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Submitted by the

## DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

## INTELLIGENCE ADVISORY COMMITTEE

on 23 April 1957. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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### POLITICAL STABILITY IN CENTRAL AMERICA AND THE CARIBBEAN THROUGH 1958

#### THE PROBLEM

To estimate probable developments in the Central American and Caribbean republics<sup>1</sup> through 1958 with particular reference to the prospects for political stability throughout the area.

#### CONCLUSIONS

1. For the period of this estimate, the military, together with the landed gentry and wealthy merchants, are likely to dominate the internal politics of all the Central American and Caribbean republics except Costa Rica. Reformist and popular elements, whose influence has been checked for the past few years, are unlikely to upset the status quo. However, palace revolutions may occur. (*Para. 47*)

2. The Communists, whose influence has been declining over the past few years, do not now constitute a serious threat to any regime in the area. Communist capabilities are unlikely to increase except in Cuba, and possibly in El Salvador. However, non-Communist subversion involving exiled groups will continue to disturb the stability of the area. (*Paras. 36-37, 48, 52*)

3. Inasmuch as we do not believe that the Cuban government can fully restore public order or check the emergence of new civilian opposition elements, there is only an even chance that the Batista regime will survive the period of this estimate. A military-dominated junta would be the most probable successor. Haiti is in serious political turmoil and faces near economic collapse. So long as dissension exists among the military, it is unlikely that a clear-cut solution will emerge. It is probable that Haiti will seek emergency financial assistance from the United States. Nothing is likely to endanger the government of the Dominican Republic so long as Generalissimo Trujillo remains active. (*Para. 49*)

4. Castillo Armas will probably continue his somewhat right-of-center course in Guatemala. No opposition group is likely to pose a serious threat to the stability of his regime. The Somozas and related families will probably continue to dominate Nicaragua. The De la Guardia gov-

<sup>1</sup> Cuba, Haiti, the Dominican Republic, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama. The foreign possessions in the Caribbean are not included.

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ernment in Panama and the Lemus regime in El Salvador, though less stable than those in Nicaragua and Guatemala, will probably survive the period of this estimate. In Honduras, the present military regime, with possible shake-ups in the junta, is likely to continue in power through 1958. (*Para. 50*)

5. In Costa Rica, because of a serious split in the administration party, Figueres will probably be unable to determine the outcome of the 1958 elections. It is likely that free elections will be held in Costa Rica, approximately on schedule. We believe that the orientation of the newly elected Costa Rican government will be somewhat more conservative than the present one. (*Para. 51*)

6. Over the longer term, the pressures for reform and change will continue to build up throughout the area. The present military leadership can provide no more than a braking action against pressures for change. The growing size and importance of the educated professional and middle classes will increasingly

threaten the position of the traditional ruling groups. The eventual emergence of more broadly-based, reformist, nationalist regimes, similar to that in Costa Rica, is probable, although for the foreseeable future the great mass of the population will continue to have an inferior economic, social, and political status. This mass will be readily exploited by demagogues. (*Para. 53*)

7. For the period of this estimate, we believe that the relations of the various states in the area with the US are likely to continue favorable. [The Panamanian government will probably continue to press its demands for full implementation by the US of the 1955 Canal Treaty and its related agreements. Stimulated by the Suez Canal situation, Panama will also probably continue to agitate for further economic benefits from Canal operations with the ultimate goal of operating the Canal Company jointly with the US. However, we do not believe that it will force any of these demands to the point of creating serious friction between the US and Panama.] (*Para. 54*)

## DISCUSSION

### THE POLITICAL SITUATION

#### Basic Conditions and Trends

8. The Caribbean and Central American republics are generally the least advanced in the Western Hemisphere. Economic underdevelopment, social immobility, and political immaturity are their prevailing characteristics. Although foreign-financed (mainly US) sugar and banana producers and domestic coffee growers are engaged in export agriculture, most of the areas's 22,500,000 inhabitants are engaged in primitive, subsistence-type agriculture. Economic development is

retarded by lack of capital and of technical skill, by the inadequacy of transportation and power facilities and other basic services.<sup>2</sup>

9. In this economic environment, the vast majority of the population is poverty stricken, undernourished, illiterate, and socially and politically inert. The generally dominant social element is an elite consisting of upper echelon military officers, the landed gentry, and the wealthy merchants. This dominance is most often reflected politically in a highly

<sup>2</sup> See Appendix II for Economic Conditions and Trends.

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personalized dictatorship, responsive to the will of the elite and characterized by a limited sense of public responsibility.

10. Even though most of the republics have a nominally broad franchise, in none of them, save Costa Rica, has there consistently been the articulate popular participation required to give reality to democratic processes. Consequently politics have revolved around persons or cliques rather than public issues. The continued shifting of military support has been the decisive political factor, and rule by military "strong men" has been normal. In an environment of such political immaturity, the constant struggle for power has created a pattern of intrigue and conspiracy, often with international ramifications and implications, and of corresponding suspicion and repression. The transfer of real political power from one group to another is usually accomplished by revolution rather than by election, although such revolutions are usually a matter of military *pronunciamiento* with a minimum of public disturbance and bloodshed.

