; housing and hotel accommodations; transport and communication facilities; sewage disposal; electric power; recreation facilities, etc.;
- (f) A trained labor force;
- (g) An adequate marketing and distribution system;
- (h) Indigenous savings;
- (i) An adequate legal and administrative framework;
- (j) Adequate institutional relationships with other countries;
- (k) Management know-how; and
- (l) Technical proficiency.

In spite of serious handicaps, Laos is currently making progress and is now at the beginning of the road to economic and social advancement. There can be no doubt but that the Lao leadership must now be serious in its efforts to advance the nation and the welfare of its people as quickly as possible. This it must do if it is to retain its political influence over the country. In this setting, the need for an overall plan for development becomes obvious; goals must be set; realities of the existing situation assessed, definite and detailed recommendations developed; sources of financing established and coordinated; duplication and overlapping avoided; and leadership provided. In these respects, the concept of the Plan as published represents a good beginning.

One area in which the Plan is particularly tentative is in the matter of financing of the level of investment contemplated over the five-year period of the

program. This is understandable, given the heavy reliance of the Royal Government on foreign aid. Not until specifics are worked out with the donor nations or organizations will the Laos Government be able to firm up this picture, and get on with the development of a Financial Program (as distinguished from the Plan), one which not only will show the application made by the Royal Government of foreign aid funds, but also the allocation of anticipated revenues over the period of the Plan.

It is to be noted that kip calculations in the Plan are at the former rate of 35 to 1. The explanation is that these details were prepared prior to 1958 Monetary Reform. Nevertheless, as the Ministry of Plan points out, on the whole, the Monetary Reform has not affected the internal purchasing power of the kip. It, therefore, takes the view that calculations expressed in the Plan in kip remain essentially unchanged. (This view would seem to discount the Plan's requirements for goods and services from countries such as the United States.)

As for the level of investment itself, as indicated in the Plan, it is based on a number of assumptions, including an estimated national income of about 6 billion kip, and a population estimate of 2 million.

While it is important and understandably desirable to accelerate the transition from an economically passive state to one of development and growth, it is not sound, in USOM's view, to plan a rate of growth based as heavily on grant aid as is indicated in the Plan. Even if levels of foreign assistance assumed over the five-year period were to be firmly committed by their donors, there still would be very serious doubts (a) surrounding the ability of the Lao economy to employ effectively the level of investment contemplated in the Plan, and (b) about the capacity and real resources (still not known) of the economy to sustain after the five-year period the momentum of growth which foreign assistance would undoubtedly generate during the Plan's five-year period.

To promote sound economic growth in Laos, not only per capita consumption would have to be increased but also per capita savings. There is a political aspect to this situation which the Royal Government apparently recognizes. During the first two years of the Plan, for instance, the greatest emphasis would be placed on non-income-producing social and basic development expenditures, and not on the economic or income-producing sector. Social expenditures, it is explained, would be met entirely out of the limited resources available to the government. This indeed seems unrealistic.

As regards per capita savings, if these are to increase, the level of national income would have to grow at a rate which would permit the economy to produce savings; also at a rate somewhat faster than the rate of growth in population. Then, too, if the economy is to build up a sustaining power of its own, net savings (or capital formation) would have to take place to support the investment budget. As presently conceived, little if any savings can be anticipated under the program, at least during the first two years of the Plan, for reasons explained above. This puts a heavy pressure on the remaining three years of the Plan, particularly on the use to be made of foreign aid funds.

Public Finance - Under its aid program, United States military budget supports cover 100 percent of pay and allowances in the Lao military budget. Also covered is approximately 80 percent of the budget of the National Police. In addition, Laos receives additional aid under the American program, not to mention assistance from other external sources. In spite of this help, the Royal Government continues to show budget deficits. As a matter of fact, the Lao Government has never had a balanced civil budget. (The Lao "civil budget" does not include expenditures of military.) Financial obligations have consistently and considerably exceeded Lao sources. Overnight, Laos had to meet the expenses of running its Government, its

diplomatic missions, pensions payments, welfare activities, maintenance of roads, etc. The items either did not exist previously or, in limited measure, were defrayed by the colonial administration. While costs thus multiplied overnight, income lagged far behind. Lao resources are small, real industries do not exist and, above all, there was no Department of Internal Revenue with the administrative capacity to collect taxes throughout the thousands of villages which shelter over 90 percent of the population (not to speak of the difficulties presented by the barter economy of the hinterlands). Businessmen keep few if any records. Tax avoidance is almost a national habit. USOM public administration programs are now working in this area but it takes time and patience to build a tax structure and install procedures and a trained, dedicated civil service.

