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Washington, D.C.

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**PUBLIC DISCLOSURE AUTHORIZED**

McNamara Papers

Travel  
Nov.

The Woodrow Wilson  
**Archives**  
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*Lucas B...*

PROGRAM FOR MR. R. S. MCNAMARA'S VISIT TO COSTA RICA

November 5-8, 1975

Wednesday, Nov. 5

19:30 Arrival at the Airport Juan Santamaria.  
Transfer to Hotel Cariari.

Thursday, Nov. 6

9:00-12:00 Meeting with the delegations of Central American countries and Panama.  
(Hotel Cariari. List of participants in Annex I.)

*8:00*  
*9:00-10:30*  
*10:30-11:15 Gua*  
*11:15-12:00 - bls*

12:00-13:30 Private lunch: President Oduber and Mr. McNamara.  
(Casa Presidencial.)

(12:00-13:30) Lunch for the Bank Mission and the delegations of Central America and Panama, hosted by the Costa Rican delegation. (Hotel Cariari).

13:30-15:00 Visit to the Barrios del Sur de San Jose.  
(San Jose slum area. President Oduber will accompany Mr. McNamara).

15:00-18:00 Bilateral meetings with the delegations of the five countries of Central America and Panama.  
(Hotel Cariari. Each meeting should take up to 30 minutes. Order of meetings in Annex II).

*15:00-15:45*  
*15:45-16:30*  
*16:30-17:15*  
*17:15-18:00*

EVENING FREE

Friday, Nov. 7

9:00

Departure (by helicopter, from Hotel Cariari) of Mr. McNamara and President Oduber to the Atlantic Region. Route will be over the area to be crossed by the proposed San Jose-Siquirres highway.

9:45-10:30

En route, visit to the Juan Viñas ranch. (Financed with the proceeds of a Bank Agricultural Credit Loan).

10:30

Departure (by helicopter) for Rio Macho hydroelectric plant.

11:00

Arrival at Rio Macho.

(9:15-10:45)

The rest of the Bank Mission, accompanied by a small number of Costa Rican officials (see Annex III) will leave Hotel Cariari by car and join President Oduber and Mr. McNamara at Rio Macho.

11:15-11:45

Meeting with the Management of ICE (National Power and Telecommunications Authority):

- Ing. Alex Murray, Executive President;
- Ing. Mario Hidalgo, Manager of Power Dept;
- Ing. Rodrigo Suarez, General Manager;
- Ing. Antonio Cañas, Manager of Telecommunications Dept.
- Ing. Teofilo de la Torre, Chief of the Electrification and Planning Department and the Executive Director of the National Aluminum Commission.

The ICE team will make a 30-minutes presentation of past achievements and planned future activity.

Informal lunch at Rio Macho.

12:00-13:30

14:00-14:45

En route to San Jose, visit to the Nutrition Center at Orosi. Dr. Hernan Weinstock, Minister of Health and Rene Castro, Program Coordinator, will provide information on the Government-sponsored programs of Family Allowances and Rural Health.

15:45-16:30

Visit to the headquarters of the National Apprenticeship Institute (INA), at the outskirts of San Jose. Lic. Fernando Volio, Minister of Education and Lic. Danilo Jimenez Veiga, Executive President of INA, will provide information on the Government education and vocational training policies.

16:45

Arrival at Cariari.

17:15-18:00

Meeting with the Costa Rican Committee for Coordination of Economic Policy:, including:

- Lic. Porfirio Morera, Minister of Finance;
- Lic. Jorge Sanchez, Minister of Economy, Industry and Commerce;
- Dr. Oscar Arias, Minister of Planning;
- Lic. Bernal Jimenez, Executive President of The Central Bank;
- Dr. Fernando Naranjo, Coordinator General of the Ministry of Presidency, to review the results of the two-day visit.

18:00-18:30

Meeting with a group of private businessmen.  
(Hotel Cariari. Names of participants in Annex IV.)

20:30

~~20:00~~

Dinner in honor of Mr. McNamara, hosted by Lic. P. Morera, Minister of Finance.  
(Hotel Ambassador. About a dozen distinguished citizens, including Ex-President Figueres, have been invited).

Saturday, Nov. 8

7:00

Departure via LACSA 620 for Miami. (Departure from Cariari at 6:30.)

12:45

Departure for Washington via Eastern 190.

ANNEX I

PARTICIPANTS AT THE MEETING OF NOVEMBER 6, 9:00-12:00  
(Hotel Cariari)

Costa Rica

Lic. Porfirio Morera, Minister of Finance - *Chairman*  
Lic. Jorge Sanchez, Minister of Economy, Industry and Commerce  
Lic. Bernal Jimenez, Executive President of Central Bank  
Dr. Fernando Naranjo, Coordinator General of the Ministry of Presidency  
Lic. Rodolfo Quiros, Advisor, Ministry of Presidency  
Ing. Rodolfo Silva, Ambassador to Washington

Guatemala

Eduardo Palomo, Minister of Economy  
Jorge Lamport, Minister of Finance  
Lic. Manuel Mendez Escobar, President of Central Bank

El Salvador

Rigoberto Martinez, Minister of Finance  
Atilio Vieytez, Minister of Planning  
Manuel Robles, Minister of Economy

Honduras

Porfirio Zavala, Minister of Finance  
Lic. Guillermo Buezo, President of Central Bank

Nicaragua

Juan Jose Martinez, Minister of Economy, Industry and Commerce  
Dr. Roberto Incer Barquero, President of Central Bank  
Gustavo Montiel, Minister of Finance

Panama

Nicolas Ardito Barletta, Minister of Planning - *dyg*  
Miguel Sanchiz, Minister of Finance

\*\*\*\*\*

Enrique Ortez Colindres, President of CABEI  
Amado Gavidia Hidalgo, Executive Director for Central America, IBRD



ANNEX II

ORDER OF BILATERAL MEETING WITH DELEGATIONS FROM CENTRAL  
AMERICA AND PANAMA

(Thursday, Nov. 6, 3-6PM, Hotel Carieri)

15:00 - 15:30	Guatemala
15:30 - 16:00	El Salvador
16:00 - 16:30	Honduras
16:30 - 17:00	Nicaragua
17:00 - 17:30	Panamá
17:30 - 18:00	Costa Rica

-----

ANNEX III

PARTICIPANTS IN THE FIELD TRIP, NOVEMBER 7, 1975

IBRD:

Mr. & Mrs. R. S. McNamara  
Mr. & Mrs. Krieger  
Messrs. W. Clark  
    E. Lerdsau  
    G. Flood  
    S. Burmester  
    G. Dolenc

GOVERNMENT OF COSTA RICA:

President D. Oduber  
  
Lic. P. Morera, Minister of Finance  
  
Ing. A. Jenkins, Minister of Public Works and Transport  
  
Dr. O. Arias, Minister of Planning  
  
Lic. J. Sanchez, Minister of Economy, Industry and Commerce  
  
Lic. B. Jimenez, Executive President of Central Bank  
  
Dr. F. Naranjo, Coordinator General, Ministry of Presidency  
  
Lic. B Soto, Ministry of Presidency

ANNEX IV

COSTA RICAN BUSINESSMEN MEETING WITH MR. MCNAMARA

(Friday, Nov. 7, 6-6:30 PM, Hotel Cariari)

Messrs. Walter Kissling, Manager and Owner of "Kativo" (paints & plastic)

✓ Humberto Perez, Manager & Owner of "Scott Paper of Costa Rica")

Celso Surroca, Owner of a Factory of zippers

Mario Esquivel, Rancher

✓ Juan Arres, Rancher

Ricardo Batalla, Rancher

✓ Miguel Barzuna, Clothing industry

NAMESROOMTELEPHONE

Mr. Mrs. Robert Mc.Namara.

204-205

234-235

Mr. ~~Mr.~~ Adalbert Krieger.

202-203

232-233

Mr. Gregory Dolenc.

101

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Mr. Gerald Flood.

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Mr. Sven Burmester.

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Mr. Enrique Lerdau.

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Mr. William Clark.

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VISIT TO COSTA RICA, NOVEMBER 5-8, 1975

<u>DATE</u>	<u>TIME</u>	
Wed. Nov. 5	19:30	Arrive San Jose
	20:00	Airport Reception
	20:15	Depart for Hotel Cariari
Thurs. Nov. 6	09:00	Meeting with Presidents
	12:00	Private lunch with Presidents
	13:30	Visit to low income area in San Jose
	15:00	Meetings with individual country delegations
	20:00	Informal dinner with small group of Costa Ricans
Fri. Nov. 7	09:00	Helicopter flight to <u>Siquirres</u> and <u>Turrialba</u>
	10:00	Visit to Bank-financed farm
	11:00	Arrive at Rio Macho: Presentation of plans and programs by Power and Telecommunications Company
	12:00	Lunch
	14:00	Visit to rural health and nutrition center
	16:00	Arrive San Jose
	17:00	Meeting with Economic Policy Committee
	17:45	Meeting with group of businessmen
		Evening Open
Sat. Nov. 8	07:00	Depart San Jose (change planes Miami)
	15:00	Arrive Washington

1030	Depart for Banco de la Republica	by car
1100-1200	Meeting with private sector	Board Room (Banco de la Republica)
<u>Attendance:</u>	Dr. Benjamin Martinez, President Financiera del Valle	
	Dr. Luis Fernando Echevarria, former Finance Minister, President ANDI (Employers Assn.)	
	Dr. Carl Paris, Entrepreneur from Barranquilla	
	Dr. Francisco Mejia, Industrial Manager	
	Dr. Jose Alejo Cortez, President Seguros Bolivar	
	Dr. Jorge Mejia Salazar, President Banco de Bogota	
1200-1400	Lunch with Government economic team, top bankers and industrialists	Banco de la Republica
1400	Depart for Bogota Hilton	by car
1430	Depart to Military Airbase, Bogota	by car
1500	Depart for Cartagena	by plane
1600	Arrive Cartagena Airport	
1630-1700	Helicopter trip around Cartagena	
1700-1800	Visit to proposed urban development project site, Slum Cienaga de la Virgen	
1900 0000	Depart for Costa Rica	Presidential plane

General Remarks

Government party in Cartagena will be joined as follows:

Dr. Jose Vicente Magollon, Chief of Construction Association  
 Dr. Nicolas del Castillo, Governor of Province of Bolivar  
 Mayor of Cartagena

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	1930 0130	Arrive San Jose
	2000	Airport Reception
	2015	Depart for Hotel Cariari
Nov. 6		
Thurs.	0900	Meeting with Presidents
	1200	Private lunch with Presidents
	1330	Visit to low-income area in San Jose
	1500	Meetings with individual country delegations
	2000	Informal dinner with small group of Costa Ricans
Nov. 7		
Fri.	0900	Helicopter flight to Siquirres and Turrialba
	1000	Visit to Bank-financed farm
	1100	Arrive at Rio Macho: presentation of plans and programs by Power and Telecommunications Company
	1200	Lunch
	1400	Visit to rural health and nutrition centers
	1600	Arrive San Jose
	1700	Meeting with Economic Policy Committee
	1745	Meeting with group of businessmen
		Evening free

Nov. 8	0730	1330	Depart San Jose
Sat.	1115	1615	Arrive Miami
	1245	1745	Depart Miami
	1458	1958	Arrive Washington--National

LR620Y (BAC11) non-stop

EA190 (B727) non-stop  
(economy)

SB  
October 28, 1975

STATEMENT UPON ARRIVAL IN COSTA RICA

This is my first visit to Costa Rica and I am delighted to be here. As you know, the World Bank is participating in your country's development efforts in a number of important sectors. We have supported projects in transport, electric power, agriculture, education and communications; and have committed approximately \$115 million to help them succeed. We want to continue our assistance in these fields, and in others. I would hope, for example, that we can enlarge our participation in your rural development work, as well as provide further support for your industrial growth.

During my stay I hope to see for myself some of the progress that is being made and get a better grasp of the problems that remain. I am looking forward to meeting with your distinguished President and his Ministers, and discussing with them your development plans.

A dozen years ago -- only a few short months before his death -- John F. Kennedy, in his visit here, spoke of the common goals of the entire region. "No man's job is done," he said, "until every man in this hemisphere shares an equal opportunity to pursue his hopes as far as his capacities will carry him."

Surely that is the ultimate goal of development -- for Costa Rica, for this hemisphere, for the world at large.

We in the Bank believe that progress towards that goal is possible, and practical. And we are pleased to be associated with your own determined efforts to make it happen.

END



C

# background NOTES

## Costa Rica

department of state \* march 1975

OFFICIAL NAME: Republic of Costa Rica

### GEOGRAPHY

Costa Rica is located in a narrow section in southern Central America between Nicaragua and Panama. It is the second smallest Central American republic.

The country is comprised mainly of high, rugged mountains and hills drained by numerous streams and rivers. Extensive forests cover about two-thirds of the area. There is a rela-

tively wide coastal plain in the east and a narrower plain on the Pacific coast. A volcanic mountain system composed of three ranges extends the length of the country with elevations in the southern Talamanca range reaching almost 13,000 feet above sea level.

The climate of Costa Rica is influenced strongly by its tropical location and by the adjacent warm ocean waters. The most important control on

temperature variation is that of elevation. At some lowland locations, mean maximum temperatures reach the low 90's, while in the highlands, where most of the people live, the mean maximum temperatures are usually in the 70's or low 80's. Costa Rica has only two seasons: the wet season (May-November) and the dry season (December-April). The Caribbean plain, however, receives heavier rainfall throughout the year.

### PROFILE

#### Geography

AREA: 19,700 sq. mi. (slightly smaller than W. Va.). CAPITAL: San José (pop. 215,422).

#### People

POPULATION: 1.9 million (1973 est.). ANNUAL GROWTH RATE: 2.7% (1973). DENSITY: 95 per sq. mi. ETHNIC GROUPS: Spanish, other Europeans, Mestizo, Negro, American Indian, Chinese. RELIGION: Predominantly Roman Catholic. LANGUAGES: Spanish, a Jamaican dialect of English (used near Puerto Limón). LITERACY: 89%. LIFE EXPECTANCY: 69 yrs.

#### Government

TYPE: Democratic republic. INDEPENDENCE: September 15, 1821. DATE OF CONSTITUTION: November 7, 1949.

BRANCHES: Executive—President (Head of Government and Chief of State; elected for a single 4-year term), two Vice Presidents, Cabinet (currently 11 Ministers), Council of Government (President and Ministers). Legislative—unicameral Legislative Assembly (57 deputies elected to a single

4-year term). Judicial—Supreme Court of Justice (17 Magistrates elected by Assembly).

POLITICAL PARTIES: National Liberation Party (PLN), National Unification (UN), National Independent Party (PNI), Party of Democratic Renewal (PRD), Socialist Action Party (PASO). SUFFRAGE: Obligatory over 18. POLITICAL SUBDIVISIONS: 7 Provinces, subdivided into cantons and districts.

FLAG: Two blue horizontal stripes top and bottom, two white inner stripes, and a wide red center band with the country's coat of arms.

#### Economy

GROSS NATIONAL PRODUCT (GNP): \$1.125 billion (1973 current prices). ANNUAL GROWTH RATE: 22% (1972-73 current prices), est. 4% (1974, real terms). PER CAPITA INCOME: \$625 (1973). PER CAPITA GROWTH RATE: 20% (1972-73 current dollars), est. 1.7% (1974 real terms).

AGRICULTURE: Land 50%. Labor 49%. Products—coffee, bananas, livestock, cacao, sugar, basic grains, forestry.

INDUSTRY: Products—processed foods, beverages, wood, chemicals, textiles, tourism.

NATURAL RESOURCES: Forests, bauxite, manganese, hydroelectric power.

TRADE: Exports—\$342.2 million (1973): bananas \$96.2 million, coffee \$94 million, industrial products \$89.9 million. Partners—U.S. \$115.1 million (34%), Central American Common Market (CACM) \$70.5 million, Federal Republic of Germany (F.R.G.) \$44 million. Imports—\$455.4 million (1973): transport equipment, machinery, paper products, electrical machinery, ferrous metal. Partners—U.S. 36%, CACM 18%, Japan 8%, F.R.G. 6%.

OFFICIAL EXCHANGE RATE: 8.54 colones=US\$1.

ECONOMIC AID RECEIVED: Total—\$490 million (loans and grants since 1949): IBRD \$23.5 million (FY 1974), IDB \$16 million (FY 1974). U.S. only—\$13.7 million (FY 1974): AID loan \$7.9 million, AID grant \$1 million, Food for Peace \$0.5 million; Peace Corps \$0.77 million; Ex-Im Bank \$3.5 million.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: U.N., Organization of American States (OAS), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), CACM, Inter-American Development Bank (IDB), Rio Pact, other regional groups.



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## PEOPLE

Unlike its Central American neighbors, Costa Ricans are overwhelmingly of European descent, predominantly Spanish. The indigenous Indian population numbers about 5,000, a substantial decline from the 25,000 Indians who inhabited Costa Rica at the time of the first Spanish settlement in 1522. Negroes, descendants of Jamaican workers who immigrated to Costa Rica in the late 19th century, constitute the only significant minority group. They number about 30,000 and are centered principally around Puerto

Limón in the Caribbean.

Costa Rica has placed great emphasis on education for many years and its literacy rate is one of the highest in Latin America. Some 84 percent of the school age population are enrolled in primary school. Most Costa Ricans continue to live in rural areas, and San José is the only city of over 100,000.

## HISTORY

Christopher Columbus discovered what is now Costa Rica on September 18, 1502, on his fourth and last voyage to the New World. The territory

was a Spanish Crown Colony from 1522 until independence. The Spaniards who arrived in the early 16th century found no readily exploitable mineral wealth among the country's resources. They tried to establish the usual *encomienda* system based on grants of high expanses of land complete with resident Indians to work the land. However, the Indians, although never very numerous, proved to be intractable and fiercely resisted efforts to be exploited. A Spaniard in Costa Rica, therefore, found himself to be a colonist and not a conqueror; he had to work his own land because there

READING LIST

These titles are provided as a general indication of the material published on this country. The Department of State does not endorse the specific views in unofficial publications as representing the position of the U.S. Government.