11. In recent decades, however, a small but growing urban middle class has been posing a serious challenge to the old order. Business and professional men, students, intellectuals, and younger military officers have been demanding social reform, an ever increasing share of the wealth, and more effective political democracy. This agitation against the traditional order of society has had strong nationalistic overtones, generally directed against foreign enterprises. The reformist groups have been encouraged and manipulated by extremists. The Communists, superior as organizers and propagandizers, have often been able to strongly influence, and at times to assume leadership in, the reformist groups.

12. Pressure for and resistance to change have not been uniform throughout the area. In Guatemala, the traditional order was severely shaken by the revolution of 1944. In Cuba, Costa Rica, and Panama, pressures for change have been effective to a considerable degree. Such pressures are more moderate in El Salvador, and only recently have affected

Haiti, Honduras, and Nicaragua. They have been effectively contained by a strongly entrenched authoritarian regime in the Dominican Republic.

13. Since the fall of Arbenz in Guatemala in 1954, there appears to have been a partial reaction against the reformers throughout the area, and the more demagogic and extreme elements are now either quiescent or under control everywhere. At the same time, the present leadership has found it at least convenient to maintain an association with the concepts of economic and social progress and to make moderate concessions to reformist and nationalist sentiment.

14. Though social ferment has over the past few years become a lesser factor in the instability in the area, the political tensions inherent when a dictatorial regime operates within a constitutional framework continue to work against stability. Although the "strong men" have generally not flinched from the adoption of any methods necessary to assure their continuance in power, they nevertheless remain sensitive to charges of illegal action and strive to give a constitutional aura to their rule. The patent frauds usually committed by the incumbents in the election process provide the frustrated opposition with new grounds for attacking the administration, thus exacerbating the instability and tension of the area.

### Non-Communist Subversion

15. The conspiratorial and revolutionary politics of the Caribbean normally extend across national boundaries. For over a century it has been customary for leading adherents of a regime overthrown by revolution to take refuge in a sympathetic neighboring country, there to plot counterrevolution with the sufferance, and perhaps the active support, of the host government. Consequently the security of a given regime depends in part on the existence of friendly governments in neighboring countries. In these circumstances, one country may foment revolution abroad in order to forestall revolution at home. Thus a successful revolution in one

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country is likely to lead to revolutionary attempts in others.

16. The exiles are primarily interested in returning to power and attempt to work closely with the domestic underground opposition. There are in some instances significant ideological differences between the exiled or suppressed reformist forces and the entrenched traditionalist forces which seek to minimize changes. These differences are often described as a struggle between the "democracies" and the "dictatorships." However, in many cases these terms are not precisely descriptive and the struggle is merely one between the "ins" and the "outs," with only a measure of ideological content.

17. In general, exile activity has tended to decrease in the area over the past few years. Although there are active exile groups in most of the republics, no country now serves as a key center of conspiracy. Rightist exile activities from Venezuela and Nicaragua have declined as a result of the backfiring of the 1955 attempt to overthrow Figueres in Costa Rica and the death of Anastasio Somoza. The fall of the Arbenz regime and the consolidation of Castillo Armas' position have eliminated Guatemala as an important base, both for the Communists and the "democratic" exiles. The Caribbean Legion, formerly an active filibustering organization made up of exiles from various countries in the area, is defunct.

18. Mexico and the United States have become more important centers of plotting against the entrenched regimes of the area. The principal targets of these exile groups are Cuba, Guatemala, and the Dominican Republic, but only in the case of Cuba do present exile activities constitute a serious threat to the incumbent regimes.

### The Political Situation in the Island Republics

19. *Cuba* is ruled by a military "strong man," Fulgencio Batista, who returned to power in the 1952 army coup. Until late 1955, though the Batista regime was generally unpopular, the army, the key to the stability of the

regime, remained loyal, and the opposition was disorganized and ineffectual. During the past 18 months, however, Batista's position has been considerably weakened by the growing political and military unrest. In late 1955, intensified student disturbances and demonstrations began to take place, and in April 1956, Batista, confronted with a conspiracy within the military, was forced to carry out an army purge. In the aftermath of this purge, there occurred an organized civilian assault on an army barracks, sporadic antiregime terrorist acts throughout the country, and widespread rumors of revolt and invasion.

20. Fidel Castro, youthful leader of a self-styled reformist, anti-Batista revolutionary group, has become the regime's chief antagonist. From exile in Mexico he apparently directed domestic underground opposition to Batista, and in September 1956, he signed an agreement with an anti-Batista student organization to collaborate in overthrowing the present regime. On 2 December 1956, Castro, with approximately 80 men and a small vessel, landed in eastern Cuba, and today he maintains a guerrilla force of 50 to 300 men, which the Cuban government has thus far been unable to dislodge from the eastern mountains. There is no reliable evidence to indicate the extent of Castro's following. There is evidence that Castro is at least in part financed from the outside, principally from exile centers in New York and Miami, and that there has been some informal liaison between Castro and former President Prio Socorras, whom Batista ousted in 1952.