The Lao Government met its budgetary difficulties during the past few years, in large part, through advances from the National Bank of Laos, as already explained in an earlier section. Monetary Reform in October 1958 resulted in a revaluation of the dollar from 35 to 80 kip. The "windfall" profits accruing to the National Bank from its dollar holdings were used by the Royal Government to retire earlier advances to the Treasury.

The salutary effects of Monetary Reform are without doubt the most important and successful event of the year. Monetary Reform, however, as already pointed out, has had side effects. Due to the large inventories on hand and the fact that the Lao merchant had now to pay 80 kip instead of 35 kip for most imported goods (some had previously come in with black market dollars), the volume of imports fell drastically. This, of course, meant an equally sharp reduction in the custom revenues of the Royal Government. The effect on the civil budget becomes clear when it is pointed out that in fiscal year 1958 at least 70 percent of the government's income was derived from custom duties. On the other hand, however, Monetary

Reform did not change the amount of the government's own dollar obligations. It now took 80 kip to buy these dollars instead of 35 kip. In this category fall imported goods needed for government services ranging from paper clips to cement, for highway maintenance, costs of foreign travel by officials, expenses of embassies abroad, contributions to international organizations, etc.

The Royal Government, in cooperation with American financial experts, is currently laying the groundwork for tapping new sources of revenue income as well as to improve present collection methods. It is politically a difficult move, however, to levy new taxes on the heels of Monetary Reform, which sharply reduced incomes and business activities. In a few words, Monetary Reform, in spite of its positive aspects, nevertheless contributed to the sharp reduction in resources of the Lao Government on the one hand and, on the other, increased public expenditures by requiring more kip for foreign expenditures. In order not to default on its obligations (salary payments to government employees, etc.), the government had to resort either once more to deficit-financing or ask the United States for special assistance.

After a careful study of all aspects of the problem, both in Washington and in Vientiane, it was agreed that if, among other things, the solid achievements of the kip devaluation were to be safeguarded, a "cash grant" to tide the situation over was in order, in spite of the general opposition on the part of our government, as a matter of policy, to making cash grants (as against loans) for civil budget purposes. Any other source in this particular instance, it was believed, would have been counter-productive and would have jeopardized the entire investment our country is making in the independence of this country. A return to deficit-financing at this time would have had dangerous implications. The dollar reserves of the National Bank had shrunk considerably since October 1958. Free convertibility

of the kip permits an unrestricted outflow of dollars while at the same time, the sharp reduction in United States aid for fiscal year 1959, resulted in small dollar acquisitions by the National Bank of Laos. The openly pro-Western government of Laos had staked its life on Monetary Reform. A denial of its request for special budget assistance at this crucial juncture could have resulted not only in economic difficulties but in serious political repercussions.

Appendix "A"

POPULATION ESTIMATES

(By Province and Selected Communities)

<u>Province</u>	<u>Communities</u>	<u>Minimum</u>	<u>Maximum</u>
Luang Prabang	Luang Prabang Province	210,000	280,000
	Luang Prabang City	7,800	18,000
	Muong Ngoi	1,000	2,500
	Muong Sai	1,000	3,000
	Pak Tha	1,600	2,600
	Muong Houn	1,500	3,500
	Nam Bac	1,000	1,300
	Muong Kasay	1,000	1,500
Vientiane	Vientiane Province	180,000	250,000
	Vientiane (City & Suburbs)	45,000	80,000
	Paksane	2,000	3,000
	Phone Hong	1,500	2,500
	Sonakham	1,500	2,500
	Ban Keune	1,500	2,500
	Vang Vieng	1,000	1,500
	Savannakhet	Savannakhet Province	270,000
Savannakhet (City & Suburbs)		7,000	10,000
Kengkok		1,500	2,500
Dongden		1,500	2,000
Songkhone		1,500	2,500
Lahanam		2,000	3,800
Tchepone		1,000	1,500
Khammouane		Khammouane Province	120,000
	Thakhek (City)	4,000	7,000
	Hinboun	1,500	2,000
	Mahaxay	1,500	2,500
	Nhommarath	1,000	1,500
Champassak	Champassak Province	170,000	220,000
	Pakse (City & Suburbs)	6,000	10,000
	Champassak	3,000	4,000
	Saphay	2,500	3,500
	Muong Khong	1,500	2,000
	Paksong	1,000	1,500