American University, *Area Handbook for Costa Rica*. Washington, D.C.: U.S. Government Printing Office, 1970.

John Patrick Bell, *Crisis In Costa Rica*. University of Texas Press, 1971.

Biesanz, John and Mavis. *Costa Rican Life*. New York: Columbia University Press, 1944.

Busey, James L. *Notes on Costa Rican Democracy*. Boulder: University of Colorado Press, 1962.

*Costa Rica*. Washington, D.C.: Pan American Union, 1966.

Denton, Charles F. *Patterns of Costa Rican Politics*. Boston: Allyn and Bacon, 1971.

Gordon, Jerome B. "Labor Mobility and Economic Growth: The Central American Experience—Costa Rica and El Salvador." *Economic Development and Cultural Change*, v. 17. University of Chicago, April 1969.

Heath, Dwight B. "Costa Rica and Her Neighbors." *Current History*, v. 58. Rand McNally, Feb. 1970.

Charles P. Loomis et al., eds. *Turrialba, Social Systems and the Introduction of Change*. New York: Glencoe, 1953.

of the coffee-growing industry in the early 19th century and banana cultivation in the late 19th century opened important new sources of wealth. Some Costa Ricans accumulated large fortunes and class differences began to emerge. But the experiences of the 17th and 18th centuries left their imprint on the nation's social and political attitudes.

The elections of 1889 are generally considered the beginning of the modern political era in Costa Rica. Those elections—the first truly free and honest in the country—constituted a turning point in the development of democracy. Since 1889 there have been only two significant interruptions in constitutional government: the 30-month dictatorship of Federico Tinoco which began in 1917, and the revolution of 1948, which broke out after the Legislative Assembly annulled the disputed presidential elections. The revolution, led by José Figueres Ferrer, was followed by 18 months of rule by a government junta, which presided over preparation of a constitution. The victorious candidate of the 1948 elections was inaugurated in 1949 and served a full term.

Since the revolution there have been six presidential elections in Costa Rica and only in 1974 was the candidate of the party in power successful.

GOVERNMENT

According to the Constitution of 1949, Costa Rica is a democratic republic. The government is divided into three branches: executive, legislative, and judicial. The relative power of the legislative branch within the government structure is well developed. Executive power, vested in the President, is somewhat limited by Latin American standards, although the President remains the indisputable center of power. Elections for the President and deputies of the Legislative Assembly are held every 4 years. The electoral process is under the control of the Supreme Electoral Tribunal, which since 1949 has had complete independence in carrying out its function.

The President and two Vice Presidents run for office on the same ticket. A constitutional amendment

passed in 1969 prohibits the reelection of former Presidents; however, it specifically excepted those who were already ex-Presidents at the time the law was passed.

The unicameral Legislative Assembly is elected at the same time as the President and Vice Presidents on the basis of proportional representation. Deputies cannot be reelected for successive terms.

Judicial power is exercised by the Supreme Court of Justice and by subsidiary courts established by law. The 17 Magistrates are elected for 8-year terms by the Legislative Assembly.

Government at the provincial level is not highly developed; there are no legislatures, and executive authority is exercised by a Governor appointed by the President.

In addition to the traditional branches of government, the Costa Rican governmental structure, since 1948, has come to include numerous autonomous state agencies enjoying substantial independence from the other branches. Among others these include the nationalized commercial banks, the state insurance monopoly, and the Social Security Agency. An unusual feature of the Constitution is the proscription of the army as a permanent institution, although military forces may be organized for national defense or by hemispheric agreement. Public order is preserved by police forces—a 2,800-member Civil Guard and a 2,300-member Rural Assistance Guard.

Principal Government Officials

- President—Daniel Oduber Quiros
- First Vice President and Minister of the Presidency—Carlos Manuel Castillo
- Second Vice President—Fernando Guzman Mata

Ministers

- Foreign Affairs—Gonzalo Facio Segreda
- Economics, Industry and Commerce—Jorge Sanchez Mendez
- Government—Edgar Arroyo Cordero
- Finance—Porfirio Morera Batres
- Public Security—Mário Charpentier Gamboa
- Agriculture—Hernan Garron

was no supply of Indian labor to work the land for him. As a consequence, there evolved a system of poor, small landholders cultivating their own land. The involuntary egalitarian poverty of the small farmers, the ethnically and linguistically homogeneous population, and the relative isolation of the area from the centers of Spanish colonial rule were factors which contributed to the growth of an independent and individualistic agrarian society.

After Costa Rica achieved independence in 1821, the isolation and poverty which marked colonial existence gradually diminished. The introduction



Costa Rica's Legislative Assembly

Labor—Francisco Morales Hernandez  
Ambassador to the U.S. and OAS—  
Rodolfo Silva Vargas  
Ambassador to the U.N.—Fernando  
Salazar Navarette

Costa Rica maintains an Embassy in  
the U.S. at 2112 S. Street, NW,  
Washington, D.C. 20008.

### POLITICAL CONDITIONS

The leading political party in Costa Rica since the 1948 revolution has been the National Liberation Party (PLN) founded by José Figueres Ferrer, who served two terms as President and is currently PLN president. The PLN and a coalition of anti-PLN parties joined in a formal coalition and won alternate Presidential elections until 1974. The elections of February 1974 saw a loosening of traditional party ties and the emergence of several dynamic minor parties, the National Independent Party (PNI) and the Party of Democratic Renewal (PRD). As a result, PLN candidate Daniel Oduber was elected President with 43 percent of the vote while the coalition National Unification (UN) candidate received 30 percent. For the first time in its history the PLN failed to win an As-

sembly majority, gaining 27 of the 57 seats. The UN won 16 seats, the PNI 6, and the PRD 3. The Socialist Action Party (PASO), the electoral vehicle of the Communist party, retained its two Assembly seats. The next elections are scheduled for February 1978.

President Daniel Oduber, who was inaugurated on May 1, 1974, has announced the intention of his administration to improve the lot of the common man, particularly in rural areas, and to centralize and streamline governmental bureaucracy. The principal economic and social legislation of the Oduber administration—the Family Assistance Law—was passed by the Assembly in December 1974 and will increase nutritional, health, and social services to the poor. The Oduber administration has also had to deal in its first year with serious inflation and balance-of-payments problems.

Throughout its history Costa Rican political life has contrasted sharply with that of its neighbors and most other Latin American countries. It has steadily developed and maintained democratic conditions and has an orderly constitutional government. Several elements have played a key role in this advancement, among them

educational opportunities, enlightened government leaders, comparatively high economic levels, and flexible class lines.

### ECONOMY

Costa Rica has Central America's highest per capita gross national product and most evenly distributed national income. The rate of population growth has decreased markedly from one of the highest in the hemisphere during the 1960's to 2.7 percent today.

Although industry is becoming increasingly important, agriculture is still predominant, employing about half the labor force. The country is also heavily dependent on agricultural products for its export earnings; bananas and coffee accounted for 58 percent of the 1973 total. Since joining the Central American Common Market (CACM) in 1963, Costa Rica's trade within the organization has increased substantially. Industrial exports in 1973 were sold largely to CACM countries.

Improved prices of export commodities in 1973 significantly increased foreign exchange reserves and diminished balance-of-payments problems. However, increased costs of petroleum (the country must import all its petroleum needs) and other imports during 1974 have negatively affected Costa Rica's balance of payments and foreign exchange reserves. The Central Bank in the fall of 1974 increased interest rates and imposed credit restrictions in order to reduce imports and the outflow of foreign exchange.

After many years of relative price stability Costa Rica has been experiencing a domestic inflation over the past 2 years of from 15 to 40 percent annually. Despite this inflation, construction activity increased greatly during 1973 and early 1974.

Costa Rica has good prospects for sustained high levels of investment, particularly in bauxite mining, agribusiness, tourism, and light industry.

Costa Rica welcomes foreign private investment. The country has no outstanding investment disputes with U.S. firms and tends to approach any such disagreements on a case-by-case

basis. Some 8,500 Americans live in Costa Rica; many are retirees. Pending before the Legislative Assembly are several draft bills to control more closely the business activities of resident foreigners. Land speculation by foreigners has been the area most subject to local criticism.

## FOREIGN RELATIONS

Costa Rica is a vigorous and respected member of many international organizations including the U.N., where it holds a Security Council seat during 1974 and 1975. Costa Rica is also active in the OAS and has expressed a firm commitment to the Inter-American Treaty of Reciprocal Assistance. In November 1974, Costa Rica cosponsored an unsuccessful motion to repeal OAS Cuban sanctions.

Costa Rican support of efforts to strengthen CACM has increased during 1974. President Oduber has also moved to strengthen Costa Rica's relations with Panama, the other Central American countries, Venezuela, Colombia, and the Caribbean states. Costa Rica does not have diplomatic relations with Cuba.

## U.S.-COSTA RICAN RELATIONS

Relations between the United States and Costa Rica have been particularly warm and cordial, owing in large part to a mutual respect for shared democratic tradition. Costa Rica and the United States frequently share similar views on matters before international forums. The United States has no major disputes with Costa Rica.

A primary goal of U.S. policy for

many years has been to assist the country's development efforts, and Costa Rica has achieved notable progress in its advanced social programs and educational standards.

The U.S. Agency for International Development's (AID) current objectives in Costa Rica are to help broaden and accelerate growth in the agriculture sector. This is being done primarily through the implementation of a joint AID-Government of Costa Rica agricultural development program which is designed to assist the low income farmer to achieve a higher standard of living, to help Costa Rica increase production, and, where possible, to achieve self-sufficiency.

AID also assists Costa Rican programs to provide family planning services and to improve nutrition standards throughout the country. In addition to AID, a variety of other U.S. programs operate in Costa Rica, including a very active United States Information Service (USIS) cultural and exchange program; a well-received Peace Corps of about 160 volunteers, working principally in agriculture, education, health, and nutrition; and private exchanges of students, technicians, and other interested Americans and Costa Ricans.

### Principal U.S. Officials

Ambassador—Terence A. Todman  
Deputy Chief of Mission—Lyle F. Lane  
AID Affairs Officer—Joe J. Sconce  
Public Affairs Officer—Wesley D. Stewart  
Peace Corps Director—Abe Pena

The U.S. Embassy in Costa Rica is located at Calle 1, Avenida 3, San José.

## TRAVEL NOTES

*Climate and Clothing*—San José, at an altitude of 3,800 feet, has an average temperature of 74° F. Its rainy season occurs from May to November; however, more rain falls throughout the year in the Caribbean, somewhat less rain falls in the northwest. Spring-weight clothing, with a sweater for winter evenings and trips to the mountains, and umbrellas are recommended.

*Customs*—U.S. citizens arriving by air need a tourist card issued by airline offices and proof of U.S. citizenship or a passport with a Costa Rican visa. Overland travelers should carry a U.S. passport and visas for those countries they will enter. Also required for entry to Costa Rica is an onward travel ticket and sufficient funds to defray expenses. All Central American countries require proof of smallpox vaccination for entry.

*Health*—Medical services are good for most purposes. Essential medicines are available locally. The most serious health hazards, including diarrhea, amoebic dysentery, and typhoid occur more frequently outside the capital area. Tap water should be boiled, and fruits and vegetables well prepared.

*Telecommunications*—An automatic telephone service covers all of Costa Rica. Direct-dial service to the U.S. was installed recently. Campania Radiografica handles all international telegrams.

*Transportation*—Principal cities are connected by highway, air, or rail with San José. PanAm and LACSA, the national flag airline, have daily flights to several U.S. cities, and San José has air connections to other Central American capitals. Within San José, taxis are efficient, but fares should be agreed upon in advance. Buses serve all parts of the city and nearby suburbs.

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# EL SALVADOR

## BACKGROUND NOTES

### PROFILE

#### GEOGRAPHY

AREA: 8,000 sq. miles (about the size of Massachusetts). CAPITAL: San Salvador (pop. 368,000). OTHER CITIES: Santa Ana (pop. 96,306), San Miguel (pop. 59,304).

#### PEOPLE

POPULATION: 3.5 million (1971 census). ANNUAL GROWTH RATE: 3.5%. DENSITY: 437 per sq. mile. ETHNIC GROUPS: 89% Mestizo, 10% Indian, 1% Caucasian. RELIGION: Largely Roman Catholic. LANGUAGES: Spanish. LITERACY RATE: 69.5% of persons over age 10.

#### GOVERNMENT

POLITICAL SUBDIVISIONS: 14 Departments. INDEPENDENCE: 1821. TYPE: Republic. CONSTITUTION: January 8, 1962.

FLAG: Two dark blue horizontal stripes and a white middle band. In the center is a coat of arms inscribed "1821", the date of independence from Spain. The blue-and-white-stripe theme occurs in all the banners of the original five Central American Republics.

BRANCHES: Executive—President (Chief of State and Head of Government), 5-year term; Legislative—Unicameral Legislative Assembly (52 Deputies elected to 2-year terms); Judiciary—Supreme Court.

#### ECONOMY

GNP: \$1.1 billion (1971). GROWTH RATE: 4.4%. PER CAPITA INCOME: \$299. PER CAPITA GROWTH RATE: 0.9%.

TRADE: Exports—\$228 million (1971): coffee \$93 million, cotton \$29 million, textiles \$16 million, sugar \$9 million, shrimp \$5 million. Partners—U.S. \$52 million, Federal Republic of Germany \$45 million, Guatemala \$44 million, Japan \$29 million, Costa Rica \$21 million, Nicaragua \$16 million. Imports—\$248 million (1971)—machinery/transportation equipment \$54 million, petroleum products \$13 million, medicinal and pharmaceutical products \$13 million, chemicals \$12 million, iron and steel \$11 million, paper and paper products \$10 million, fertilizer \$10 million.

Partners—U.S. \$62 million, Guatemala \$42 million, Japan \$26 million, F.R.G. \$18 million, Costa Rica \$11 million, Nicaragua \$11 million, Venezuela \$10 million.

AGRICULTURE: Arable/cultivated/pasture—67%. Products—coffee, livestock, cotton, corn, poultry, sugar, sorghum. Labor—47%.

INDUSTRIES: Products—food and beverages, textiles, footwear and clothing, chemical products, petroleum products. Labor—8%.

OFFICIAL EXCHANGE RATE: 2.5 colones = U.S. \$1.00.

FOREIGN AID RECEIVED (cumulative 1946-71): Total (all sources)—\$251 million, Total U.S.—\$146 million: AID (\$84 million), PL 480 (\$20 million), Peace Corp (\$5 million), EX-IM (\$13 million), Other (\$24 million).

#### GEOGRAPHY AND PEOPLE

El Salvador is located in Central America, bordered by Guatemala and Honduras and facing the Pacific Ocean. It is the smallest mainland American Republic.

The country is divided into three distinct regions by mountain ranges running east to west: a hot, narrow Pacific coastal belt on the south; a subtropical central region of valleys and plateaus, where most of the population lives; and a mountainous northern region. Ninety percent of the land is of volcanic origin, and a number of the volcanic cones which dominate the landscape have been active in this century. Santa Ana—the highest volcano—is 7,822 feet above sea level. Mountains along the border with Honduras reach an altitude of nearly 9,000 feet. Almost all of the arable land is under cultivation, and coffee is grown right to the summit of many volcanoes.

Except on the coastal plain, the climate of El Salvador is warm rather than hot, and the nights are cool, despite the country's location only 14° north of the Equator. Although rainfall is fairly high during the June-October rainy season, the sun shines throughout the year.

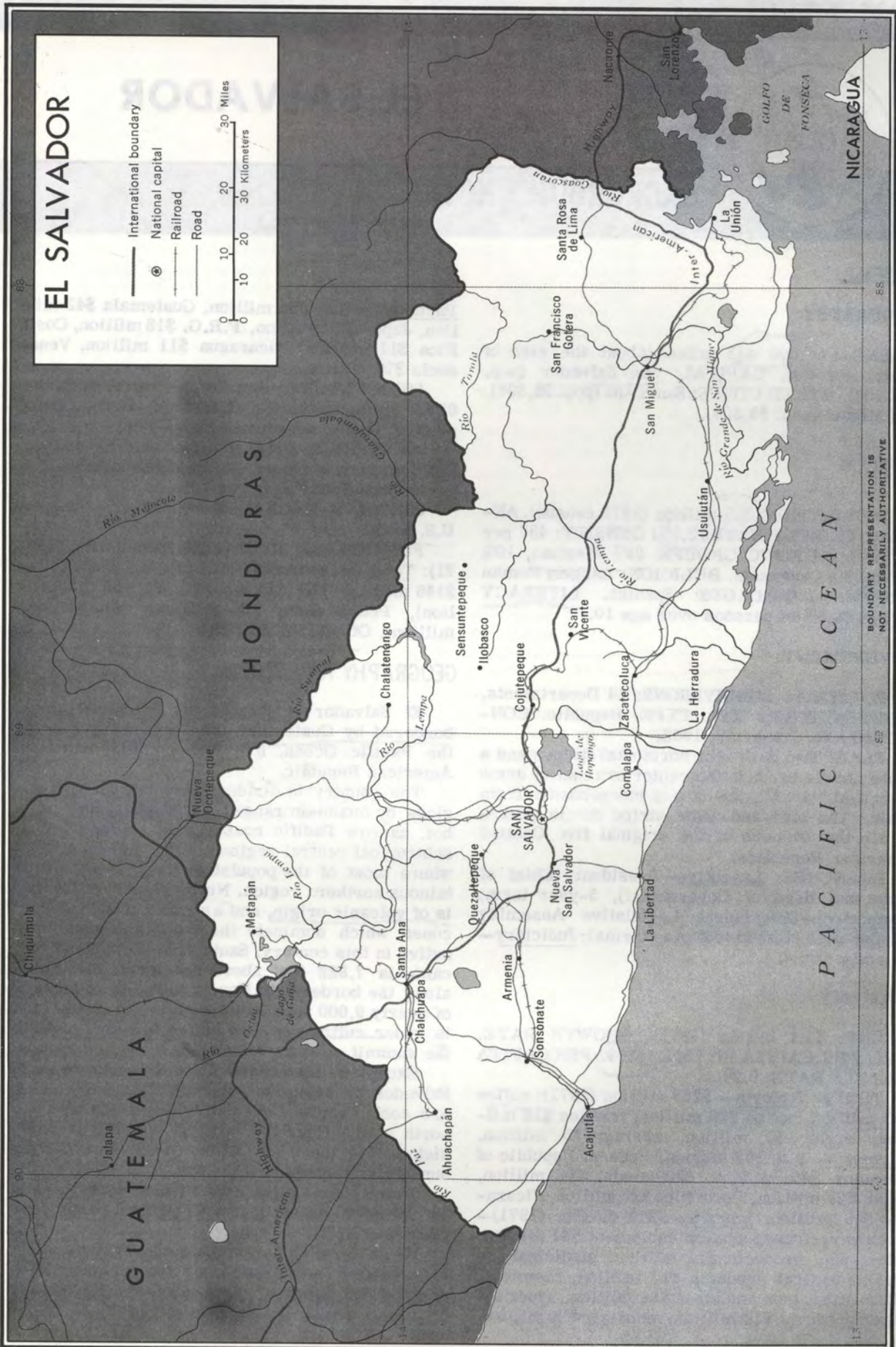
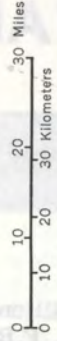
There are no significant foreign minorities in El Salvador. An estimated 60 percent of the population is rural.