21. Ex-President Prio has a considerable potential for increased subversive operations. We believe that he has large sums of money and materiel at his disposal and has recruited Cuban exiles for revolutionary purposes. On 13 March 1957, Cuban insurrectionists, apparently including followers of Prio and possibly Castro, staged a spectacular but unsuccessful assault on the Presidential palace in an attempt to kill Batista.

22. The failure of the regime to crush Castro's guerrilla operations, the intensification of antigovernment acts and ruthless counter-

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terrorist activities, the repeated suspensions of constitutional guarantees, and finally, the shifting of the revolutionary activity to the capital itself, have placed the regime in real jeopardy. Some responsible elements, including some wealthy businessmen and professionals, are apparently sympathetic to the insurrectionists. Furthermore, there are reports of disaffection within the armed forces, particularly among the lower echelon personnel of the army. However, at the moment Batista appears still to have the loyalty of the leaders of both the military and the police. He is also favored by Cuba's current economic prosperity and by an absence of alternate political leadership with wide popular support.

23. *Haiti* is in serious political turmoil aggravated by a severely depressed economic situation. Although the overthrow of President Magloire at the end of his term (December 1956) was in accordance with customary Haitian political processes, the recurrent general strikes whereby competing candidates for the succession have prevented the orderly selection of a successor have resulted in an unusually prolonged political crisis. This situation is ominously reminiscent of the period 1908-1915, which produced a state of virtual anarchy.

24. Haitian presidents normally attempt to perpetuate themselves in power beyond their term, but are usually compelled to vacate by military juntas responsive to the demands of the predominantly mulatto elite, acting to forestall dangerous agitation of the overwhelming black majority. In such cases, an orderly succession has been fairly promptly arranged by tacit agreement among the military and the elite, with a decent regard for constitutional appearances. President Magloire came to power in this manner in 1950, and was displaced in the same way. The normal process for selecting his successor has broken down, however, because of the determination of rival candidates to block the selection of each successive leading contender. At the moment, the military hold a tenuous balance of power position. They have already proved susceptible to the pressure of

the general strike, and they may not feel capable of imposing a political solution. Moreover, there are indications of increasing dissension among the military themselves.

25. Haiti's political instability is aggravated by severely depressed economic conditions. The deeply eroded and relatively unproductive land is overpopulated and food is in chronic short supply. Exploitable forest, subsoil, and water resources are scant; industrial development is negligible. Per capita real income is the lowest among the Caribbean republics. This basic situation is further prejudiced by chronic maladministration. In addition, since 1954 Haiti has suffered from a disastrous hurricane and prolonged drought: agricultural production has fallen and earnings from the primary export crops — coffee, sugar, and sisal — have been reduced. Earnings from tourism have declined as a result of the disturbed political situation; domestic industry and commercial activity have stagnated. Government expenditures, bloated by overambitious development plans and widespread graft, have been maintained at a high level by foreign and domestic borrowing in recent years, and the National Bank is virtually insolvent.

26. *The Dominican Republic* is ruled by the most durable "strong man" of the area, Generalissimo Dr. Rafael Leonidas Trujillo. He secured command of the Dominican armed forces shortly after the withdrawal of the US military occupation in 1924 and has been in dictatorial control of the country ever since. The Dominican Republic is a one-party state and is administered, in substantial effect, as the private estate of the Trujillo family. It has long been a target for ineffectual subversive activities and has itself fomented subversive activities in the area, most recently against Cuba. Presidential elections are scheduled for May 1957, with Hector Trujillo, younger brother of the Generalissimo and the incumbent president, the only candidate.

### The Situation in Central America

27. In *Guatemala*, Castillo Armas, who came to power through the overthrow of the Arbenz

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regime in June 1954, has pledged adherence to the liberal principles of the 1944 revolution. However, he has been subjected to strong conservative forces. Beset by pressures from the right and left, he has attempted to pursue a middle-of-the-road policy. A single government party dominates the country's political organization and elections have been controlled. Although the right of free expression has generally been observed, the government has not hesitated to use restrictive measures, including martial law, during periods of uneasiness. Urban labor has been permitted to reorganize in selected enterprises, but its leadership has been carefully screened and a central labor confederation has been discouraged. Castillo has corrected the worst abuses of the Arbenz land reform policy, and has continued a moderate land distribution program of his own. Highway construction and port development with US funds have been pushed vigorously. Guatemalan differences with the United Fruit Company have been at least temporarily resolved. The program to extend educational facilities has been hampered by lack of funds.

28. In early 1956, conservative landholding, business, and military elements became increasingly dissatisfied with Castillo's tolerance of the non-Communist leftist opposition. Reacting to conservative pressure, the government, in June 1956, acted harshly to suppress student demonstrations spearheaded by a leftist minority, and subsequently it temporarily curtailed sharply the freedom of the press. By the year's end, however, Castillo had begun a campaign to correct the impression that his regime had shifted its orientation from a middle course. He recently reiterated a public warning to landholders against exploiting their labor and introduced minimum wage legislation designed to protect the rural worker.