Appendix "A" - continued

POPULATION ESTIMATES

<u>Province</u>	<u>Communities</u>	<u>Minimum</u>	<u>Maximum</u>
Attopeu	Attopeu Province	60,000	90,000
	Attopeu (City)	2,500	3,000
Saravane	Saravane Province	160,000	200,000
	Saravane (City)	2,000	3,500
	Thateng	1,000	1,500
	Kongsedone	1,500	2,500
Sayaboury	Sayaboury Province	140,000	160,000
	Sayaboury (City)	2,000	8,000
	Paklay	1,500	2,500
Namtha	Namtha Province	65,000	100,000
	Muong Luang Namtha	1,500	3,000
	Muong Sing	1,000	2,000
	Houcisai	1,000	2,000
Xieng Khouang	Xieng Khouang Province	130,000	170,000
	Xieng Khouang (City)	3,000	4,000
	Muong Kham (Ban Bane)	1,500	2,000
Phongsaly	Phongsaly Province	70,000	100,000
	Phongsaly (City)	2,000	3,000
	Boun Neua	2,000	3,000
	Cutay	1,500	2,000
Samneua	Samneua Province	80,000	110,000
	Samneua (City)	2,500	3,500
	Muong Poun	1,500	2,000
TOTAL FOR LAOS		1,786,000	2,427,500

SOURCE: Statistics Office, Ministry of Plan
Royal Laos Government

Appendix "B"

TABLE I

U.S. Aid to Laos (Total Funds Obligated)
FY 1958-1959 (in millions of U.S. dollars)

	<u>1958</u>	<u>1959</u>
Military Budget Support	19.8	11.2
Other Non-Project Assistance	7.5	7.2
Project Assistance	2.6	4.2*
Technical Support of USOM Program	<u>1.5</u>	<u>2.8**</u>
Total	31.4	25.4

* Does not include AEDF regional funds for malaria eradication in Laos totalling \$237,000 in 1958 and \$120,000 in 1959.

** Including special appropriation for USOM housing construction.

TABLE II

U.S. Aid to Laos, 1958-1959
Project Aid (000 U.S.\$)

	<u>1958</u>	<u>1959</u>
Agriculture	142	301
Industry and Mining	114	215
Transportation	1,062	2,325
Health and Sanitation	40*	61*
Education	333	434
Civil Police Administration	188	149
Public Administration	97	57
Community Development	659	600
General and Miscellaneous	<u>6</u>	<u>100</u>
Total	2,641	4,242

* Does not include AEDF regional funds for malaria eradication in Laos totalling \$237,000 in 1958 and \$120,000 in 1959.

(continued)

TABLE IIISummary of U.S. Project Aid for FY 1959

(all figures in 000's of dollars)

<u>PROJECT TITLE (Abbreviated)</u>	<u>\$</u>	<u>Kip *</u>
<u>Agriculture & Natural Resources</u>		
Agriculture Extension	50	21
Irrigation Development	53	302
Livestock & Poultry	100	57
Crop Development	70	29
Forest Resources	28	25
Total Agriculture and Natural Resources	<u>301</u>	<u>434</u>
<u>Industry & Mining</u>		
Mining & Mineral Survey	215	
Vientiane Power		27
Total Industry and Mining	<u>215</u>	<u>27</u>
<u>Transportation</u>		
National Road System	1,265	875
Rivers, Harbors & Ferries	295	
Vientiane Airport	765	
Total Transportation	<u>2,325</u>	<u>875</u>
<u>Public Health</u>		
Yaws eradication		9
Training of Health Workers	61**	9
Malaria Eradication		157
Total Public Health	<u>61**</u>	<u>175</u>
<u>Education</u>		
Teacher Training	384	269
Rural Education	50	88
Total Education	<u>434</u>	<u>357</u>

(continued)

* Figures converted into U.S. dollars at 80 kip equals 1 U.S. dollar.
All figures are preliminary.