While a few Indians have retained many of their old customs and traditions, the majority have adopted the Spanish language and culture and are characterized by the cultural term ladino.



# EL SALVADOR

- International boundary
- National capital
- Railroad
- Road



BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE

## HISTORY

Prior to the Spanish conquest the area which is now El Salvador was made up of two large Indian states and several principalities. The indigenous inhabitants were a Nahua race called Pipiles, with a civilization similar to that of their Aztec cousins. Remains of Nahua culture may be found today at such ruins as those of Tazumal (near Chalchuapa) and San Andres (northeast of Armenia).

The first Spanish attempt to subjugate this area failed in 1523 when Pedro de Alvarado was forced to retreat by the Pipil forces. In 1525 he returned and was successful in bringing the district under the control of the Captaincy General of Guatemala where it remained until 1821, despite an abortive revolutionary attempt in 1811.

In 1821 El Salvador and the other Central American countries, or provinces, declared their independence from Spain and united with Mexico for a short-lived union. In 1823 the Federal Republic of Central America was formed independently by the five Central American states under Manuel José Arce. When this federation was dissolved in 1829, El Salvador began its existence as an independent republic.

As elsewhere in Central America, frequent revolutions have marked El Salvador's history as an independent state, although relative stability was achieved in the period 1900-30 and in the 1950's. Following bloody suppression of a Communist-abetted peasant revolt in 1931, Gen. Maximiliano HERNANDEZ Martínez served as President until 1944, despite constitutional prohibitions against successive terms. After Hernández' forcible overthrow in 1944, Gen. Salvador CASTAÑEDA Castro was elected President. He in turn was overthrown in 1948 by a group of younger army officers. Lt. Col. Oscar OSORIO emerged as the dominant figure from this group, served as elected President from 1950 to 1956, and relinquished power peacefully to an elected successor from his own political party, Lt. Col. José María LEMUS.

In the late summer of 1960 the constitutional Lemus government alienated most of its popular support in a series of clashes with demonstrating university students, and on October 26, 1960, it was overthrown by a bloodless coup d'état. The civilian-military junta which followed was overthrown on January 25, 1961, by a military counter-coup, and a new Provisional Government, headed by a civilian-military Directorate, was established. This Government expressed itself as being strongly in favor of needed social reform along the lines of those enunciated by the Act of Bogota (adopted on September 13, 1960, which outlined measures for social improvement and economic cooperation among the American Republics) and the subsequent Alliance for Progress, and enactment of a number of significant reform measures followed. The political party established in September 1961 under Directorate member Lt.

Col. Julio Rivera, the National Conciliation Party (PCN), won all 52 seats in Legislative Assembly elections held in December 1961.

Following the January 1961 coup d'état the Directorate Government forcibly suppressed the activities of pro-Communist groups. These activities had expanded in the atmosphere of relative freedom for all political groups which had existed under the preceding junta Government.

In January 1962 the Legislative Assembly promulgated a new Constitution and restored constitutional government under a Provisional President. In April presidential elections were held, with the opposition parties refusing to participate, and Lt. Col. Julio Rivera of the PCN was the victorious candidate. His inauguration for a 5-year term took place on July 1. (In March 1968 Col. Rivera was appointed Ambassador to the United States.) His popularly elected successor, the PCN candidate, Col. Fidel SANCHEZ Hernandez, was inaugurated on July 1, 1967. Col. Arturo Armando MOLINA was elected to succeed Sanchez in 1972.

In July 1969 El Salvador fought a brief but bloody war with Honduras, in which the mobilized armies of the two countries clashed along El Salvador's northern frontier, and the air forces struck at each other's cities and military installations. Salvadoran troops penetrated up to 18 miles into Honduras at some points. Five days of fighting took place before the Organization of American States (OAS) was able to achieve a ceasefire and later effect withdrawal of Salvadoran forces from Honduran territory. With full U.S. participation, the OAS placed an observer team along the border to supervise a "pacification zone" agreed upon by Honduras and El Salvador. Except for minor border incidents, some attributable to common bandits, there has been no recurrence of hostilities, and the last OAS observer personnel were withdrawn in December 1971. Border security is now handled directly by the countries' armed forces.

El Salvador has held that military action was justified to protect the large numbers of Salvadoran citizens who resided in Honduras before the conflict. The alleged persecution of Salvadoran citizens in Honduras, culminating in the flight of tens of thousands back to El Salvador, led to an increasingly tense situation between the two countries before July 1969.

The emotional impact of events surrounding the playing of two international soccer series between Honduras and El Salvador triggered the actual fighting, which has led to the misleading popular labeling of the conflict, in the United States, as the "Soccer War."

Normal relations with Honduras have not yet been restored, although in August 1972 the Government of El Salvador, in a move designed to promote good will, declared that Hondurans could enter Salvadoran territory without visas.

## GOVERNMENT

The government provided for by the 1962 Constitution is republican, democratic, and representative in form. It is also highly centralized. There is a division of functions into independent executive, legislative, and judicial branches. All Salvadorans over 18 years of age and having civil rights are permitted to vote.

Executive power in El Salvador is vested in the President (Chief of State and Head of Government) and a Council of Ministers (cabinet), which is appointed by the President. He and the Vice President are elected concurrently by direct popular vote for a 5-year term, but they need not be members of the same political party. Neither one can succeed himself in office.

The unicameral Legislative Assembly has 52 Deputies popularly elected to 2-year terms on the basis of proportional representation. There is no bar to reelection. Legislation may be introduced by the executive branch, Deputies, or the Supreme Court, and becomes law only after legislative and presidential approval and publication in an official gazette.

The apex of the judicial system in El Salvador is the Supreme Court. The 10 magistrates are appointed by the Legislative Assembly for 3-year terms.

For administrative purposes the country is divided into 14 Departments, each headed by a Governor appointed by the President. Municipal councils elected by popular vote are responsible for local government.

## POLITICAL CONDITIONS

The National Conciliation Party (PCN) has remained the party in power since its founding in 1961. It is a centrist party favoring social reform and enjoying the support of the military.

The principal opposition party is the Christian Democratic Party (PDC) which since 1964 has participated in the political process and worked for its goals within the constitutional system of the country. It is related ideologically to the Christian Democratic Movement which is active in other parts of Latin America. The PDC advocates social reform from a position more to the left of the PCN. Smaller opposition parties include the Salvadoran Popular Party (PPS) and the United Independent Democratic Front (FUDI) on the right, and the National Revolutionary Movement (MNR) and National Democratic Union Party (UDN), on the left.

The most recent presidential election was held on February 20, 1972, in which 72 percent of the registered voters actually cast ballots. The PCN candidate, Col. Arturo Armando Molina won 41.5 percent of the vote cast. His major opposition was provided by Napoleon Duarte, a Christian Democrat running for the National Opposition Union (UNO) a coalition composed of the PDC, MNR, and UDN. Duarte received 40.3 per-

cent of the vote cast. Since neither candidate received a majority, the Legislative Assembly was utilized to choose the next President from among the two candidates with most votes. The Assembly, which had a PCN majority, elected Molina. UNO alleged fraud in the count of the popular vote.

In the legislative elections held March 12, 1972, the PCN won 39 seats in the Legislative Assembly; UNO received 8; the PPS 4; and FUDI 1. In these elections the Central Electoral Council banned slates of opposition candidates from a number of departments on legal-technical grounds.

The activities of the small, illegal Communist Party of El Salvador (PCES) have been kept under effective control by the Government.

The basic objectives of the Government are the increased well-being of the Salvadoran people through economic and social development and the maintenance of stable, constitutional government. To attain these ends it aims especially at diversification of the economy and development of industry; Central American reunification commencing with economic integration; and stabilization of the world prices of its major exports, coffee and cotton, at the highest possible levels. It is interested in U.S. and international assistance for its economic development.

## ECONOMY

The basic economic and social problems of the underdeveloped Salvadoran economy include a heavy population pressure on the land, a very high population growth rate, an economy excessively dependent on coffee, limited unused arable land and mineral resources, a high illiteracy rate, high seasonal unemployment, and a very uneven distribution of income. The industrial sector, mostly related to the processing or production of light consumer goods, has been developing well in the recent favorable investment climate. The economic infrastructure, such as roads, electric power, and commercial banking facilities, also is fairly well-developed. The economy still is primarily agricultural, with coffee representing 41 percent of total exports and cotton, 13 percent. Corn, beans, and sorghum are the chief subsistence crops.

The United States is El Salvador's principal trading partner, taking about 23 percent of its exports (mostly coffee, sugar, and shrimp) and providing 28 percent of its imports (mainly in manufactured goods, vehicles, and machinery). These percentages have dropped in recent years as El Salvador's trade with other countries, particularly the Federal Republic of Germany, Japan, and member nations of the Central American Common Market (CACM), has increased. Exports to all destinations totaled an estimated U.S. \$228 million in 1971 as against imports estimated at \$248 million in the same year. El Salvador's key location and entrepreneurial enthusiasm have made it the leading exporter of manufactured goods among the Central American countries.

U.S. investment in El Salvador is estimated at \$90 million, primarily in banking, refining imported crude oil, and manufacturing.

After 1957 the Salvadoran economy suffered the contractionary effects of falling world coffee prices, including increased unemployment and underemployment; reduced grower profits; reduced government revenues (heavily dependent on import duties and a coffee export tax); and a decline in a previously rising per capita gross national product (GNP).

Political instability accentuated these problems, affected investor confidence, and contributed to a balance-of-payments crisis in 1961. However, by putting into effect a politically difficult corrective program with the help of the International Monetary Fund (IMF), the Government brought about a surprising recovery in its balance-of-payments position; and with the restoration of political stability, economic stability and a favorable investment climate have been established.

Rapid growth in the GNP in the earlier 1960's began to slow after 1965. After achieving annual growth rates averaging 8 percent in those years, the gross domestic product (GDP) growth in terms of 1962 constant prices posted lower but still respectable rates of 7.3 percent and 5.4 percent in 1966 and 1967. Thereafter growth rates in constant prices dropped to rather constant levels averaging 3.6 percent in the years 1968-1971. In 1971 growth improved to 4.5 percent and in dollar equivalents the GNP was \$1,062 million.

Because of the high population growth rate, per capita income figures are discouraging. In 1967 each Salvadoran in theory could have received \$277; by 1971 this amount had increased to only \$280 and revealed virtually zero per capita real growth for the four years 1968-1971.

Stagnation in internal investment, which began after the mid-1960's, was aggravated by the conflict with Honduras in mid-1969 and the resultant loss of that important export market.

Improved coffee receipts in 1970 and 1972 were the chief stimulants to a modest upturn in economic performance. A turbulent teachers' strike in 1971, followed by nearly 12 months of electioneering, created internal uncertainties which improved when the new government was installed on July 1, 1972. Trade uncertainties within the CACM continue and affect adversely new investment, especially in the industrial sector. A five-year plan (1973-1977) promises an almost threefold increase in public sector investment, with emphasis on infrastructure capital works—energy, water, roads, and health and education facilities.

At the end of 1972 the economy faced a good short-term outlook in the traditional export commodities (coffee, cotton, and sugar), an improved trade balance, and historically high liquidity in the banking system. These factors, combined with the promise of a truly expansionary fiscal policy for the next five years, provide the base for expectations of higher GNP growth and improved income distribution in the next several years.

## FOREIGN RELATIONS

El Salvador is a member of the United Nations and several of its specialized agencies and the Organization of American States (OAS). It has aligned itself firmly with the United States and the non-Communist countries in general in the important matters affecting world peace. It has no relations with the countries of the Communist bloc or with Cuba.

San Salvador is the site of the headquarters of the Organization of Central American States (ODECA), and El Salvador is a member of the various organizations and treaties which make up the Central American Common Market (CACM).

The 1969 conflict with Honduras has been the dominant concern of the Government of El Salvador in its foreign relations. This "conventional" war of the organized Armed Forces of two Latin American countries was the first such clash in decades, and it has severely shaken the political and economic relations of Central America. El Salvador has pledged itself to seek restoration of normal relations with Honduras.

The problems inherent in the CACM were becoming evident even before the Honduran conflict. The primary concern was that certain of the members, especially Honduras, were drawing less benefit from the CACM than others. Talks were held during 1970 in an effort to arrive at a new agreement for the operation of the CACM to resolve these problems, but were not successful. Efforts to restructure and revitalize the CACM, however, continue.

Relations with Honduras, and the future of the CACM, will dominate Salvadoran foreign policy considerations.

Relations between the United States and El Salvador are cordial and close. No critical issues separate the two countries.

## U. S. POLICY

The U.S. Government pursues the following policies in its relations with El Salvador: (1) maintain friendly and mutually beneficial relations with the constitutionally and freely elected successive governments of that country, (2) encourage and assist El Salvador to continue and increase its efforts to secure political stability founded on democratic institutions and to improve the living standards and general welfare of the Salvadoran people, (3) cooperate with El Salvador, in partnership within the structure of the OAS, to realize its objectives, (4) encourage El Salvador to join with its Central American neighbors in continued efforts to use the CACM for the mutual economic benefit of the countries of the region, (5) work through the OAS to reconcile El Salvador and Honduras and thus restore peace to the area, and (6) encourage El Salvador's continued support of the international principles and policies to which the United States and other free nations subscribe.

The overriding emphasis of U.S. policy toward El Salvador is to encourage and assist those efforts of the Salvadoran Government and people which they themselves define and which lead in general terms to the development of democratic institutions and to the increased well-being of the Salvadoran people.

As tangible evidence of this support, the United States provided overall bilateral economic assistance with a value of more than \$146 million from 1946 through 1971. In addition, U.S. funds in large amounts have reached El Salvador through contributions to operations of international agencies such as the International Bank for Reconstruction and Development (IBRD), the Central American Bank for Economic Integration (CABEI), and the Inter-American Development Bank (IDB).

In fiscal year 1972, the U.S. Agency for International Development (AID) maintained a program of development and technical assistance in loans and grants at the level of \$6.1 million. AID programs have included diversification and improvement of agricultural production; improvement and reform of the educational system, including the introduction of a widely noted nationwide instructional television system; and the extension of family planning services.

The Peace Corps has worked in El Salvador for several years; the program has about 61 volunteers at present in agricultural extension, public health, fisheries (marine and fresh water), computer programming, fine arts education, rural development, and forestry.

## PRINCIPAL GOVERNMENT OFFICIALS

President—Col. Arturo Armando MOLINA BARRAZA  
Vice President and Secretary General of the Presidency—Dr. Enrique MAYORGA Rivas  
Minister of Foreign Relations—Mauricio BORGONOVO Pohl  
Minister of Justice—Dr. Jose Enrique SILVA  
Minister of Finance—Dr. Vicente Amado GAVIDIA Hidalgo  
Minister of Economy—Lic. Salvador SANCHEZ Aguillón  
Minister of Education—Dr. Rogelio SANCHEZ  
Minister of Defense—Col. Carlos Humberto ROMERO  
Minister of Labor and Social Welfare—Dr. Rogelio CHAVEZ  
Minister of Agriculture and Livestock—Enrique ALVAREZ Cordova

Minister of Public Health and Social Assistance—  
Dr. Julio ASTACIO  
Minister of Public Works—Ing. Antonio Jorge SEAMAN  
Ambassador to the U.S. and O.A.S.—Col. Julio A. RIVERA  
Ambassador to the U.N.—Reynaldo GALINDO Pohl

El Salvador maintains an Embassy in the United States at 2308 California Street, NW., Washington, D.C. 20008.

## PRINCIPAL U. S. OFFICIALS

Ambassador—Henry E. Catto, Jr.  
Deputy Chief of Mission—Sam Moskowitz  
Director, U.S. AID Mission—James P. Derum  
Chief, Political Section—Leslie A. Scott  
Chief, Economic Section—Clyde D. Taylor  
U.S. Consul—Richard B. Andrews  
Defense Attaché—Lt. Col. George E. Maynes, USA  
Public Affairs Officer (USIS)—Douglas A. Elleby

The U.S. Embassy in El Salvador is located at 25a Avenida Norte, No. 1230, San Salvador.

## READING LIST

These titles are provided as a general indication of the material currently being published in this country; the Department of State does not endorse the specific views in unofficial publications as representing the position of the U.S. Government.