29. The armed forces, the key to stability, support the regime. Existing and potential domestic opposition to the Castillo regime lies with labor, the peasantry, student groups, and certain ambitious politicians and military leaders who seek more rapid advancement than afforded by Castillo. None of

these elements has so far displayed a capacity for offering a serious challenge to the security of the Castillo government. Rumors of conspiracy by exiles collaborating with opposition elements inside the country to overthrow the Castillo government have persisted since 1954. A potentially dangerous concentration of exiles is located in Mexico, but the Mexican government is making some effort to limit their activities. Various non-Communist and Communist exile groups are also active in Costa Rica and El Salvador, but these are small in number and torn by factional strife.

30. In *Nicaragua*, long-time dictator Anastasio Somoza was assassinated in September 1956 by a young oppositionist. There followed a rash of arrests, trials, and convictions inside Nicaragua and charges of an international conspiracy involving Nicaraguan exiles. Meanwhile Luis Somoza succeeded his father as President, and on 3 February 1957, was elected President for a six-year term. Although Luis Somoza, unlike his father, is not the typical "strong man," the top civilian and military posts remain in the firm grip of the Somoza family and its allies.

31. There are a number of potential, though not immediate, sources of instability in Nicaragua. Luis Somoza apparently desires to be a progressive President, but the influential families who gained their position under his father are committed to the status quo. Also, Luis must reckon with his highly unpredictable and emotional brother, Anastasio ("Tachito") Somoza, Jr., who continues as head of the National Guard and the Air Force. There is active political opposition inside Nicaragua, but it is not currently capable of successfully challenging the entrenched Somoza forces. Anti-Somoza exile groups are active in Costa Rica, El Salvador, and Mexico, but these forces are too weak to constitute a serious threat to the Nicaraguan government.

32. *Honduras* is now ruled by a three-man military junta, which took over the government after the overthrow of the Lozano regime in October 1956. The junta was accepted by most political factions as the best available solution to Honduras' political problems for

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the short run. It is a caretaker government committed to holding free elections and to the restoration of constitutional government. Despite its initial successes, the junta has been subjected to a variety of increasing political pressures. The Liberals, who have the best organized political machine and who apparently possess the largest political following, desire a speedy return to constitutional rule, while some other political factions and military elements have shown little interest in moving decisively in this direction. Also there is factionalism between the younger and older army officers, and a lack of unity within the junta. An apparent reflection of the government's domestic political insecurity is its current stirring up of an old boundary dispute with Nicaragua.

33. The *Panama* government is headed by Ernesto de la Guardia, who was elected in May 1956 as a compromise candidate of the National Patriotic Coalition, the loosely knit political group organized by the late President Remon. He appears acceptable to the National Guard, Panama's only armed force. De la Guardia, a relatively honest and well-intentioned man, is caught up in the rivalries of internal party factions and the special political problem of the still unsolved 1955 murder of former President Remon. The administration has announced a program of national reform and development but has made little progress to date, due to financial difficulties and the resistance of entrenched interests.

34. *Costa Rica*, in contrast to its neighbors, has a long tradition of relatively orderly democratic government. The government is headed by Jose Figueres, a somewhat erratic reformist leader, whose popularity has diminished to some extent since its peak in early 1955. The President faces uncompromising opposition from the wealthy landholders and business interests to whom his fiscal and paternalistic economic policies are anathema. The imminence of presidential and legislative elections scheduled for February 1958 is the chief unsettling factor in the present situation. Figueres has become less outspoken against those Caribbean and Central American lead-

ers whom he regards as dictators, particularly since the death of Somoza of Nicaragua.

35. In *El Salvador*, Lt. Colonel Jose Maria Lemus, who was hand-picked by his predecessor, President Osorio, assumed power in September 1956. He inherited what is virtually a one-party government which depends upon military support for survival. Lemus is trying to increase his support within the army. At the same time, he is attempting to cater to popular elements by creating a more democratic political climate and promoting moderate social reform and economic development. These latter policies are opposed by the landed and business interests, who fear his social and economic reform plans, and by the army, which resists the diversion of budget funds from military use to public projects.

### Communist Subversion

36. Communist influence and prestige in Central America and the Caribbean area has been generally declining over the past few years, particularly as a result of the Guatemalan anti-Communist revolution of June 1954. It is estimated that there are now around 14,000 Communist Party members in the area, about 90 percent of whom are in Cuba.<sup>3</sup> In no other country are there estimated to be more than a few hundred. In most of the countries there is an indeterminate number of Communist sympathizers whose size fluctuates with the size and effectiveness of the Communist Parties. There has been a decline in Communist strength in Guatemala from the well-documented estimate of 2,000 Communists and 2,000 Communist sympathizers of 1954 to some 300 Communists and 1,500 sympathizers. Exceptions to the otherwise general decline in Communist numerical strength are Honduras and El Salvador, where moderate increases in Party membership appear to have occurred.

37. The Communists do not now constitute a serious threat to the stability of any regime in the area. Communist Parties are illegal in

<sup>3</sup> The present total is some 21,000 below the estimate made in 1954. Most of this decline is attributable to more reliable information on Communist strength in Cuba.

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every country, and all governments have taken a public position against Communism. However, only Guatemala has demonstrated real concern over the Communist menace; the other governments have tended to view their non-Communist opponents as more immediate threats and therefore more dangerous. As a result, the Communists have been able to carry on their activities through a variety of front organizations. By this means they exert an influence out of proportion to their limited numerical strength. This is the chief potential danger from Communism in the area.