** Does not include AEDF regional funds for malaria eradication in Laos totalling \$120,000 in 1959.

Appendix "B" - continued

TABLE III (continued)

PROJECT TITLE (Abbreviated)

	<u>\$</u>	<u>Kip</u>
<u>Public Administration - Police - Other</u>		
Police	149	940
Government Purchasing Office	42	31
Public Administration	--	--
Banking	12	--
Customs	3	88
American Aid Commission	--	16
Statistics & Census	--	19
	<u> </u>	<u> </u>
Total Public Administration - Police - Other	206	1,094
<u>Community Development</u>		
Xieng Khouang Demonstration Project	70	15
Civic Action	70	579
Rural Self-Help	210	313
Operation Brotherhood	<u>250</u>	<u> </u>
Total Community Development	600	907
<u>Miscellaneous</u>		
Lao Photo Press	100	114
	<u> </u>	<u> </u>
Total Miscellaneous	100	114
TOTAL COUNTRY PROGRAM	<u>4,242</u>	<u>3,983</u>

(Note: In addition to the Malaria Eradication Project, Laos benefits from two other regional projects: Regional Telecommunications Project and Regional English Project. Both projects include multi-year contracts. Project funds are allocated on a regional basis and therefore specific amounts for Laos can not be identified.)

Appendix "C"

Summary of Foreign Aid Activities in Laos Other Than American

French Aid

Next to American aid, French assistance is the most important source of outside help Laos is receiving. For calendar year 1958, it amounted to approximately \$5.8 million. Some \$2.4 million was used to provide French advisors and instructors to the Royal Lao Army.

Funds of some \$3.4 million were allocated to economic, technical and cultural aid activities. The building of two high schools and the salaries of some 125 French instructors and educational advisors accounted also for approximately \$1 million. The remaining funds were used for a variety of projects including mining exploration, construction of a telephone exchange in Vientiane (not yet completed), provision for French advisors to various Lao ministries and assumption of expenses of Lao who are being trained in France.

In addition to these activities, France placed at the disposal of the Credit National Lao a revolving loan fund equivalent to \$1 million. This fund is not yet operative but when activated should assist materially to broaden present very limited credit facilities in Laos.

Japanese Aid

The Royal Lao Government and Japan recently agreed to liquidate long standing World War II reparation claims in the form of Japanese assistance projects with a value of \$2.8 million. The main project is a \$2 million waterworks for the city of Vientiane. Technical details of this project are still under discussion. The balance of the funds will be used in bridge construction and various technical surveys, particularly of the hydroelectric potential of the Nam Ngum River.

United Nations and Special Agencies

Assistance to Laos by these agencies takes almost exclusively the form of providing technical experts in the fields of public administration, education, disease control and agricultural research. For the past years the value of this assistance has slowly increased from \$170,000 in FY 1957 to \$230,000 for FY 1959.

Colombo Plan

The Colombo Plan is helping Laos mainly through scholarships at universities of the member nations. The value of this assistance is estimated at approximately \$50,000 per year. In addition, Australia, under the Plan, has supplied some surplus construction equipment. New Zealand has also announced that it will present Laos in the course of 1959 with some \$45,000 worth of mobile veterinary dispensaries.

(continued)

Appendix "C" - continued

Various foundations and organizations are extending aid to Laos. In most instances, it is difficult to place a monetary value on these activities. Much of this type of aid consists of the self-sacrifices and devotion of those engaged in this work. Among these organizations are the Junior Chamber of Commerce (International) which, via the Philippine and Lao Junior Chambers of Commerce, is sponsoring the pioneering activities of Operation Brotherhood in the field of public health; MEDICO (Dr. Thomas Dooley), which is currently operating a small hospital at Muong Sing in the northernmost part of Laos near the Burma-Red China border: (MEDICO plans a second small hospital in Laos for the coming year); The Asia Foundation, which has recently set up a field office in Laos and plans to provide miscellaneous supplies to local schools, sponsor scholarships for the Lao at foreign universities, etc.; also, Catholic Missions, which have been working among the Lao for many years.

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