Browning, David. El Salvador, Landscape and Society. Oxford: Clarendon Press, 1971.  
Department of Commerce. Basic Data on the Economy of the Central American Common Market. OBR 70-43. Washington, D.C.: U.S. Government Printing Office, 1970.  
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Osborne, Lilly de Jongh. Four Keys to El Salvador. New York: Funk & Wagnalls, 1956.  
Parker, Franklin D. The Central American Republics. London: Oxford University Press, 1964.  
Raynolds, David R. Rapid Development in Small Economies: The Example of El Salvador. New York: Praeger, 1967.  
Rodriguez, Mario. Central America. Englewood Cliffs, N.J.: Prentice-Hall, 1965.  
West, R.C., and Angelli, J. P. Middle America: Its Lands and People. Englewood Cliffs, N. J.: Prentice-Hall, 1966.

DEPARTMENT OF STATE PUBLICATION 7794  
Revised May 1973

Office of Media Services  
Bureau of Public Affairs

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## CURRENT FOREIGN POLICY

To provide the American public with authoritative information about U.S. foreign policy positions of particular current interest, the Department of State publishes a series of pamphlets entitled *Current Foreign Policy*.

This series frankly focuses on the rationale for current foreign policy decisions, presenting materials ranging from important testimony before congressional committees to original manuscripts drafted by experts in their fields. At the time of publication, each represents the latest thinking within the Government about the subject covered.

Pamphlets in this series are issued approximately twice a month. They may be purchased from the Government Bookstore, Department of State, Washington, D.C. 20520. A 25 percent discount is made on orders of 100 or more copies of the same publication sent to the same address.

The following pamphlets were issued on the dates indicated:

- (1) *U.S. Assistance Program in Viet-Nam*. Pub. 8550, 10¢ (Revised July 1972).
- (2) *President Nixon's Supplemental Aid Message to Congress*. Pub. 8559, 10¢ (December 1970).
- (3) *Viet-Nam: Ending U.S. Involvement in the War*. Pub. 8589, 10¢ (June 1971).
- (4) *Congress, the President, and the War Powers*. Pub. 8591, 15¢ (June 1971).
- (5) *The U.S. and Japan: Common Interests, Common Problems*. Pub. 8599, 10¢ (July 1971).
- (6) *Greece: U.S. Policy Dilemma*. Pub. 8604, 10¢ (August 1971).
- (7) *The United States and the People's Republic of China*. Pub. 8607, 10¢ (August 1971).
- (8) *Foreign Economic Policy and the American Interest*. Pub. 8601, 10¢ (August 1971).
- (9) *A Program for Peace in Viet-Nam*. Pub. 8603, 10¢ (October 1971).
- (10) *U.S. National Security Policy and the Indian Ocean*. Pub. 8611, 10¢ (November 1971).
- (11) *International Aspects of President Nixon's New Economic Policy*. Pub. 8619, 10¢ (November 1971).
- (12) *Berlin: The Four-Power Agreement*. Pub. 8620, 15¢ (December 1971).
- (13) *Our Permanent Interests in Europe*. Pub. 8621, 10¢ (December 1971).
- (14) *The United States and North Africa*. Pub. 8622, 10¢ (January 1972).
- (15) *Viet-Nam: The Negotiating Process*. Pub. 8629, 15¢ (February 1972).
- (16) *The SALT Agreements and U.S. Security Interests*. Pub. 8668, 10¢ (August 1972).
- (17) *The Changing World Power Structure*. Pub. 8665, 10¢ (August 1972).
- (18) *Southern Africa—Constant Themes in U.S. Policy*. Pub. 8671, 10¢ (August 1972).
- (19) *The U.S. Role in African Development*. Pub. 8663, 10¢ (September 1972).
- (20) *The United Nations: Problems and Opportunities*. Pub. 8672, 10¢ (September 1972).
- (21) *Conference on Security and Cooperation in Europe*. Pub. 8677, 10¢ (September 1972).
- (22) *A New Panama Canal Treaty*. Pub. 8676, 10¢ (October 1972).
- (23) *The Search for New World Monetary Arrangements*. Pub. 8684, 15¢ (November 1972).
- (24) *U.S. Leads Global War on Drug Abuse*. Pub. 8679, 25¢ (November 1972).
- (25) *U.S. Trade Prospects with the P.R.C.: A Realistic Assessment*. Pub. 8687, 15¢ (December 1972).

The overriding emphasis of U.S. policy toward El Salvador is to encourage and assist those efforts of the Salvadoran Government and people which they themselves define and which lead in general terms to the development of democratic institutions and to the increased well-being of the Salvadoran people.

As tangible evidence of this support, the United States provided overall bilateral economic assistance with a value of more than \$146 million from 1946 through 1971. In addition, U.S. funds in large amounts have reached El Salvador through contributions to operations of international agencies such as the International Bank for Reconstruction and Development (IBRD), the Central American Bank for Economic Integration (CABEI), and the Inter-American Development Bank (IDB).

In fiscal year 1972, the U.S. Agency for International Development (AID) maintained a program of development and technical assistance in loans and grants at the level of \$6.1 million. AID programs have included diversification and improvement of agricultural production; improvement and reform of the educational system, including the introduction of a widely noted nationwide instructional television system; and the extension of family planning services.

The Peace Corps has worked in El Salvador for several years; the program has about 61 volunteers at present in agricultural extension, public health, fisheries (marine and fresh water), computer programming, fine arts education, rural development, and forestry.

## PRINCIPAL GOVERNMENT OFFICIALS

President—Col. Arturo Armando MOLINA BARRAZA  
Vice President and Secretary General of the Presidency—Dr. Enrique MAYORGA Rivas  
Minister of Foreign Relations—Mauricio BORGONOVO Pohl  
Minister of Justice—Dr. Jose Enrique SILVA  
Minister of Finance—Dr. Vicente Amado GAVIDIA Hidalgo  
Minister of Economy—Lic. Salvador SANCHEZ Aguillon  
Minister of Education—Dr. Rogelio SANCHEZ  
Minister of Defense—Col. Carlos Humberto ROMERO  
Minister of Labor and Social Welfare—Dr. Rogelio CHAVEZ  
Minister of Agriculture and Livestock—Enrique ALVAREZ Cordova

Minister of Public Health and Social Assistance—  
Dr. Julio ASTACIO  
Minister of Public Works—Ing. Antonio Jorge SEAMAN  
Ambassador to the U.S. and O.A.S.—Col. Julio A. RIVERA  
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U.S. Consul—Richard B. Andrews  
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# background NOTES

## Guatemala

department of state \* june 1975

OFFICIAL NAME: Republic of Guatemala

### GEOGRAPHY

Guatemala is the northernmost and most populous of the five Central American Republics. Its neighbors are Mexico, Belize, Honduras, and El Salvador. It has a Pacific coastline 200

miles long and an irregular Caribbean coast that spans only 50 miles.

The heavily populated central highland region, where Guatemala City is located, constitutes about one-fifth of the country's land surface. The Pacific plain is a fairly narrow belt between

mountains and ocean. The Caribbean lowlands have fertile river valleys. The sparsely populated Department of Peten makes up the northern third of the country.

There are two seasons in Guatemala—wet (May-October) and dry (November-May). Rainfall is heaviest in central Guatemala along the slopes exposed to the airflow from the Caribbean and in the south along the slopes exposed to the airflow from the Pacific. Annual rainfall in these areas ranges from 70 to more than 200 inches. During the driest months, usually January and February, rainfall averages less than 2 inches. Along the Caribbean coast, however, rainfall is considerable most of the year. Temperatures are generally moderate, ranging from 50° F to 70° F, with occasional extremes of a few days duration.

### PROFILE

#### Geography

AREA: 42,000 sq. mi. (compares in size with Tenn.). CAPITAL: Guatemala City (pop. 1 million). OTHER CITIES: Quezaltenango (100,000), Escuintla (90,000).

#### People

POPULATION: 5.8 million (1974 est.). ANNUAL GROWTH RATE: 2.8% (1974). DENSITY: 125 per sq. mi. ETHNIC GROUPS: Mestizo (Spanish-Indian), Indian. RELIGIONS: Roman Catholic, traditional Mayan. LANGUAGES: Spanish, 18 local dialects (Quiche, Cakchiquel, Mam). LITERACY: 38%. LIFE EXPECTANCY: 48 yrs.

#### Government

TYPE: Representational democracy. INDEPENDENCE: September 15, 1821. DATE OF CONSTITUTION: 1965.

BRANCHES: Executive—President (Chief of State and Head of Government), Vice President, Council of Ministers (Cabinet). Legislative—unicameral 61-seat Congress. Judicial—7-member Supreme Court.

POLITICAL PARTIES: National Liberation Movement (MLN), Institutional Democratic Party (PID), Revolutionary Party (PR), Christian Democrats (DCG). SUFFRAGE: Universal over 18. POLITICAL SUBDIVISIONS: 22 Departments and Guatemala City.

FLAG: Blue, white, blue vertical strips. Centered is a coat of arms with green and scarlet quetzal bird perched on scroll framed by wreath.

#### Economy

GROSS DOMESTIC PRODUCT (GDP): \$2.2098 billion (1974). ANNUAL GROWTH RATE: 4.6% (1974). PER CAPITA INCOME: \$430. PER CAPITA GROWTH RATE: 1.8%.

AGRICULTURE: Land 25%. Labor 60%. Products—corn, beans, coffee, cotton, cattle, bananas, essential oils, timber.

INDUSTRY: Labor 11%. Products—construction, textiles, prepared foods, tires, pharmaceuticals.

NATURAL RESOURCES: Nickel, timber, fish.

TRADE: Exports—\$436.1 million (1973 f.o.b.): coffee \$143 million, cotton \$48 million, bananas \$27 million, meat \$23 million. Partners—U.S. 33%, Central American Common Market (CACM) 30%, Federal Republic of Germany (F.R.G.) 6%, Japan 6%. Imports—\$431 million (1973): manufactured goods, machinery, transportation equipment, chemicals, fuels, food. Partners—U.S. 31%, F.R.G. 10%, Japan 10%, Venezuela 6%.

OFFICIAL EXCHANGE RATE: 1 quetzal=US\$1.

ECONOMIC AID RECEIVED: Total—\$262 million (1946-74). U.S. only—\$150.1 million (1946-74).

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: U.N. and its specialized agencies, Organization of American States (OAS), Central American Common Market (CACM).

### PEOPLE

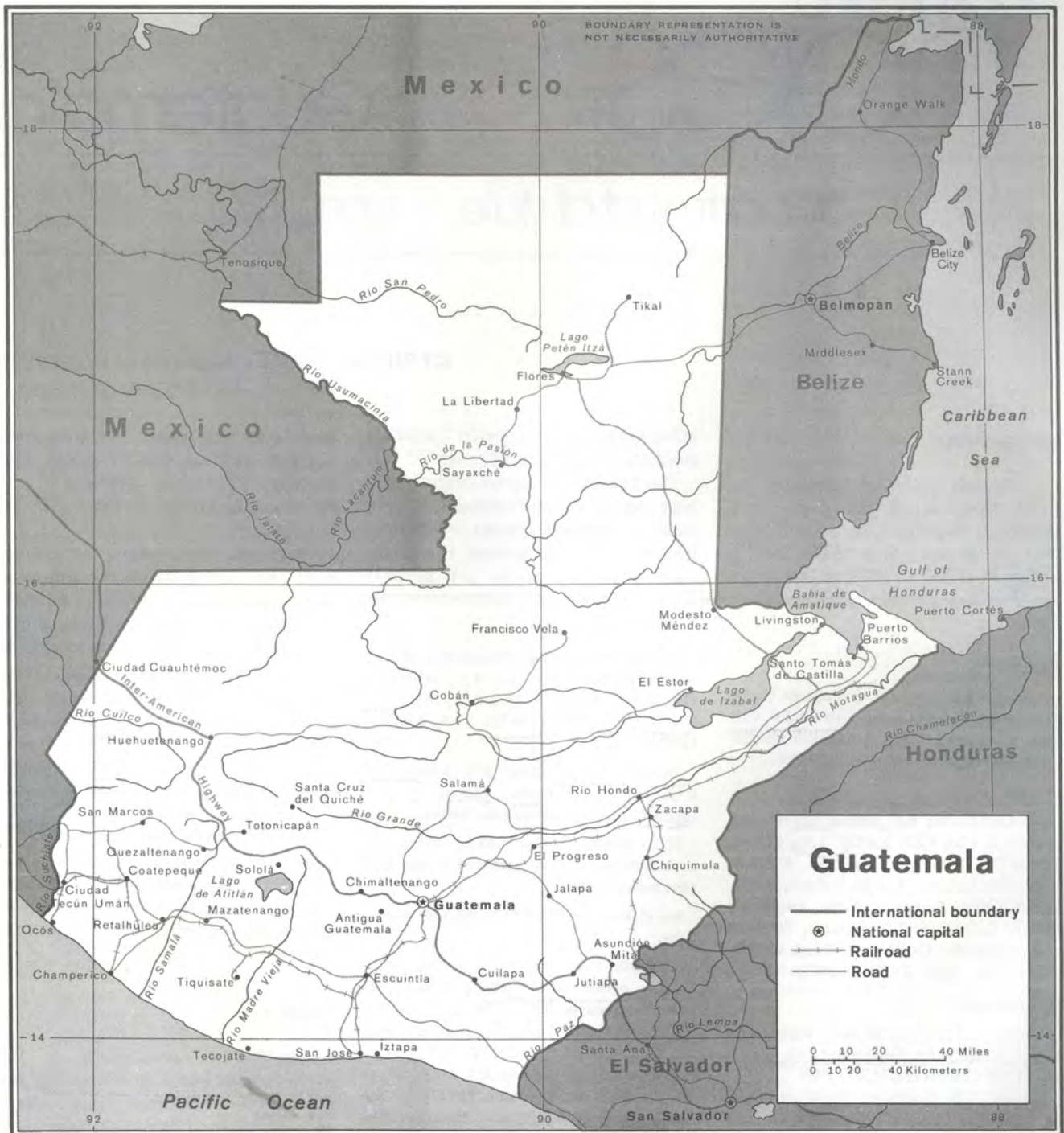
Pure-blooded descendants of the Maya Indians make up almost half the population. Westernized Maya Indians and mestizos (Spanish-Indians) are known as ladinos. They live in a crescent-like area running from the Mexican border on the Pacific, along the coastal plains, up through Guatemala City, and to the Caribbean.

Most of Guatemala's population is rural, although urbanization is beginning to accelerate.

The predominant religion is Roman Catholicism, which many Indians have superimposed on their traditional forms of worship. Although the

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official language is Spanish, it is not universally understood by the Indians.

## HISTORY

The great Mayan civilization flourished throughout much of Guatemala and surrounding territories before the Spanish conquest. Under Spanish

colonial rule the Captaincy-General of Guatemala extended throughout Central America. The seat of this colonial government was "The Most Noble and Loyal City of the Knights of St. James of Guatemala," now known simply as Antigua. It was founded in 1543 and has been preserved as a national monument

because of the magnificent relics of Spanish colonial architecture it contains.

Since gaining independence from Spain on September 15, 1821, as part of the Central American Federation, Guatemala has experienced a turbulent history. After the dissolution of the Federation in 1840, Guatemala passed

through a series of dictatorships broken only by short periods of representative government.

With the overthrow of Gen. Jorge Ubico's dictatorship in 1944 by the "October Revolutionaries," composed of dissident military officers, students, and liberal professionals, Guatemalans set about modernizing their society. Social reforms begun under President Juan José Arévalo (1945-50) were continued under his successor, Jacobo Arbenz. Arbenz permitted the Communist Party (known as the Guatemalan Labor Party) to gain legal status in 1952. By the mid-point of Arbenz' term, Communists controlled key peasant organizations and labor unions, held important posts in the government (including the police), were predominant in the governing political party, and had built an array of front organizations. Despite the attachment of most Guatemalans to the ideals of the 1944 revolution, with which Arbenz identified his administration, key segments of society and the military saw his policies as a menace. The army refused to defend the government when a group of anti-Communist Guatemalan exiles, led by Col. Carlos Castillo Armas, invaded the country from Honduras in June 1954. Arbenz fled into exile, and Castillo eventually took over the government.

The assassination of President Castillo in 1957 precipitated a period of confusion from which Gen. Miguel Ydígoras Fuentes emerged as President in 1958. He stayed in power amid worsening economic conditions, widely rumored graft and corruption, and growing political unrest. In November 1960 a revolt by junior military officers was put down. Some of the participants, however, went into hiding and emerged in 1962 as the nucleus of a guerrilla movement which established close ties with Fidel Castro's Cuba and the Guatemalan Communist Party.

In early 1963 a military coup, led by a "junta" of senior officers, overthrew Ydígoras' government. The new military regime, headed by Col. Enrique Peralta Azurdia as Chief of Government, restored order in what had become a chaotic public administra-

tion. However, the unconstitutional nature of the regime created disaffection played upon by the guerrillas, especially among students. By the end of 1965 two guerrilla organizations, the Rebel Armed Forces and the 13th of November Movement, both led by former army lieutenants, were operating almost at will in the northeast area of Guatemala.

A constituent assembly drafted a new Constitution promulgated in September 1965. Elections held in March 1966 saw the candidate favored by President Peralta defeated. The Revolutionary Party, which traces its roots to the 1944 revolution, won the presidency by a plurality and obtained a majority of seats in the Congress.

Shortly after President Julio César Méndez Montenegro took office on July 1, 1966, the army launched a major counterinsurgency campaign that by the end of 1967 had succeeded in breaking up the organized guerrilla units in the northeast. Deprived of their base in the countryside, the guerrillas concentrated most of their terrorist activities in Guatemala City, where they assassinated the U.S. Ambassador on August 28, 1968. Many Guatemalan political leaders, members of the security forces, businessmen, and a leading journalist also were gunned down by terrorists. Attacks escalated as the general elections of March 1, 1970, drew near, reaching a climax with the kidnapping of the Foreign Minister on February 27.