38. Except in Guatemala, where there has been a sharp across-the-board decline, there have been no radical alterations in the pattern of Communist operations over the past three years. Urban and plantation labor are the key sectors to which the Communists are directing their attention. Their success in this respect has been most marked in Cuba, Costa Rica, Honduras, and most recently in El Salvador. They also wield influence in the educational systems, perhaps most significantly in Cuba and Panama. Control of student, youth, and women's groups is a prime target, most importantly in Cuba. Some Communist sentiment persists among students in Guatemala. Communist infiltration of government is not quantitatively significant anywhere, though Communists and pro-Communist intellectuals apparently continue to hold official or advisory positions in Cuba and Panama. The Communists have not penetrated the armed forces to any significant extent.

39. Communist strategy over the long-term is to attempt to create a united opposition front and within that framework to discredit the group in power. They identify themselves where possible with progressive and nationalistic movements and attempt to convert non-Communist demand for social, economic, and political reform to Communist purposes. They attempt to discredit anti-Communist governments and to transform popular dissatisfactions into antagonism toward the US. Except in the case of Guatemala, the Communists in the area have generally eschewed

deep involvement in the subversive activities of non-Communist exiles.

40. The Communists of the area maintain their international contacts through the Communist-controlled Latin American Confederation of Labor (CTAL) and World Federation of Trade Unions (WFTU), and other front organizations. Over the past several years, there has been a notable increase in travel by local Communists and selected sympathizers to Soviet Bloc countries and to Communist-sponsored international conferences. Affiliations of local Communist Parties with front organizations are most fully developed in Costa Rica and Cuba.

### International Relations

41. *Intraregional.* In the relations of the states of the area to each other, there are two major factors, the most important of which is the disruptive force of various personal rivalries, national antagonisms, and area controversies stirred up for domestic reasons. For example, there was a long-standing feud between the Figueres government in Costa Rica and Somoza in Nicaragua. There has been personal feuding between Dictators Batista of Cuba and Trujillo of the Dominican Republic, and more recently, the border conflict between Nicaragua and Honduras has been revived.

42. The other major factor is the Organization of Central American States (ODECA), created in 1951 in response to the historical ideal of Central American union, and which has some potential as a stabilizing force in the area. It has made limited progress toward the establishment of closer economic ties and toward greater technical and administrative cooperation among the Central American republics. ODECA has also assisted in the promotion of peace in the area. It helped patch up differences between Nicaragua and Costa Rica and between El Salvador and Nicaragua following Somoza's assassination. ODECA, which regards British Honduras (Belize) as essentially a Central American problem, has recently gone on record officially in support of Guatemala's long-standing claims to the area. ODECA's capabilities are, however, limited.

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For example, it has been unable to resolve the boundary dispute between Honduras and Nicaragua.

43. *With the US.* All the governments of the area recognize that, in view of the strategic importance of the Caribbean to the United States and of the overwhelming preponderance of US economic and military power in the area, they must accommodate their policies to US security interests, if only as a matter of practical expediency. However, popular suspicions of US motives make it necessary for these governments to avoid the appearance of subservience to the US, and somewhat limit their ability to cooperate with the US. Moreover, in return for their cooperation, the governments of the area expect from the United States, protection, toleration of their peculiar domestic political processes, and help in solving their economic problems. They strongly support the Organization of American States and the United Nations, in part as a means of obtaining a voice in international affairs out of proportion to their meager strength, but also as a means of invoking general Latin American support on issues of mutual concern.

44. All the Caribbean and Central American republics have ratified the Rio Treaty and all are disposed to cooperate with the US in Hemisphere defense. The US maintains a naval base in Cuba and a guided missile tracking station in the Dominican Republic.<sup>4</sup> In the OAS and UN, all consistently support the United States on basic issues with the Soviet Bloc. On certain other issues involving "colonialism" and underdeveloped areas, their record has been variable. In general they are strongly opposed to colonialism and feel that the United States has discriminated against them in matters of financial assistance and trade.

45. US relations with Panama constitute a special problem because of US control of the Canal Zone in the heart of the republic and because of the importance to the Panamanian economy of dollar earnings from the Zone (over 20 percent of national income). In these special circumstances, Panamanian govern-

ments have felt it necessary to strike a nice balance between popular sensitivity regarding national sovereignty and a real necessity to maintain cooperative relations with the United States. A 1955 Treaty revision helped alleviate Panamanian resentment over wage discrimination against Panamanians employed by the US in the Zone, over the commercial competition from the Zone, and over allegedly insufficient payments from the United States for use of the Canal Zone. However, delays in US implementation of certain provisions of the 1955 Treaty are causing dissatisfaction. Moreover, Panamanian public and official pressure for increased advantages and additional adjustments in the Treaty continues, and the Panamanians are attempting to exploit the Suez crisis to their own advantage.