The widespread terrorism enhanced the appeal of Col. Carlos Arana Osorio, a leading figure in the counterinsurgency campaign, whose candidacy for the presidency was supported by a coalition of conservative parties and whose platform strongly emphasized the need for restoring law and order to Guatemala. Col. Arana won the presidency by a plurality and was inaugurated on July 1, 1970.

President Arana decreed a state of siege from November 1970 until 1971. An intense campaign against terrorist groups forced a marked reduction in their activity. His administration adopted Guatemala's first comprehensive Development Plan.

## READING LIST

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Adams, Richard N. *Crucifixion by Power*. Austin: University of Texas Press, 1970.

American University. *Area Handbook for Guatemala*. Washington, D.C.: U.S. Government Printing Office, 1970.

Brigham, William T. *Guatemala, Land of the Quetzal, 1887*. Gainesville: University of Florida Press, 1964.

Friedman, Jessie A. *Labor Law and Practice in Guatemala*. Washington, D.C.: U.S. Government Printing Office, 1963.

Manger-Cats, Sebald Godfried. *Land Tenure and Economic Development in Guatemala*. Ithaca: Cornell University Press, 1966.

Nash, Manning. *Machine Age Maya: The Industrialization of a Guatemalan Community*. Chicago: University of Chicago Press, 1967.

Gen. Kjell Laugerud Garcia, the candidate endorsed by Arana and his coalition, emerged victorious in the 1974 elections.

## GOVERNMENT

According to the Constitution of 1965, Guatemala's President and Vice President are elected on the same ballot to 4-year terms. The President governs with a Council of Ministers, which he appoints. An advisory body (Council of State), presided over by the Vice President, represents various sectors of national life, such as business, labor, and agriculture.

Members of the unicameral Congress are directly elected to 4-year terms. Deputies cannot succeed themselves in office, so a completely new Congress sits every 4 years.

## TRAVEL NOTES

*Clothing*—Spring/summer-weight clothing is needed most of the year; woollens are practical November to February.

*Health*—Good medical services are available in Guatemala City. Due to its altitude, the capital is free of tropical diseases. Tap water is not potable; fruits and vegetables should be well prepared. Immunizations against hepatitis, smallpox, typhoid and paratyphoid, typhus, antipolio, and tetanus are advisable for extended stays.

*Telecommunications*—Local and long-distance telephone and telegraph services are available through GUATEL, the government-owned and -operated communications facility.

*Transportation*—Guatemala City serves as a hub for Central American airtraffic, and several airlines provide convenient connections to points in North and South America. Travel by road is possible, either on the Inter-American Highway or along the south coast. Consult the nearest Guatemalan consulate for current regulations regarding the temporary importation of a vehicle. A good domestic highway system links the country with all-weather paved roads. Buses of varying degrees of comfort provide economic internal transportation. Cars and aircraft may be leased.

The seven judges on the Supreme Court are appointed by Congress for 4-year terms. For administrative purposes, Guatemala is divided into 22 Departments, each headed by a Governor appointed by the President, and a central district, Guatemala City.

### Principal Government Officials

President—Kjell Eugenio **Laugerud**  
Garcia

Vice President—Mario **Sandoval**  
Alarcon

### Ministers

Foreign Relations—Adolfo **Molina**  
Orantes

Interior—Gen. Leonel **Vassaux**  
Martinez

Defense—Gen. Fausto David **Rubio**  
Coronado

Finance and Public Credit—Jorge  
**Lamport** Rodil

Communications and Public Works—  
Ricardo **Arguedas** Martinez

Education—Guillermo **Putzeys** Alvarez  
Agriculture—Roberto **Zachrisson**  
Asturias

Economy—Eduardo **Palomo** Escobar  
Public Health—Julio **Castillo** Sinibaldi  
Labor—Daniel **Corzo** de la Roca  
Ambassador to the U.S.—Julio **Asensio**  
Wunderlich

Ambassador to the U.N.—Alejandro  
**Maldonado** Aguirre

Ambassador to the O.A.S.—Eduardo  
**Castillo** Ariola

Guatemala maintains an Embassy in the U.S. at 2220 R St., NW., Washington, D.C. 20008.

## POLITICAL CONDITIONS

Guatemala's Electoral Law sets strict prerequisites for recognition as a national political party. The National Liberation Movement (MLN) and Institutional Democratic Party (PID) make up the right-of-center coalition supporting the current government. The Revolutionary Party (PR) and Christian Democrats (DCG) represent the opposition. The coalition gained 37 of the 61 congressional seats following the 1974 elections. The PR obtained 10 and the DCG 14. The Communist (Workers') Party has been outlawed since 1954. A number of other groups are active on the political scene. At election time they negotiate with the national parties for a voice in choosing candidates and writing platforms. Local Civic Committees may nominate candidates for the 327 municipal contests. In all but the largest towns officials serve 2-year terms. The next municipal elections will be held in the spring of 1976.

Political awareness is growing with the modernization of the country. Newspapers and radio blanket the nation and television viewing is increasing rapidly. The press enjoys substantial freedom.

The Laugerud administration has adopted a policy of austerity in the face of inflationary pressures and unsettled economic conditions of both domestic and international origin. It has announced that it will use its limited resources to implement a

revised Development Plan aimed at improving the lot of the rural population.

## ECONOMY

Guatemala continued the moderate growth of the 1960's through the early part of the 1970's. In 1973 the economy grew at the rapid pace of 7.6 percent, while in 1974 growth was approximately 4.6 percent and GDP reached the level of \$2.2098 billion. Three factors now threaten these gains. Inflation, a negligible factor for three decades, has caused the government to adopt a relatively austere budget for 1975. The energy crisis restricts economic growth by straining Guatemalan balance of payments. Population growth, a third and perennial problem, on a per capita basis reduces each year's growth by over 2 percentage points. The pressures of inflation and population growth are felt most by the poorest classes; thus wide disparities continue to characterize Guatemala's social structure.

Agriculture employs the majority of the work force and contributes nearly 30 percent of the nation's GDP. Industry has grown considerably since 1960, however, and in 1973 accounted for 15.8 percent of the GDP, while in 1960 it only provided 12.9 percent. Light industry such as food processing, textiles and clothing, metalworking, and pharmaceuticals has spearheaded this growth.

Exports outside of the Central American region are still almost exclusively agricultural. Within Central America, however, the Guatemalan industrial sector exports a significant portion of its products, and Guatemala retains a highly favorable Central American trade balance. In 1973, the last full year for which trade data is available, Guatemala had a total trade surplus of \$5.1 million. Within Central America it had a favorable trade balance equal to \$40.4 million. Guatemala has no exchange controls in effect and none should be anticipated unless the condition of the external sector of the Guatemalan economy worsens considerably.

A factor of potential importance in Guatemala's future is the development of nickel and possibly petroleum. The nickel reserves are already proven, and the International Nickel Company's subsidiary, EXIMBAL, should begin production in late 1976 or early 1977. The foreign exchange inflows from the export of this nickel will be significant in the years ahead. The possibility of commercial petroleum reserves within Guatemala also exists, and the government is currently in the process of establishing the framework within which exploration activities will be carried out.

The situation of the Central American Common Market remains in flux as complex negotiations among the five member-countries on the restructuring of CACM continue. Guatemala, beneficiary of a favorable position in the Market, is playing an active role in the negotiations. At the same time, Guatemala is also concentrating on domestic problems. A 5-Year Development Plan for the 1975-79 period has been prepared which aims at assisting the rural poor and narrowing the large social gaps. The U.S. Agency for International Development will be supporting the government's efforts in the fields of agriculture, rural health, and education.

## FOREIGN RELATIONS

Guatemala's major diplomatic interests are related to issues on the Isthmus and in the Caribbean. A principal beneficiary of the Central American Common Market, and, historically, a leading country in the sub-region, Guatemala has special interest in the smooth functioning of the CACM. The Laugerud government has joined actively in the negotiations on a new Central American Integration Treaty and has assumed an energetic role in helping to find a lasting solu-

tion to the dispute between El Salvador and Honduras.

A territorial dispute over Belize, claimed in its entirety by Guatemala, has led to sporadic negotiations with the United Kingdom. Tensions along the frontier heated in early 1972 but subsequently cooled. Negotiations were resumed in February 1975.

The Laugerud government has stated that it does not foresee resuming relations with Cuba even if OAS sanctions are lifted. Guatemala has been a vociferous foe of Cuban-supported subversion, and, while engaging in limited trade with Communist countries, has no diplomatic relations with them.

## U.S.-GUATEMALA RELATIONS

The United States and Guatemala traditionally have maintained good relations. Our principal aim is to sustain these cordial relations through continuing dialogue and by negotiation of any issues which might tend to create conflict. We continue to assist Guatemala to achieve its full developmental potential, especially in relation to improved living and health standards among the rural poor. We encourage Guatemala and other Central American countries to resolve the problems which stand in the way of Central American integration. We strive to maintain mutually beneficial trade relations. Finally, we wish to retain the support often given the United States by Guatemala at international meetings and in international organizations.

The United States has provided Guatemala with substantial amounts of developmental loan capital, technical assistance, and PL 480 (Food for Peace) commodities. From fiscal year (FY) 1962 through FY 1974, AID and its predecessor agencies provided \$110.5 million, \$54.7 million for loans

and \$32.6 million in grants. In addition, shipments of Food for Peace commodities for school lunch feeding and work projects during this period amounted to \$23.7 million. AID loans in the past 7 years have been made principally for agricultural development, assistance to rural cooperatives, rural electrification, rural health services, and primary education—classroom construction and teacher training. Technical assistance grants complement the loan activities. Additional U.S. economic assistance has come from the Export-Import Bank's long-term loans amounting to \$36.6 million and loans by the Inter-American Development Bank's Social Progress Trust Fund, established with U.S. funds, which account for \$14.3 million. Peace Corps assistance currently rendered by 150 volunteers has been financed at a total level of \$8.2 million.

U.S. military assistance consists of advisory and training services, limited facilities of credit, and small amounts of grant materiel. In recent years U.S. security assistance has supported the acquisition of aircraft, vehicles, small arms, ammunition, and communications equipment.

### Principal U.S. Officials

Ambassador—Francis E. Meloy, Jr.  
 Counselor of Embassy—George R. Andrews  
 Director, USAID Mission and Counselor for Economic Affairs—Edward W. Coy  
 Counselor for Political Affairs—George F. Jones  
 Defense and Army Attaché—Col. Richard M. McTaggart  
 Chief, Consular Section—Howard R. Gross

The U.S. Embassy Chancery in Guatemala is located at Avenida La Reforma 7-01, Zone 10, Guatemala City.

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| Bahrain (pub. 8013)                                | Indonesia (pub. 7786)            | Qatar (pub. 7906)                           |
| Bangladesh (pub. 8698)                             | Iran (pub. 7760)                 | Romania (pub. 7890)                         |
| Barbados (pub. 8242)                               | Iraq (pub. 7975)                 | Rwanda (pub. 7916)                          |
| Belgium (pub. 8087)                                | Ireland (pub. 7974)              | San Marino (pub. 8661)                      |
| Bermuda (pub. 7907)                                | Israel (pub. 7752)               | Saudi Arabia (pub. 7835)                    |
| Bhutan (pub. 8334)                                 | Italy (pub. 7861)                | Senegal (pub. 7820)                         |
| Bolivia (pub. 8032)                                | Ivory Coast (pub. 8119)          | Seychelles (pub. 8246)                      |
| Botswana (pub. 8046)                               | Jamaica (pub. 8080)              | Sierra Leone (pub. 8069)                    |
| Brazil (pub. 7756)                                 | Japan (pub. 7770)                | Singapore (pub. 8240)                       |
| British Honduras (pub. 8332)                       | Jordan (pub. 7956)               | Somali Dem. Rep. (pub. 7881)                |
| Bulgaria (pub. 7882)                               | Kenya (pub. 8024)                | South Africa (pub. 8021)                    |
| Burma (pub. 7931)                                  | Khmer Rep. (pub. 7747)           | South West Africa (pub. 8168)               |
| Burundi (pub. 8084)                                | Korea, North (pub. 8396)         | Southern Rhodesia (pub. 8104)               |
| Cameroon (pub. 8010)                               | Korea, Rep. of (pub. 7782)       | Spain (pub. 7800)                           |
| Canada (pub. 7769)                                 | Kuwait (pub. 7855)               | Spanish Sahara (pub. 7905)                  |
| Central African Rep. (pub. 7970)                   | Laos (pub. 8301)                 | Sudan (pub. 8022)                           |
| Chad (pub. 7669)                                   | Lebanon (pub. 7816)              | Sri Lanka (pub. 7757)                       |
| Chile (pub. 7998)                                  | Lesotho (pub. 8091)              | Surinam (pub. 8268)                         |
| China, People's Rep. of (pub. 7751)                | Liberia (pub. 7991)              | Swaziland (pub. 8174)                       |
| China, Rep. of (pub. 7791)                         | Libya (pub. 7815)                | Sweden (pub. 8033)                          |
| Colombia (pub. 7767)                               | Liechtenstein (pub. 8610)        | Switzerland (pub. 8132)                     |
| Congo (pub. 7896)                                  | Luxembourg (pub. 7856)           | Syria (pub. 7761)                           |
| Costa Rica (pub. 7768)                             | Macao (pub. 8352)                | Tanzania (pub. 8097)                        |
| Cuba (pub. 8347)                                   | Malagasy Rep. (pub. 8015)        | Thailand (pub. 7961)                        |
| Cyprus (pub. 7932)                                 | Malawi (pub. 7790)               | Togo (pub. 8325)                            |
| Czechoslovakia (pub. 7758)                         | Malaysia (pub. 7753)             | Tonga (pub. 8594)                           |
| Dahomey (pub. 8308)                                | Maldives (pub. 8026)             | Trinidad and Tobago (pub. 8306)             |
| Denmark (pub. 8298)                                | Mali (pub. 8056)                 | Tunisia (pub. 8142)                         |
| Dominican Rep. (pub. 7759)                         | Malta (pub. 8220)                | Turkey (pub. 7850)                          |
| Ecuador (pub. 7771)                                | Martinique (pub. 8320)           | Uganda (pub. 7958)                          |
| Egypt (pub. 8152)                                  | Mauritania (pub. 8169)           | U.S.S.R. (pub. 7842)                        |
| El Salvador (pub. 7794)                            | Mauritius (pub. 8023)            | United Arab Emirates (pub. 7901)            |
| Equatorial Guinea (pub. 8025)                      | Mexico (pub. 7865)               | United Kingdom (pub. 8099)                  |
| Ethiopia (pub. 7785)                               | Monaco (pub. 8670)               | Upper Volta (pub. 8201)                     |
| Fiji (pub. 8486)                                   | Mongolia (pub. 8318)             | Uruguay (pub. 7857)                         |
| Finland (pub. 8262)                                | Morocco (pub. 7954)              | Vatican City (pub. 8258)                    |
| France (pub. 8209)                                 | Mozambique (pub. 7965)           | Venezuela (pub. 7749)                       |
| French Guiana (pub. 8321)                          | Muscat and Oman (pub. 8070)      | Viet-Nam, North (pub. 8505)                 |
| French Territory of Afars<br>and Issas (pub. 8429) | Nauru (pub. 8595)                | Viet-Nam, Rep. of (pub. 7933)               |
| Gabon (pub. 7968)                                  | Nepal (pub. 7904)                | Western Samoa (pub. 8345)                   |
| The Gambia (pub. 8014)                             | Netherlands (pub. 7967)          | Yemen Arab Rep. (pub. 8170)                 |
| Germany, East (pub. 7957)                          | Netherlands Antilles (pub. 8223) | Yemen, People's Dem. Rep. of (pub.<br>8368) |
| Germany, Fed. Rep. of (pub. 7834)                  | New Zealand (pub. 8251)          | Yugoslavia (pub. 7773)                      |
| Ghana (pub. 8089)                                  | Nicaragua (pub. 7772)            | Zaire (pub. 7793)                           |
| Greece (pub. 8198)                                 | Niger (pub. 8293)                | Zambia (pub. 7841)                          |
| Guadeloupe (pub. 8319)                             | Nigeria (pub. 7953)              |   |

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# background NOTES

# Honduras

department of state \* march 1974

OFFICIAL NAME: Republic of Honduras

## PROFILE

### Geography

AREA: 42,300 sq. mi. (about the size of Ohio). CAPITAL: Tegucigalpa (pop. 300,000).

### People

POPULATION: 2,686,500. ANNUAL GROWTH RATE: 3.2%. DENSITY: 66 per sq. mi. ETHNIC GROUPS: Mestizo (mixed Indian and Caucasian) 90%, small numbers of Caucasians, Negroes, and Indians. RELIGION: Roman Catholic, small Protestant minority. LANGUAGE: Spanish. LITERACY: 47% (1961).

### Government

TYPE: Military with legislative authority exercised through a Council of Ministers. INDEPENDENCE: 1838. CONSTITUTION: 1965. Operates in absence of decree to the contrary.

BRANCHES: *Executive:* Head of Government and Chief of State—Brig. Gen. Oswaldo Lopez Arellano. *Legislature:* Suspended. *Judiciary:* Supreme Court of Justice; numerous courts of original jurisdiction (i.e. Labor, Criminal, Tax, etc.).

ADMINISTRATIVE DIVISIONS: 18 Departments.

FLAG: Two blue horizontal bands separated by a white center stripe holding a cluster of five blue stars. The stars represent members of the former Federal Republic of Central America: Honduras, Costa Rica, El Salvador, Guatemala, and Nicaragua.

### Economy

GROSS NATIONAL PRODUCT (GNP): \$783.2 million (1972). PER CAPITA: US\$263. GROWTH RATE: 1.4%.

AGRICULTURE: *Labor:* Estimated 1972 work force 830,000. *Products:* Corn, beans, sorghum, bananas, coffee, lumber, and tobacco.

NATURAL RESOURCES: Large forests, both hard and softwood; unexploited agricultural lands; some minerals, including lead and zinc.

TRADE: *Imports:* Industrial equipment, transport equipment, paper, and manufactured consumer goods. *Exports:* Bananas, coffee, lumber, and tobacco. *Partners:* U.S. (\$85 million import, \$96 million export), Central America (\$22 million import, \$5 million export), Germany (\$10 million import, \$24 million export), U. K. (\$6.7 million import, \$6 million export), Japan (\$15 million import, \$5 million export), Venezuela (\$12 million import, \$26,787 export).

OFFICIAL EXCHANGE RATE: 1 Lempira = US\$50.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: United Nations, Organization of American States, other regional organizations.

ECONOMIC AID RECEIVED: *Total* (FY 46-72): Not available. *Total U.S. only:* \$130.2 million (AID—\$92.3 million, Public Law 480—\$10.5 million, Peace Corps—\$7.4 million, Export-Import Bank—\$5.9 million, Other—\$14.1 million). *Total* (FY 1973): \$45.9 million. *Total U.S. only:* (FY 1973): \$15.4 million (AID—\$5.5 million, Public Law 480—\$1 million, Peace Corps—\$573,000, Export-Import Bank—\$8.2 million, Other—\$14.1 million).

## GEOGRAPHY

Honduras is located in Central America bounded by the Caribbean Sea on the north, Nicaragua on the south, El Salvador and the Pacific Ocean on the south and west, and Guatemala on the west. Its Pacific coastline consists of a 90-mile arc along the Gulf of Fonseca, and its Caribbean coastline is 400 miles long.

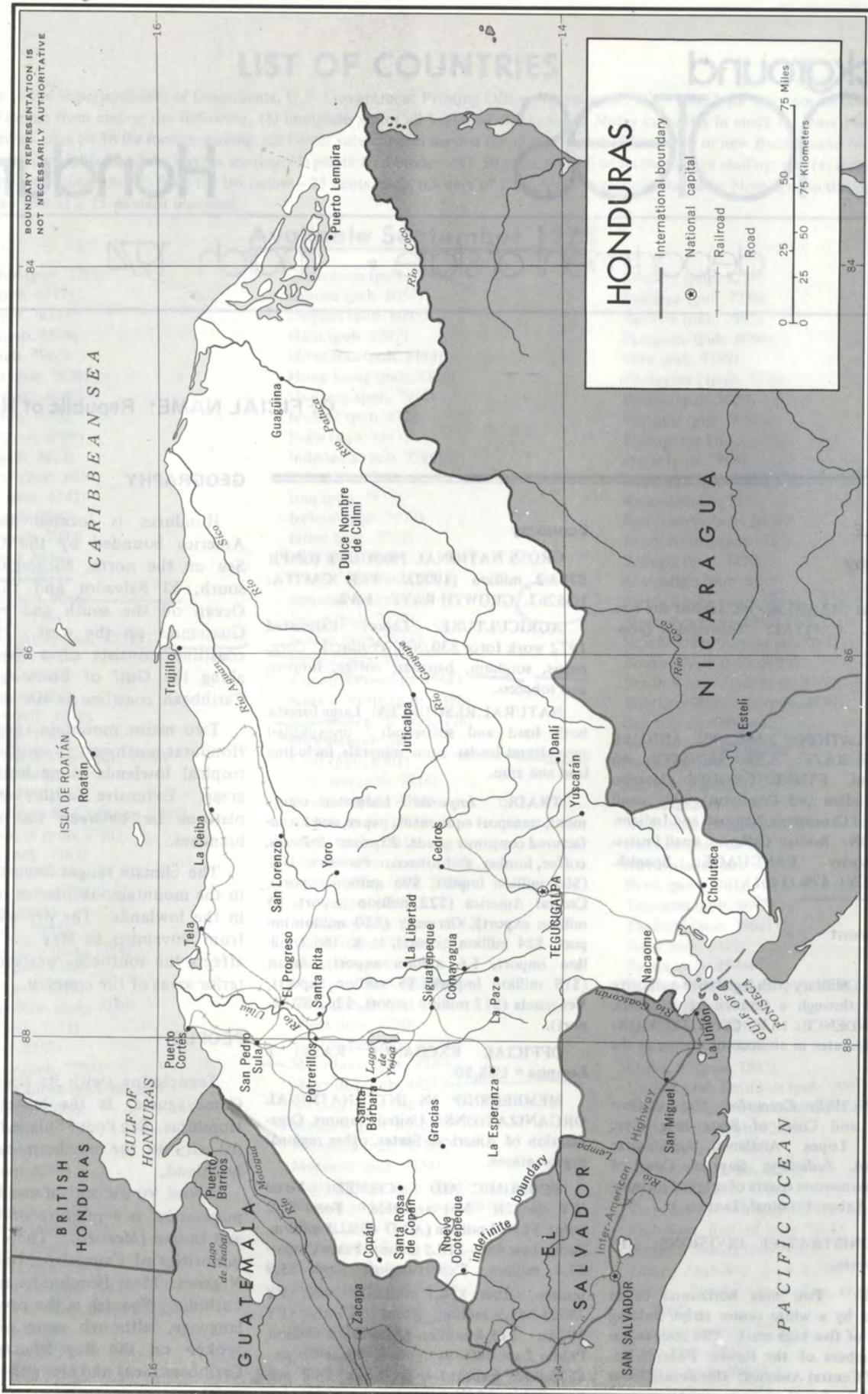
Two major mountain ranges bisect Honduras northwest to southeast, with tropical lowlands along both coastal areas. Extensive fertile valleys and plateaus lie between the mountain branches.

The climate ranges from temperate in the mountainous interior to tropical in the lowlands. The dry season lasts from November to May and seriously affects the southern, western, and interior areas of the country.

## PEOPLE

Tegucigalpa (with its sister city of Comayagua) is the largest city in Honduras. San Pedro Sula is the principal city in the northern commercial heartland.

About 90 percent of the Honduran population is a mixture of Caucasian and Indian (*Mestizo*). There are small minorities of Caucasians, Indians, and Negroes. Most Hondurans are Roman Catholic. Spanish is the predominant language, although some English is spoken on the Bay Islands (in the Caribbean Sea) and along the northern coast.



BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE

CARIBBEAN SEA

ISLA DE ROATÁN  
Roatán

BRITISH HONDURAS

GULF OF HONDURAS

GUATEMALA

Lago de Izabal

Puerto Barrios

Copán

Santa Rosa de Copán

Noeja

Ocotepéque

Indefinite boundary

La Esperanza

La Paz

Cochayagua

La Libertad

Gracias

Santa Bárbara

Lago de Yaguajay

Petrelillos

San Pedro Sula

Puerto Cortés

Tejula

El Progreso

Santa Rita

Yoro

San Lorenzo

La Ceiba

Trujillo

Río Motagua

Río Sico

Río Patuca

Río Patuca

Río Patuca

Río Patuca

Río Patuca

Río Patuca

84

86

88

16

14

84

86

88

HONDURAS

International boundary

National capital

Railroad

Road

75 Miles

50

25

0

75 Kilometers

50

25

0



## HISTORY

Centuries before the arrival of the first Europeans, the area that is now western Honduras harbored the Old Mayan Empire and its major works were concentrated in an area near present-day Copán. With the decline of the empire in Honduras, the Indians lacked the strength or organization to resist 16th-century European exploration and settlement. The territory comprising Honduras was claimed for the Spanish crown in 1502 by Christopher Columbus on his fourth and last voyage to the New World. Honduras was a part of the Captaincy General of Guatemala throughout the colonial period.

In 1821 the Central American colonies declared their independence and formed a Federal Republic of Central America which lasted until 1838, when the five component states (Honduras, Costa Rica, El Salvador, Guatemala, Nicaragua) established independent governments. The national hero of Honduras, Francisco Morazán, played a leading role in the unsuccessful effort to keep Central America united. Frequent revolutions have marked the history of Honduras as an independent state, although relative stability was achieved under Presidents Tiburcio Carias Andino (1932-48), Juan Manuel Galvez (1949-54), (A bloodless coup deposed President Julio Lozano Diaz in 1956.), Ramón Villeda Morales (1957-63), Brig. Gen. Oswaldo Lopez Arellano (1963-71 and 1972-present), and Ramón E. Cruz (1971-72).

In October 1955 the Honduran Armed Forces seized power from a *de facto* chief of state, established a military council of government, and pledged a return to freely elected constitutional government. The Liberal Party won the September 1957 elections and control of the Constituent Assembly. The Assembly drafted a constitution, elected Liberal Party leader Dr. Ramón Villeda Morales as President, and transformed itself into the elected Congress for the first 6-year term. The Villeda administration was succeeded by a provisional military government when the armed forces seized power on October 3, 1963, 10 days before a scheduled presidential election. Brig. Gen. (then Col.) Oswaldo Lopez Arellano headed the interim military government until 1965.

In accordance with a schedule decreed by the new government, a Constituent Assembly was elected in February 1965. This assembly, which was controlled by the National Party, approved a new Constitution and, like the 1957 Constituent Assembly, became the elected Congress for a 6-year term, electing Gen. Lopez as President.

Honduras fought a short but bitter war with neighboring El Salvador in July 1969. Salvadoran forces invaded Honduras following several months of growing tensions between the two countries. El Salvador charged that Hondurans were mistreating and forcibly expelling Salvadorans, who had emigrated to Honduras in large numbers over recent decades. The two armies clashed along the frontier, and both air forces made several strikes at cities and military installations. The Organization of American States (OAS) secured a cease-fire after 5 days, however, and subsequently brought about the complete withdrawal of Salvadoran troops from Honduran territory. An OAS military observer team was placed along the border to supervise a "pacification zone" and, under OAS auspices, representatives of the two countries formed a "bilateral working group" in an effort to resolve their differences. Except for minor border incidents, there have been no recurrences of hostilities.

Honduras followed the cease-fire with measures which closed the Pan-American Highway from El Salvador, stopped all commerce between the countries, and terminated its participation in the Central American Common Market (CACM). In the fall of 1973 El Salvador and Honduras began bilateral talks to resolve their outstanding differences but the negotiations ended in December with no agreement. Further negotiations in 1974 are anticipated.

## GOVERNMENT

On December 4, 1972, the democratically elected government of President Ramón E. Cruz was overthrown by a coup led by Gen. Oswaldo Lopez Arellano, Chief of the Armed Forces and ex-President. Gen. Lopez, while maintaining his position in the Honduran military, assumed the title of

Chief of State. The Chief of State governs with the Council of Ministers, formed by the heads (Ministers) of the 12 Cabinet departments. The Ministers are appointed by the Chief of State.

The Constitution, which took effect on June 6, 1965, is still in force except for portions which are contrary to decrees passed by the Council of Ministers. The unicameral Congress provided for in the Constitution is suspended.

The judicial system consists of a Supreme Court of Justice, Courts of Appeal, and other courts established by law. The Supreme Court consists of seven justices who are named by and who serve at the pleasure of the Chief of State.

For administrative purposes Honduras is divided into 18 Departments. The chief official of each Department is a Governor who is appointed by the President.

## Principal Government Officials

Chief of State and Chief of Armed Forces—Brig. Gen. Oswaldo LOPEZ Arellano  
 Minister of Government and Justice—Col. Juan Alberto MELGAR Castro  
 Minister of Foreign Affairs—César A. BATRES Galeano  
 Minister of Economy—José Abraham BENNATON Ramos  
 Minister of Finance—Manuel ACOSTA Bonilla  
 Minister of Defense and Public Security—Col. Fermin RAMÍREZ Landa  
 Minister of Health and Public Welfare—Dr. Enrique AGUILAR Paz  
 Minister of Education—Dr. José Napoleón ALCERRO Oliva  
 Minister of Communications and Public Works—Miguel Angel RIVERA Bermudez  
 Minister of Labor and Social Security—Guatama FONSECA Zuñiga  
 Minister of Natural Resources—Raúl Edgardo ESCOTO Diaz  
 Ambassador to the U.S. and OAS—Roberto GÁLVEZ Barnes  
 Ambassador to the U.N.—Roberto MARTÍNEZ Ordoñez

Honduras maintains an Embassy in the United States at 4715 16th Street, N.W., Washington, D. C. 20011.

## POLITICAL CONDITIONS

The two major and only legally recognized political parties in Honduras are the National Party (PNH) and the Liberal Party (PLH), both with roots in the conservative/liberal division which have dominated Central American politics since the 1800's. Despite a history of bitter, often violent, partisan clashes both parties can be characterized as moderate in ideology and committed in principle to the democratic process of political change. In the 1971 elections, both presented civilian presidential candidates who were respected by and acceptable to most Hondurans. There are several smaller parties which, while not proscribed, have not been certified as eligible under the Constitution and electoral law to take part in elections. The Communist Party was implicitly prohibited by the 1957 and 1965 Constitutions.

The 1971 national and municipal elections were held under the terms of a "National Unity Pact" between the National and Liberal Parties. The pact grew out of a proposal made jointly to the parties in late 1970 by the then-President, Gen. Lopez (who spoke also in the name of the armed forces), by representatives of private businesses, and by leaders of organized labor. The final agreement reached was "guaranteed" by these sponsors. The presidency and municipal offices were to be contested between the parties in an orderly and civic-minded campaign.

For the 64 seats in Congress, each party would present an identical slate evenly divided between Liberals and Nationalists. Following the elections, a "National Unity Government" would be formed with bipartisan participation. In the election held March 28, 1971, without major incidents, National Party candidate Dr. Ramón Ernesto Cruz won the presidency by about 52 percent of the vote, and the Nationalists won 188 of the 282 municipalities. The new Congress convened on May 26, 1971, and Dr. Cruz was inaugurated on June 6. On the same day, Gen. Lopez assumed the duties of Chief of the Armed Forces. The Cabinet and other executive branch positions, as well as the appointments to the Supreme Court

and lower courts, were divided between the parties.

Shortly after the inauguration of President Cruz some sponsors of the National Unity Government, notably the strong North Coast labor movement, began complaining about the performance of the new government. These complaints grew more and more serious and were accompanied by a discouraging economic situation. On December 4, 1972, Chief of the Armed Forces Gen. Oswaldo Lopez assumed control of the government after a bloodless coup (See Government). Although Lopez was setting aside a legally elected government, most of the sponsors of the National Unity Government supported the coup. Responding to his supporters, Lopez quickly named a Cabinet and issued decrees designed to bring solutions to long term problems. Action was taken in the fields of agrarian reform, loan sharking, and union organization.

Currently the activities of all political parties are suspended and the Chief of State, through his Council of Ministers, continues to govern by decree. No date for the return to constitutional government has been established.

Major domestic problems include continued underdevelopment accompanied by an overreliance on banana exports for the base of the economy. A coordinated long term development plan and an agrarian reform program to attack economic and social development problems is scheduled for release in 1974.

## ECONOMY

In 1972 the gross national product (GNP) of Honduras was about US\$783.2 million, representing a real per capita income of about \$263 or a 1.4 percent increase in per capita growth. The estimate of real GNP growth in 1972 was 5 percent, slightly better than the 4.5 percent registered in 1971. Historically the rate of growth in GNP in the 1960-70 decade was 4.6 percent but population increases left the per capita growth rate at only 1.1 percent. The economy suffered a serious blow in 1969; the conflict with El Salvador cost Hon-

duras its primary market for exports in Central America. Other damaging factors over the course of the last 3 years have been serious climatological conditions—2 successive years of drought and severe hurricane damage (hitting banana production seriously) and subsequent flooding. The encouraging 7.1 percent growth rate achieved in 1968 has yet to be repeated although a slow recovery seems to be in progress.

The economy remains largely agricultural. This sector, including forestry and fishing, contributed 30.5 percent of the gross domestic product (GDP) in 1972 and occupied about 65 percent of the work force. The earnings originating from the export of agricultural products represented 62.7 percent of total merchandise export earnings in 1972. Beef exports to the United States have grown dramatically in the last few years and in the first half of 1973 they were 23 percent greater than in the preceding year—19.6 million pounds as compared with 15.9 million.

Honduras also has a small sugar industry although unfavorable weather conditions prevented participation in the U.S. sugar quota system in 1973. The country is attempting to expand its cane acreage and milling capacity.

Total Honduran exports in 1972 (according to preliminary Central Bank figures) were \$200.3 million, of which about 48 percent went to the U.S. Of an estimated \$193.3 million in imports in 1972, the United States (Honduras' major trading partner) supplied about 44 percent.

Honduras has varied resources, including some of the best remaining timberland in the Western Hemisphere. There are also unexploited agricultural lands and some mineral deposits. Oil explorations are underway offshore. Conditions for cattle raising are excellent and this industry has expanded rapidly.

The public sector's capacity to contribute to economic growth has increased in recent years, government investment has grown, and improved administrative efficiency has significantly augmented public revenues. Economic development is hampered not so much by capital or natural

resource deficiencies as by an insufficient reservoir of technical and administrative skills and limited transportation and communications facilities. Most of eastern Honduras is accessible only by airplane or small coastal boats, and night flights throughout the country are curtailed by lack of navigational and night-landing facilities. Rail service (of the National Railroad and the two fruit companies) exists only in the banana-growing areas of the north. The predominantly mountainous terrain of Honduras makes the development of vital infrastructure more difficult and costly. However, a significant step forward was made in 1971 with the opening of a paved highway from Tegucigalpa to San Pedro Sula and onward to the Guatemalan border.

The Honduran Government has recognized the need for, and welcomes, foreign investment, but it requires that this investment benefit Honduras. Existing U.S. investment in Honduras is significant. Primarily represented by the big fruit companies (Standard Fruit Co. and United Fruit Co.) it totals more than \$200 million. Bananas are Honduras' largest export item representing more than two-fifths of the nation's total exports. The banana industry is also the largest employer of labor and the most technologically advanced sector in Honduran agriculture. Honduras' largest, strongest, most independent, and democratic labor unions have emerged from among the banana workers and have become the pillars of a broader labor movement. This movement is an important and constructive force for the nation's political, economic, and social development.