46. *With the Soviet Bloc.* Since the fall of the Arbenz regime in Guatemala in 1954, none of the republics has had diplomatic relations with any Bloc country except Poland, whose charge d'affaires in Mexico is accredited to several of these countries. None has trade agreements with the Bloc. However, Soviet Bloc purchases of Cuban sugar stocks since December 1954 (about 1,050,000 tons valued at about \$100,000,000) have been welcomed by the Cubans, and other countries of the area have demonstrated some interest in finding new markets for their export crops in the Bloc.

#### PROBABLE DEVELOPMENTS

47. For the period of this estimate, the military, together with the landed gentry and wealthy merchants, are likely to dominate the internal politics of all the countries of the area except Costa Rica. Reformist and popular elements, their influence checked for the past few years, are unlikely to be able to upset the status quo. However, palace revolutions may occur. Moreover, scheduled or promised elections in Cuba, Haiti, Costa Rica, and Honduras, may adversely affect stability in these countries during the electoral period.

48. During the period of this estimate, inter-governmental rivalries will probably be reduced. Relations between Costa Rica and Nicaragua are likely to improve, and both

<sup>4</sup> See map on US military facilities in the area.

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Trujillo of the Dominican Republic and Perez Jimenez of Venezuela, after their recent failures, are likely to adopt a more cautious attitude towards involvement in the affairs of their neighbors. The boundary dispute between Nicaragua and Honduras will probably continue unresolved, but it is not likely to lead to extensive armed conflict between the disputants. However, non-Communist subversion involving exiled groups will continue to disturb the stability of the area, particularly in Cuba. Mexico and the US will continue to be the principal havens for exiles.

49. With respect to the island republics, it is unlikely that the Cuban government can fully restore public order or check the emergence of new civilian opposition elements. There is only an even chance that the Batista regime will survive the period of this estimate. If he falls, a military-dominated junta will probably take over. In Haiti an orderly election is unlikely. It is too early to predict the outcome of the existing political impasse. So long as dissension exists among the military, it is unlikely that a clear-cut solution will emerge since any group or candidate will require substantial military support to remain in office. Any Haitian government will be faced with the threatened economic collapse, and accordingly, will probably seek emergency financial assistance from the United States. Nothing is likely to endanger the Dominican regime so long as Generalissimo Trujillo remains active.

50. In Central America, Castillo Armas will probably continue his somewhat right-of-center course in Guatemala. Although there will almost certainly be occasional rumblings from the press, students, union leaders, and exile groups, none of them, singly or collectively, are likely to be able to pose a serious threat to the stability of the Castillo regime. The latter will continue to agitate for annexation of British Honduras, but will almost certainly not take precipitate action. The Somozas and related families will probably continue their domination of Nicaragua. The De la Guardia government in Panama and the Lemus regime in El Salvador, though less

stable than those in Nicaragua and Guatemala, will probably survive the period of this estimate. In Honduras, it is likely that the present regime, with possible shake-ups in the junta, will continue in power through 1958.

51. In Costa Rica, because of a serious split in the administration party, Figueres will probably be unable to determine the outcome of the 1958 elections. It is likely that free elections will be held in Costa Rica, approximately on schedule. We believe that the orientation of the newly elected Costa Rican government will be somewhat more conservative than the present one.

52. Communist capabilities are unlikely to increase except in Cuba, and possibly in El Salvador. In Cuba, the sizable and well organized Communist Party may be able to take advantage of weakened governmental discipline and public disorder. Though contacts between the local Communists and international Communism may increase as a result of intensified Soviet-sponsored efforts to extend influence in the area, formal ties and commercial interchange with the Soviet Bloc are likely to remain limited.

53. Over the longer term, the pressures for reform and change will continue to build up throughout the area. The present military leadership can provide no more than a braking action against pressures for change. The growing size and importance of the educated professional and middle classes will increasingly threaten the position of the traditional ruling groups. The eventual emergence of more broadly-based, reformist, nationalist regimes, similar to that in Costa Rica, is probable, although for the foreseeable future the great mass of the population will continue to have an inferior economic, social, and political status. This mass will be readily exploited by demagogues.

54. For the period of this estimate, we believe that the relations of the various states in the area with the US are likely to continue favorable. The Panamanian government will probably continue to press its demands for full implementation by the US of the 1955

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Canal Treaty and its related agreements.<sup>5</sup> Stimulated by the Suez Canal situation, Panama will also probably continue to agitate for further economic benefits from Canal operations with the ultimate goal of operat-

<sup>5</sup> The US Congress has not yet passed legislation to implement certain provisions of the Treaty and its related agreements, including the establishment of a single basic wage scale and US construction of a bridge over the Canal at Balboa.

ing the Canal Company jointly with the US. In order to gain increased leverage for its position and to embarrass the US, it will probably continue to air its grievances and might even threaten to contest before the UN the issue of sovereignty in the Zone. However, we do not believe that it will force any of these demands to the point of creating serious friction between the US and Panama.

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## APPENDIX I

## ARMED FORCES CAPABILITIES

1. The armed forces of the Caribbean and Central American republics are generally designed to defend their respective governments against internal subversion, filibustering expeditions from abroad, and armed intervention by antagonistic regimes in the Caribbean and Central America. Defense against any more formidable aggression is beyond their capabilities, and in Caribbean opinion, sure to be provided by the US in its own interest. At present, the armed forces of Cuba,<sup>1</sup> the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua are capable of maintaining internal security and defending against raids from neighbors. Panama's National Guard, its only military force, is capable of maintaining internal order but unable to defend its government against expeditions from abroad. The armed forces of Costa Rica and Haiti are capable only of suppressing minor civil disturbances.