In addition to direct U.S. economic aid, international financial institutions have contributed to Honduran development. In the period 1946-70, such agencies as the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), and the Central American Bank for Economic Integration (CABEI) granted or loaned to Honduras \$173.3 million.

In the 3-year period 1971-1973 these agencies approved loans totaling almost \$70 million. The United Nations and the Organization of American States (OAS) continue to provide valuable technical assistance. Honduras

maintains an excellent credit rating among lending agencies.

Honduras' regional economic relations were severely disrupted when the country suspended its participation in the Central American Common Market (CACM) in 1970. The conflict with El Salvador was one reason for the suspension, but probably more important was the intolerable trade and payments imbalance which developed between Honduras and its Central American trading partners. Even before the 1969 conflict with El Salvador, it had become clear that Honduras had not benefited within the CACM to the same extent as the more industrialized Guatemala and El Salvador. Honduras pressed throughout 1970 for a *modus operandi* that would not only permit the CACM to function until the rupture with El Salvador was repaired but would restructure the Market to better protect the interests of the less developed members. This effort failed and at the beginning of 1971 Honduras enacted trade control measures which ended preferential treatment of CACM products in Honduras. Honduras has affirmed that it is still technically a member of the CACM, that it supports the principle of Central American integration, and that it is ready at any

time to participate in negotiations for the restructuring of the CACM. A high level commission, composed of representatives from each of the countries, including Honduras, began discussions in 1973 in an effort to find a solution which would permit the institution to survive and move forward.

The Honduran currency unit is the lempira (one lempira = US\$0.50).

## FOREIGN RELATIONS

Honduras is a member of the United Nations and several of its specialized agencies. It is a party to the collective security arrangements of the Rio Treaty (Inter-American Treaty of Reciprocal Assistance) of the OAS. Honduras is also a member of the Organization of Central American States (ODECA) and of the treaties and institutions of the CACM. However, since the 1969 conflict with El Salvador, Honduras has considered the legal bases for the latter two organizations to be suspended. Given its size and geographical position, Honduras' foreign affairs interests have more often centered in Central America than in other areas. The two major goals of Honduran foreign policy at present are a firm

One of the great centers of pre-Columbian civilization in America is the Mayan center of Copán, discovered by archeologists in 1893.



demarcation of the border with El Salvador, and a restructuring of the CACM to provide Honduras a larger share in economic benefits.

The Government of Honduras maintains diplomatic relations with the following Communist countries: Poland, Romania, and Yugoslavia, whose representatives to Honduras are resident at Mexico City.

## U.S.—HONDURAN RELATIONS

The United States and Honduras have traditionally maintained close and cordial relations, and it is the express desire of both nations to maintain these ties of friendship and common purpose.

The United States cooperates with Honduras in the latter's efforts toward sustained economic, political, and social development. It encourages the responsible participation of U.S. investment which can contribute to Honduran development and mutually beneficial U.S.-Honduran trade. The United States also favors the stable and peaceful relations between Honduras and its Central American neighbors conducive to the security and development of the entire area.

The U.S. Agency for International Development (AID) continues to have an active program in Honduras (see Profile). Its current programs are concentrated in rural development. The amounts listed in the Profile do not include the inflow of U.S. funds represented by contributions to international assistance organizations.

The United States Information Service (USIS) is also active in Honduras, providing information on current U.S. developments and on many aspects of contemporary American culture. USIS sponsors presentations of American artists and performers, distributes books, provides films and television tapes, assists binational cultural centers, and administers cultural and academic exchange programs.

The Peace Corps has more than 150 volunteers active in Honduras, who have been popular and effective. Its programs have been primarily in the areas of health and education.

Within the overall framework of friendly and cooperative relations some differences and frictions naturally

occur. The historic United States political and economic predominance in Central America and the nationalistic currents evident throughout Latin America have inevitably produced certain misgivings about the impact of the U.S. official and private presence and, indeed, some criticism of all foreign influences. During and immediately after the 1969 war with El Salvador, many Hondurans voiced resentment that the United States did not take direct bilateral action to support their country. This sentiment has diminished somewhat with time. There is now a

recognition of the effectiveness of multinational OAS diplomatic initiatives, fully supported by the United States, in obtaining a cease-fire and withdrawal of troops while encouraging a return to normal regional and bilateral relations in Central America.

Honduras, along with most Latin American nations, is also concerned with what it sees as a trend toward trade protectionism in the United States. The United States has implemented control and stabilizing mechanisms such as the U.S. sugar quota

## TRAVEL NOTES

*Passage*—Travelers arriving by air will need a tourist card and proof of citizenship or a passport with a valid Honduran visa. Tourist cards may be obtained from travel agents or airline offices. They have a limited validity and travelers who plan to stay for an extended period will need a visa. An International Certificate of Immunization must be presented to the health authorities at port of entry. Smallpox is the only vaccination required for entry by the Government of Honduras.

Travelers arriving by automobile will require visas or tourist cards for all countries through which they will be traveling. All Central American countries require smallpox vaccination for entry.

*Transportation and Communication*—Rail service in Honduras is confined to the banana zone along the Caribbean coast where the Ferrocarril Nacional de Honduras travels from Puerto Cortes to Porterillos (80 miles).

Individually operated minibuses provide service within Tegucigalpa and San Pedro Sula. Taxi service is adequate in downtown areas.

Those traveling to Tegucigalpa by car should plan their trip carefully. Road conditions vary according to season and superhighways should not be anticipated. The journey from the Mexico/U.S. border to Tegucigalpa usually requires about 6 days. The mountain route through Mexico is arduous but beautiful. The coastal route is interesting and road conditions are better.

Worldwide telephone service is provided by the Tropical Radio and Telegraph Company and connections are usually good. Calls to the U. S. are based on destination and vary from \$2.40 to \$3.60 per minute.

Local letter mail service is reliable.

*Community Health*—Environmental sanitation and community health controls are rudimentary in Tegucigalpa and San Pedro Sula.

Water in both cities is contaminated. Its use for drinking and bathing requires extreme caution. Boiling, filtering, and/or chemical sterilization is necessary.

Main endemic health hazards are a variety of food and water-borne intestinal diseases of bacterial, viral, and parasitic origin. These include: typhoid, infectious hepatitis, amoebas, intestinal worms, and a variety of unclassifiable, transient, and frequently virulent forms of dysentery.

All fresh fruits and vegetables, if eaten raw, must be washed in a solution of Clorox or iodine. Meats purchased locally must be cooked until well-done.

Those planning an extended stay or travel to outlying areas—particularly along the north coast—should, in accordance with medical advice, begin taking a malarial suppressive prior to arrival.

*Climate and Clothing*—Its altitude gives Tegucigalpa a generally moderate climate. Excessively hot days do occur but are usually relieved by moderate to cool nights. Average monthly temperatures vary from a low of 66° F in January to a high of 74° F in May. Extreme temperatures as low as 44° F and as high as 98° F may be expected. Seasonal differences are not so much in temperature as in rainfall.

The hot, dry season is the most uncomfortable and lasts from 3 to 6 months. It reaches its peak in April and continues until the first rains. During March through October visitors to the capital will need lightweight, easily washable clothing requiring little or no ironing. For cooler months a lightweight coat is necessary.

system, coffee quotas under the International Coffee Agreement, and the voluntary restraint program for foreign meat imports. But it has tried to provide to Honduran products the maximum amount of access to its markets consistent with U.S. domestic and international responsibilities.

On the positive side, the longest standing single irritant in U.S.-Honduran relations was neutralized in 1969 when the United States agreed to negotiate a treaty resolving the two countries' conflicting claims to the Swan Islands—two small, almost uninhabited islands

about 100 miles off the coast of Honduras. Under the treaty U.S. agreed to recognize full Honduran sovereignty over the islands thus removing this issue from active dispute.

#### Principal U.S. Officials

Ambassador—Phillip V. Sanchez  
Deputy Chief of Mission—Robert D. Davis  
Director, U.S. AID Mission—Edward Marasciulo  
Chief, Political Section—William C. Sercgant

Chief, Economic Section—Robert Shuler  
American Consul—Clyde Snider  
Joint Administrative Officer—Henry W. Brandt  
Defense Attaché—Lt. Col. Paul N. Shull, USAF  
Public Affairs Officer (USIS)—John L. Griffiths  
Commander, U.S. Military Group—Col. Alfred L. Sanderson  
Director, Peace Corps—Abe M. Pena

The U.S. Embassy in Honduras is located on Avenida La Paz, Tegucigalpa.

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DEPARTMENT OF STATE PUBLICATION 8184

Revised March 1974

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# background NOTES

## Nicaragua

department of state \* february 1975

OFFICIAL NAME: Republic of Nicaragua

### GEOGRAPHY

The largest of the Central American republics, Nicaragua lies between Honduras on the north and Costa Rica on the south. On the Pacific side a coastal plain gradually rises toward rugged mountains in the central north.

Lake Managua and Lake Nicaragua—Central America's two largest lakes—are in the west. Beyond the mountains lies a sparsely inhabited wilderness of timbered plains and rolling hills cut by rivers. The eastern coastal plain, partly swamp, extends 40-50 miles inland. The country is traversed from north to

south by the Inter-American Highway and from east to west by the Rama Road.

Nicaragua is in tropical latitudes; mean average temperature in the Pacific coastal region is about 81° F. Rainfall on the Pacific coast (May-Nov.) ranges from 60 to 65 inches annually. On the Caribbean Coast it averages 150 inches, and some sections have as much as 300 inches. In the interior annual precipitation (Apr.-Dec.) averages about 120 inches.

### PROFILE

#### Geography

AREA: 57,100 sq. mi. (about the size of Iowa). CAPITAL: Managua (pop. 450,000). OTHER CITIES: León (76,000), Granada (29,000), Masaya, Matagalpa.

#### People

POPULATION: 2.1 million (1974 est.). ANNUAL GROWTH RATE: 3.2% (1974). DENSITY: 37 per sq. mi. ETHNIC GROUPS: *Mestizo* (mixed) 70%, white 17%, Negro 9%, Indian 4%. RELIGION: Roman Catholic (95%). LANGUAGES: Spanish, English. LITERACY: 50%. LIFE EXPECTANCY: 54 yrs.

#### Government

TYPE: Republic. INDEPENDENCE: 1838. DATE OF CONSTITUTION: April 1974.

BRANCHES: *Executive*—President (Chief of State and Head of Government), Cabinet. *Legislative*—30-seat Senate, 70-seat Chamber of Deputies. *Judicial*—Supreme Court; subordinate Appeals, District, and Local Courts; separate Labor and Administrative Tribunals.

POLITICAL PARTIES: Liberal, Conservative. SUFFRAGE: Universal adult. POLITICAL SUBDIVISIONS: 16 departments, municipalities.

FLAG: Two blue horizontal bands sep-

arated by central white band with encircled triangle denoting justice, truth, and peace.

#### Economy

GDP: \$1.3 billion (1974 est., current prices). ANNUAL GROWTH RATE: 9% (est.). PER CAPITA INCOME: \$620 (current prices). PER CAPITA GROWTH RATE: 13.6%.

AGRICULTURE: *Land* 30%. *Labor* 53%. *Products*—cotton, coffee, sugar, meat.

INDUSTRY: *Labor* 47%. *Products*—processed foods, beverages, textiles, clothing, footwear, tobacco.

NATURAL RESOURCES: Arable land, timber, fish.

TRADE: *Exports*—\$374 million (1974 est.): cotton, coffee, sugar, meat. *Partners*—U.S. (34.3%, 1973), Central American Common Market (CACM), Japan, Federal Republic of Germany (F.R.G.). *Imports*—\$540 million (1974 est.): consumer goods, machinery, motor vehicles, chemicals, petroleum. *Partners*—U.S. (34.3%, 1973), CACM, Japan, F.R.G., Venezuela.

OFFICIAL EXCHANGE RATE: 7 cordobas=US\$1 (Jan. 1975).

ECONOMIC AID RECEIVED: *Total*—\$436.4 million (1946-73 loans and grants). *U.S. only*—\$189.9 million (1946-73 loans and grants, P.L. 480 (Food for Peace)).

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: U.N. and several of its specialized agencies, Organization of American States (OAS), CACM.

### PEOPLE

About 40 percent of Nicaragua's population is urban; most live in the Pacific lowlands and the adjacent interior highlands region. The three principal cities—Managua, León, and Granada—are on the Pacific side. The largest city on the Caribbean Coast is Bluefields.

Nicaragua is a *mestizo* country in which neither the European nor the Indian line predominates. Smaller ethnic groups are recognizable, but not in an ethnically pure state. The Negro population, of Jamaican origin, is concentrated on the Caribbean Coast, but migration to Managua has been increasing.

Although some Indians retain ancient tribal customs and dialects, Nicaraguan culture follows the basic lines of its Ibero-European ancestry with the Spanish influence prevailing. Catholicism is the major religion, but religious tolerance is the norm. Spanish is the official language; English is spoken on the Caribbean Coast.



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## HISTORY

Columbus sailed along the coast of Nicaragua on his last voyage to the New World in 1502, stopping first at present-day Honduras. Spanish conquerors from Panama, under Gil Gonzalez Davila, arrived in 1522, and the Indian tribe which lived around present-day Lake Nicaragua received them peaceably. Its chief was Nicarao, hence the country's name. Two towns were founded in 1524—Granada on Lake Nicaragua and León on Lake Managua.

Thus began the colonial history of Nicaragua (1524-1820). The country was incorporated administratively into Spain's Captaincy-General of Guatemala. Wars between the Mosquito Indians of the Caribbean Coast and the Spanish colonials of the Pacific side, piracy, and fights with British settlers on the Caribbean Coast—who kept their foothold there until well into the 19th century—marked this period of settlement and agricultural development.

Spain granted independence to Central America almost without

bloodshed. Guatemala declared its independence on September 15, 1821. In 1822 the Central American provinces united with Mexico. But the union was short-lived, and in 1823 a separate federation, the United Provinces of Central America, was organized. This federation, too, was short-lived. In 1838 Nicaragua declared itself an independent republic.

As in the other Central American nations, dissension between the two major political parties, the Liberals and Conservatives, kept Nicaragua in turmoil following independence. This



unsettled condition made possible the 1855 inglorious adventure of the U.S. filibuster William Walker. Within a year Walker managed to make himself president of the country. Liberals and Conservatives finally united to drive him out, and by 1857 he was expelled.

Comparative peace followed the Walker episode. But Liberals and Conservatives still could not compromise their points of view, and by the 20th century the country was seething with political unrest and struggling under great debts.

U.S. Marines landed in 1912, at Nicaraguan request, to restore order. This began a period of active U.S. involvement in Nicaragua which continued until the adoption in 1933 of the Good Neighbor Policy and the principle of nonintervention.

Anastasio Somoza Garcia, Commander of the Nicaraguan National Guard, assumed the presidency in 1936 and controlled the government until his assassination in 1956. His elder son, Luis Somoza Debayle, then succeeded him. In 1963 former Foreign Minister Rene Schick was elected President, but he died before the end of his term. In 1967 Anastasio Somoza Debayle, younger son of Somoza Garcia, was elected President.

On December 23, 1972, a massive earthquake devastated the city of Managua. An estimated 10,000 people were killed or injured and over 300,000 left homeless. Many of the country's most important public offices and financial and commercial facilities were destroyed. Following the disaster, Nicaragua received tremendous relief assistance from abroad, including more than \$50 million in U.S. contributions.

## GOVERNMENT AND POLITICAL CONDITIONS

Nicaragua's new Constitution divides the highly centralized governmental structure into four branches: executive, legislative, judicial, and electoral. The President is elected for a 6-year term and appoints and directs the activities of 10 Cabinet Ministers. The Constitution guarantees a minimum of 40 percent of the seats (6-year terms) in each legislative house to the major opposition party.

Political activity in Nicaragua has centered historically around two major parties, Liberal and Conservative. Their rivalry grew out of the longstanding struggle before independence between the cities of León and Granada for political and economic pre-eminence. The Liberals, led by the Somoza family, have been in power since the 1930's.

General Anastasio Somoza Debayle, elected President in 1967 (the third member of his family to lead the government), entered into an agreement with the Conservative Party leadership in March 1971 calling for major constitutional reforms. The Conservatives secured an increase from 33 to 40 percent in their guaranteed representation in the legislature, as well as other concessions. In return, Somoza was legally enabled to run for reelection, an action which had been prohibited by the 1950 Constitution. The legislature was dissolved in August 1971, and a Constituent Assembly was elected to draft a new Constitution. A three-member National Governing Council was set up in May 1972 to rule the country until new elections, scheduled for 1974. In 1973, following the Managua earthquake, the Conservative Party split into two factions over the question of continued participation in the pact with Somoza.

The new Constitution went into effect in April 1974, and national elections were held September 1. Somoza was credited with 92 percent of the votes, and his Conservative opponent, Edmundo Paguaga, received 8 percent.

Other political parties include the small Social Christian Party, dissident factions from both the Conservative and Liberal Parties, and the Nicaraguan Socialist Party—the Communist Party of Nicaragua, illegal since 1945. (The Socialist Party has an estimated 230 members but also has some influence in the Nicaraguan labor movement.) These groups met after the 1974 elections in an effort to form a loosely coordinated coalition to oppose the government.

The Sandinista National Liberation Front is a small, activist, pro-Castro group which supports violence and pursues a sporadic and generally inef-

## READING LIST

These titles are provided as a general indication of the material published on Nicaragua. The Department of State does not endorse the specific views in unofficial publications as representing the position of the U.S. Government.

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factual program of urban terrorism and rural insurgency.