2. The ground forces of the republics (see Table 1) consist of army and police units, which are generally dispersed in small groups, except for concentrations at the capital cities. They vary in strength from the 21,000-man, well organized army of Cuba to the 1,900-man Civil Guard of Costa Rica, a provincial type, poorly trained, police organization. Their combat effectiveness is generally low by US standards and, with the exception of the Dominican Republic, seriously limited by their arms and equipment, a heterogeneous collection of European and US types, much of which is obsolete and poorly maintained. However, with the aid of US guidance and materiel, the capabilities of some of the area's

ground forces, particularly those of Cuba, Guatemala, Honduras, and Nicaragua, are likely to increase.

3. Air forces (see Table 2) are maintained by all the Caribbean republics except Panama, but only the Dominican Republic and Cuba have air forces with appreciable strength in personnel and aircraft, augmented by a well developed airfield system. The others are minor auxiliary units with few qualified pilots and generally obsolete equipment. However, the successes achieved by the small air forces of Guatemala and Costa Rica in 1954 and 1955 have intensified Caribbean interest in air capabilities as evidenced by Honduras' recent purchase of World War II US airplanes and El Salvador's apparent interest in acquiring additional aircraft.

4. The only navies of any significance in the area are those of Cuba and the Dominican Republic (see Table 3). Both are capable of coastal patrol, of defense against raids, and to a small degree, of engaging in anti-submarine warfare. However, their over-all combat capabilities are slight.

5. In general, the Caribbean and Central American republics are receptive to closer military cooperation with the US. The US maintains army missions in all the republics except the Dominican Republic and Haiti, air force missions in all but Costa Rica, the Dominican Republic, and Panama, and navy missions in Cuba, the Dominican Republic, and Haiti. In addition, all the republics except Costa Rica, El Salvador, and Panama have entered into bilateral military assistance agreements with the US under which they have agreed to contribute various units to Hemisphere defense.

<sup>1</sup> The Cuban army's capability for maintaining internal security is currently being challenged by a small group of rebels operating in the eastern mountains of Cuba.

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TABLE 1 — ARMED FORCES PERSONNEL STRENGTHS

	<u>Ground</u> <sup>1</sup>	<u>Air</u> <sup>2</sup>		<u>Naval</u>
Costa Rica	1,900	72	(11) <sup>3</sup>	none
Cuba	28,650	1,084	(85)	6,172 <sup>5</sup>
Dominican Republic	12,000	1,714 <sup>4</sup>	(98)	3,486 <sup>6</sup>
El Salvador	6,300	136	(23)	162
Guatemala	9,000	244	(45)	none
Haiti	4,900	131	(10)	296
Honduras	4,500	136	(23)	negligible
Nicaragua	4,000	242	(44)	negligible
Panama	2,500	none		none

<sup>1</sup> Includes army ground forces, national guard, and police units.<sup>2</sup> Numbers of rated pilots in parentheses.<sup>3</sup> National airlines pilots who fly in case of emergency.<sup>4</sup> Includes about 800 security troops which are part of air unit, and 120 cadets.<sup>5</sup> Cuba maintains a naval air arm with an additional estimated 268 personnel, 23 of whom are pilots.<sup>6</sup> Includes 756 marines.TABLE 2 — MILITARY AIRCRAFT

	<u>Total</u>	<u>Fighters</u>	<u>Light Bombers</u>	<u>Transports</u>	<u>Trainers Miscellaneous</u>
Costa Rica	4	3	0	0	1
Cuba	73	25	20	11	17
Dominican Republic	159	88	0	7	64
El Salvador	14	0	1	2	11
Guatemala	43	14	0	8	21
Haiti	17	4	0	6	7
Honduras	40	17	0	7	16
Nicaragua	64	28	2	6	28
Panama	0				

TABLE 3 — COMBATANT NAVAL VESSELS

	<u>Destroyers (DD)</u>	<u>Escort Vessels (DE)</u>	<u>Patrol Escorts (PF)</u>	<u>Escorts (PCE)</u>	<u>Sub-marine Chasers (PC)</u>	<u>Small Sub. Chasers (SC)</u>
Cuba		3		2		
Dominican Republic	2		7		3	2
Haiti						4

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## APPENDIX II

## ECONOMIC CONDITIONS AND TRENDS

1. The nine Caribbean republics vary widely in rate of economic growth and capacity for development. The area's generally low economic capability is indicated by the low level of per capita national income, which ranges from \$340 in Cuba to \$80 in Haiti, and is generally about \$200.<sup>1</sup> With the exception of Panama which depends substantially on commercial activities linked to the Panama Canal, their economies are based primarily upon agriculture, which provides nearly all their food requirements and the bulk of their exports. Except in the production of export crops, agricultural methods are technologically backward. The industrial plant, geared to limited national markets, is in general small and poorly equipped, and industrial output is confined largely to processed foodstuffs and nondurable consumers' goods.

2. Aspirations for economic improvement have stimulated, particularly during the past few years, numerous governmental development programs in the field of transportation, power generation, and agriculture. The implementation of such programs has been furthered by US monetary aid and technical assistance, and by IBRD, IMF, and UN assistance. As a result, the production of foodstuffs and raw materials for local consumption has on the whole kept pace with population growth, and most countries have also made limited progress in expanding the industrial sectors of their economies through increased production of consumers' goods and construction materials.

**US Private Investment**

3. US investments account for the only significant foreign private capital in the area, and they consist chiefly of plantations and

public utilities (transportation, telecommunications, and electric power).<sup>2</sup> Lack of confidence in political stability and the narrow limitations of the local market have been factors in retarding the inflow of private capital in the area. Since the Korean War, US oil firms, in response to official encouragement by the governments of the area, have stepped up exploration in the area. If sufficient resources are discovered, large capital investments will almost certainly follow.

4. The largest single US interest in the area is the United Fruit Company, parent of some 60 subsidiaries and operating in all the republics of the area except Haiti, and in certain other Latin American countries. It has large investments in banana, sugar, and abaca plantations, in railways, ports and ships, and in extensive telecommunications facilities. In Guatemala, Honduras, Costa Rica, and Panama, the Company is the largest private employer and largest single source of tax revenue. The American and Foreign Power Company is the second largest foreign enterprise in the area. It is particularly important in Cuba, Panama, Guatemala, and Costa Rica.

5. The dissatisfaction of the area with its "colonial" economic status finds expression in antagonism toward the large US corporations, particularly toward those which enjoy special privileges granted in former times. While the Communists exploit this dissatisfaction for their own purposes, the sentiment is nevertheless real and general. Various pressures have been brought to compel such interests to relinquish their special privileges and to pay higher wages and taxes. Following the expropriation of part of its assets in Guatemala under the Arbenz regime, the

<sup>1</sup> See Table 4.<sup>2</sup> See Table 5.~~CONFIDENTIAL~~  
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United Fruit Company recognized its extreme vulnerability to demands of political reform groups and renegotiated its concessions throughout the area. By this action, the Company has tempered local criticism and at the same time made itself even more important to the local economy. The American and Foreign Power Company has been relatively successful in adjusting to nationalist antagonism in Cuba and Panama, but it is still faced with strong anti-Company public and official pressure in Costa Rica and Guatemala. US-owned companies operating in the Dominican Republic have also experienced government pressures but this is a matter of private extortion by Generalissimo Trujillo rather than of public policy. The Dominican Republic is the only country in the area in which US investments have decreased substantially in recent years.

### Trade

6. Inasmuch as the area's requirements for capital goods and a very large portion of consumers' goods must be procured from abroad, foreign trade is vital to the national econo-

mies, and they are particularly vulnerable to fluctuations in the terms of trade. Close ties of local currencies to the US dollar and geographic proximity afford the countries easy access to US markets for both imports and exports. The United States is the principal trader with each of the nine countries, the principal exports of which are coffee, sugar, and bananas.<sup>3</sup>

7. After an interval of postwar readjustment, the trading position of the Caribbean countries has improved. A sustained rise in prices for export commodities has improved their terms of trade and stimulated economic growth. Coffee prices have retained the gains which have occurred since World War II, with Central American premium grades attracting strong demand from Europe as well as the United States. Sugar prices have fluctuated at improved levels in the postwar period, and are currently abnormally high. Banana prices have remained relatively stable near their postwar highs. Cotton prices, which only affect Nicaragua significantly, have recently declined.

<sup>3</sup> See Table 6.

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TABLE 4 — NATIONAL INCOME PER CAPITA, in  
US dollars (estimated 1957)

<u>Country</u>	<u>\$/Capita</u>
Costa Rica	\$200
Cuba	340
Dominican Republic	150
El Salvador	200
Guatemala	160
Haiti	80
Honduras	180
Nicaragua	160
Panama	250

TABLE 5 — US DIRECT INVESTMENTS IN CARIB-  
BEAN AREA, 1955 (Million Dollars)

<u>Country</u>	<u>Total</u>	<u>Agri- culture</u>	<u>Public Utilities</u>
Costa Rica	61	44	11
Cuba	723	276	305
Dominican Republic	134	102	5
El Salvador	24	n a	17
Guatemala	103	20	73
Haiti	18	9	3
Honduras	101	80	12
Nicaragua	19	n a	n a
Panama	479	52	154
<b>Total</b>	<b>1,662</b>	<b>583</b>	<b>580</b>

TABLE 6 — SELECTED COMMODITIES AS  
PERCENT OF TOTAL EXPORTS

<u>Country</u>	<u>1955 Figures</u>			
	<u>Sugar</u>	<u>Coffee</u>	<u>Bananas</u>	<u>Cotton</u>
Costa Rica	—	47	39	—
Cuba	80	—	—	—
Dominican Republic	44	30	—	—
El Salvador	—	86	—	8
Guatemala	—	73	23	—
Haiti	5	67	—	—
Honduras	—	15	52	—
Nicaragua	—	41	—	42
Panama	—	—	76	—

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