## Principal Government Officials

President; Director of the National Guard—Gen. Anastasio Somoza Debayle

### Ministers

Foreign Relations—Alejandro Montiel Arguello

Government—José Antonio Mora Rostrán

Finance—Gen. Gustavo Montiel Bermúdez

Education—Leandro Marin Abaunza

Public Works—Armel Gonzalez

Agriculture—Claus Sengelmann

Defense—Col. Heberto Sanchez Barquero

Economy—Juan José Martinez Lopez

Labor—Julio Cardoze

Health—Adan Cajina

Ambassador to the U.S., U.N., OAS—  
Guillermo Sevilla Sacasa

Nicaragua maintains an Embassy in the U.S. at 1627 New Hampshire Ave., NW., Washington, D.C. 20009.

## ECONOMY

Nicaragua's resources are primarily agricultural. Some estimates indicate that 70 percent of the nation's territory could be used for agriculture or stockraising. Forests cover over half the country. Although some of this area contains marketable pine, 90 percent is mixed tropical hardwoods which are technically difficult to exploit.

Nicaragua has no known coal resources, but it possesses moderate underdeveloped hydroelectric potential. Gold and silver, usually found together in nonalluvial deposits, have been major export items but have declined in importance. Petroleum exploration is being undertaken at offshore sites in both the Pacific and Caribbean; however, no significant discoveries were made by the end of 1974.

Minor deposits of gypsum near León and talc in the southern *Cordillera* (highlands) are being exploited. The aggregate picture in nonmetallic minerals is one of limited known resources and modest current exploration of those which are known.

Although Nicaraguan industry has not achieved any significant increase in its proportionate contribution to the gross domestic product, it has grown rapidly in recent years, despite the effects of the 1972 earthquake. This trend is led by the construction and food processing sectors. A fundamental limitation on Nicaragua's industrial development is the absence of important mineral resources.

The Nicaraguan economy has grown at an average rate of 6.4 percent since World War II, fueled primarily by its chief exports. Growth dropped from a high of 8 percent during

1961-65 to 3.8 percent in 1966-67 when drought affected crops. Continued drought and the catastrophic 1972 earthquake reduced real growth in 1973 to about 2.4 percent. Good crops, high export commodity prices, and the construction industry boom produced a 9 percent jump in the 1974 GDP.

The efforts of the Nicaraguan Government to promote economic growth include: the maintenance of monetary stability while increasing the availability of financial resources for industrial and agricultural purposes; the improvement of tax administration; the acceleration of expenditures on such infrastructure projects as roads and power generation; and the diversification of exports by promoting, among others, meat, tobacco, and banana production.

## FOREIGN RELATIONS

The Nicaraguan Government seeks to expand its exports, obtain international assistance for its development efforts, and reestablish the forward motion of Central American regional integration. The Government suspended relations with Cuba in 1960 and is very outspoken in its condemnation of communism.

Nicaragua has no boundary or territorial problems with its neighbors although it does maintain a claim, disputed by Colombia, to the Quita Sueño Bank located about 150 miles off its Caribbean Coast.

Venezuela has become an important source of petroleum.

## U.S.-NICARAGUA RELATIONS

For several decades the United States and Nicaragua have enjoyed a close and friendly relationship based on similar foreign policy goals and a U.S. desire to cooperate with Nicaragua's development efforts.

Currently the Agency for International Development (AID) program places particular emphasis on agri-

culture, education, and health. Other programs are being carried out in the fields of military assistance, cultural exchange, and information. The Peace Corps has a program in Nicaragua with about 80 volunteers engaged in health, agricultural, small business, and education programs.

## Principal U.S. Officials

Ambassador—Turner B. Shelton  
Deputy Chief of Mission—Leland W. Warner, Jr.  
Director, AID Mission—Robert E. Culbertson  
Public Affairs Officer (USIS)—John B. Barton

The U.S. Embassy in Nicaragua is located at Kilometer 4.75, South Highway, Managua.

## TRAVEL NOTES

*Clothing*—Nicaragua's tropical climate calls for lightweight, washable clothing.

*Customs*—Passports and visas are required for land or sea entry and for naturalized U.S. citizens. Otherwise, U.S. citizens may enter by air with tourist cards issued by the airlines and proof of citizenship. Smallpox immunizations are required.

*Health*—Medicines and competent care for most needs are available in Managua. Public sanitary controls are lower than U.S. standards, and the Managua water supply is frequently contaminated. Food served in the better local restaurants is generally safe.

*Telecommunications*—Both local and international telephone and telegraph service is available in Managua.

*Transportation*—Nicaragua is well-served by international airlines with frequent connections to the U.S. and the rest of Central America. Limited rail service is available between Managua and other major cities in the Pacific coastal area. Managua is served by numerous taxis and an inadequate bus system.

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Office of Media Services, Bureau of Public Affairs

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# background NOTES

A

## Panama

department of state \* december 1974

OFFICIAL NAME: Republic of Panama

### GEOGRAPHY AND PEOPLE

The Republic of Panama occupies the southern end of the isthmus that forms the land connection between North and South America. It is bound-

ed on the west by Costa Rica, on the north by the Caribbean Sea, on the east by Colombia, and on the south by the Pacific Ocean. Panama is bisected by a 10-mile-wide strip of territory known as the Canal Zone, which, by

grant in perpetuity from Panama, is under the exclusive jurisdiction of the United States.

Panama's topography is in large part mountainous and hilly with two main mountain ranges forming the backbone of the isthmus. The Caribbean side and eastern Panama are covered almost entirely by heavy tropical rain forests. The climate is tropical, and rainfall is heavy but seasonal. The Caribbean side has a much higher precipitation and a less defined dry season than the Pacific side.

Panama's population is the smallest of the Latin American countries. The culture, customs, and language of the Panamanians are basically Spanish. English is widely understood in Panama because of the proximity of the Canal Zone.

### PROFILE

#### Geography

AREA: 29,208 sq. mi. (slightly smaller than South Carolina). CAPITAL: Panamá (pop. 455,027). OTHER CITIES: Colón (68,000), David (56,000).

#### People

POPULATION: 1,569 million (1974 est.). ANNUAL GROWTH RATE: 3.1% (1974). DENSITY: Approx. 56 per sq. mi. ETHNIC GROUPS: Mestizo (70%), Antillean Negro (13%), White (10%), Indian (6%). RELIGIONS: Roman Catholic (93%), Protestant (6%). LANGUAGES: Spanish (official), English. LITERACY: 85%. LIFE EXPECTANCY: 59 yrs.

#### Government

TYPE: Centralized republic. INDEPENDENCE: November 3, 1903. DATE OF CONSTITUTION: October 11, 1972.

BRANCHES: Executive—President (Chief of State), Vice President. Legislative—National Assembly of Community Representatives. Judicial—Supreme Court.

POLITICAL PARTIES: A moratorium on organized political activity is in effect. SUFFRAGE: Universal adult over 18. POLITICAL SUBDIVISIONS: 9 Provinces and 1 Territory.

FLAG: Four rectangles—lower left, blue; upper right, red; upper left, white with blue star in center; lower right, white with red star in center.

#### Economy

GROSS DOMESTIC PRODUCT (GDP): \$1.1 billion (1973). ANNUAL GROWTH RATE: 7.3% (1970-73). PER CAPITA INCOME: \$867 (1973). PER CAPITA GROWTH RATE: 4.5%.

AGRICULTURE: Land 29.3%. Labor 40%. Products—bananas, sugar, rice.

INDUSTRY: Labor 18%. Products—refined petroleum.

NATURAL RESOURCES: Geographic location; copper (yet to be exploited).

TRADE: Exports—\$133.5 million (1973 f.o.b.): bananas (56%), refined petroleum (21%), shrimp, sugar. Partners—U.S. (36.2%), F.R.G. (13.8%). Imports—\$444.2 million (1973 c.i.f.): machinery and oil, chemical products, foodstuffs. Partners—U.S. (34.3%), Venezuela (21.8%), Japan (5.8%).

OFFICIAL EXCHANGE RATE: 1 Balboa (B/1)=US\$1. (The U.S. dollar is used as the Panamanian currency.)

ECONOMIC AID RECEIVED: Total \$604.4 million—Inter-American Development Bank (IDB), International Bank for Reconstruction and Development (IBRD), United Nations Development Program (UNDP), and other countries and U.S. loans and grants (1946-73). U.S. only—\$390.8 million (1946-73).

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: U.N. and several of its specialized agencies, Organization of American States (OAS), International Monetary Fund (IMF), and the IDB.

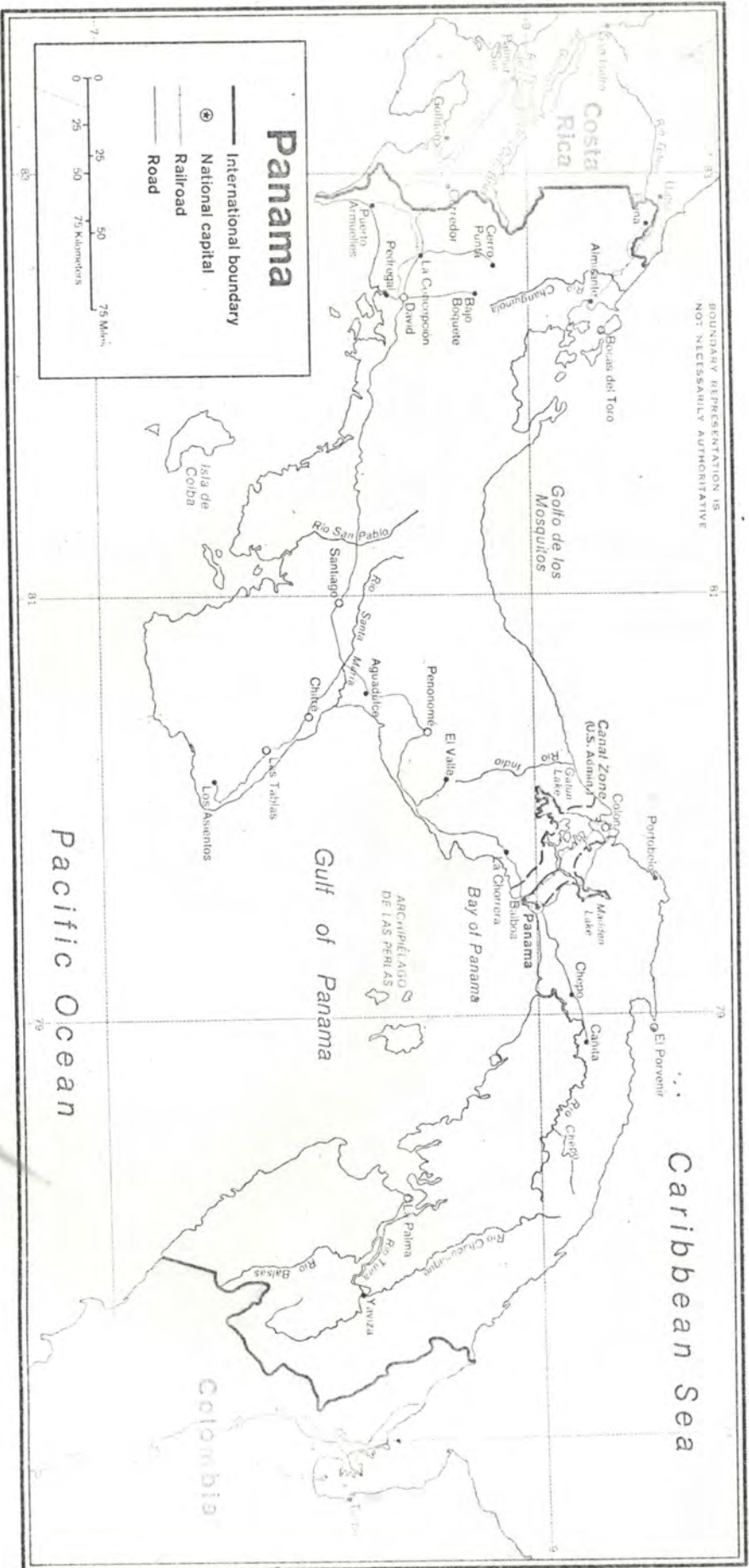
### HISTORY

Columbus sighted Panama in 1501, and 12 years later Vasco Nuñez de Balboa crossed the isthmus and "discovered" the Pacific Ocean. The Spanish maintained ports on the isthmus from which expeditions went into Peru and Central America to find much of the wealth of the Spanish Empire.

Panama achieved independence from Spain in 1821 and thereafter joined the Confederation of Greater Colombia. Panama proclaimed its own independence in 1903 after Colombia rejected a treaty enabling the United States to build the Isthmian Canal.

A relatively small, elite group dominated Panamanian political and economic life until the election of Presi-

BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE



### Panama

— International boundary

⊕ National capital

⊞ Railroad

— Road



517430 11-74

Pacific Ocean

Caribbean Sea

Gulf of Panama

ARCHIPIÉLAGO DE LAS PERLAS

Colombia

Costa Rica

dent Arnulfo Arias and his inauguration on October 1, 1968. Ten days later the National Guard, which had rarely intervened directly in political matters, overthrew President Arias and established the provisional junta government.

The National Guard Commander, Brig. Gen. Omar Torrijos, was the ultimate power in the junta government, although in 1969 two civilians, Demetrio Lakas and Arturo Sucre, were appointed as President and Vice President of the junta. Elected, constitutional government was restored in October 1972, following nationwide elections in August for an Assembly of 505 Community Representatives. This body approved a revision of the 1946 constitution and elected junta members Lakas and Sucre as President and Vice President, respectively. It also vested extraordinary executive powers in Brig. Gen. Torrijos for a 6-year period.

#### GOVERNMENT AND POLITICAL CONDITIONS

Panama's Constitution of 1972 separates the government into legislative, executive, and judicial branches. The legislative branch is made up of a National Assembly of Community Representatives, which has one 30-day session each year. The Assembly is composed of one representative from each of the 505 electoral districts, elected by universal adult suffrage for a 6-year term. A Legislative Council performs legislative functions when the Assembly is not in session. The Council is made up of Brig. Gen. Torrijos, the President, the Vice President, the members of the Cabinet, eight members from the Assembly, and the President of the Assembly.

The judicial branch is organized under a nine-member Supreme Court.

The executive branch is composed of a President and a Vice President elected for 6-year terms by the Assembly. In October 1972 the Assembly vested in Brig. Gen. Torrijos special executive powers giving him the authority to approve contracts and agreements, appoint Cabinet ministers, and conduct foreign affairs.

#### READING LIST

These titles are provided as a general indication of the material currently being published on this country. The Department of State does not endorse the specific views in unofficial publications as representing the position of the U.S. Government.

Atlantic-Pacific Interoceanic Canal Study Commission. *Interoceanic Canal Studies 1970*. Washington, D.C.: U.S. Government Printing Office, 1970.

American University. *Area Handbook for Panama*. Washington, D.C.: U.S. Government Printing Office, 1972.

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Howarth, David. *Panama*. New York: McGraw-Hill, 1966.

Kissinger, Henry A. *U.S. and Panama Agree on Principles for Negotiation of New Panama Canal Treaty*. Department of State Bulletin, Vol. LXX, No. 1809. Washington, D.C.: U.S. Government Printing Office, Feb. 25, 1974.

Liss, Sheldon B. *The Canal: Aspects of United States - Panamanian Relations*. Notre Dame Press, 1967.

The National Guard, which exercises police and military functions, is composed of about 7,000 men. It is the only armed force in the country.

Since the 1968 coup d'etat there has been a moratorium on organized political activity. The moratorium was formalized in March 1969 when the junta declared all parties "extinct" pending revision of the electoral code and "restructuring" of the party system.

The Panamanian Government has stressed political and economic objectives favorable to the lower and middle classes and has endeavored to carry out programs to win support from these classes.

#### Principal Government Officials

President—Demetrio B. LAKAS

Head of Government—Brig. Gen. Omar TORRIJOS

#### Cabinet Ministers

Foreign Affairs—Juan Antonio TACK  
Planning and Economic Policy—  
Nicolas Ardito BARLETTA

Government and Justice—Ricardo A. RODRIGUEZ

Finance and Treasury—Miguel SAN-CHIZ

Industry and Commerce—Fernando MANFREDO

Education—Aristides ROYO

Public Works—Nestor Tomas GUERRA (acting)

Labor and Social Welfare—Rolando MURGAS

Ambassador to the U.S.—Nicolas GONZALEZ REVILLA

Ambassador to the U.N.—Aquilino BOYD

Ambassador to the OAS—Nander PITY

Panama maintains an Embassy in the United States at 2862 McGill Terrace, NW., Washington, D.C. 20008, and Consulates in New York City; Augusta, Ga.; Baltimore, Md.; Boston, Mass.; Houston, Dallas, and Brownsville, Tex.; Chicago, Ill.; Detroit, Mich.; Los Angeles, San Diego, and San Francisco, Calif.; Miami, Fla.; Phila., Pa.; Portland, Maine; San Juan, Puerto Rico, New Orleans, La.; and D.C.

## TRAVEL NOTES

*Climate and Clothing*—The climate in Panamá and Colón is tropical, and light-weight clothing is recommended. The rainy season is from May through November.

*Health*—Sanitation conditions in Panamá and Colón are almost equivalent to those of the U.S. Good health facilities are available.

*Customs*—With regular passports, either a visa or a tourist card and a smallpox inoculation are required. Recently some travelers have also been required to have \$300 and proof of onward transportation in their possession.

*Telecommunications*—The telephone system in Panamá and Colón is good. Long-distance telephone service to the U.S. and other overseas points is good. *Transportation*—Panamá is an international crossroads serving several international airlines and steamship companies. Flight time from Miami to Panamá is 2½ hours. One can also drive from the U.S. to Panamá via the Inter-American Highway System.

Panamá and Colón are connected by rail and road; the trip takes approximately 1 hour.

In Panamá taxis are plentiful and relatively inexpensive. Bus service is good, but generally crowded.

## ECONOMY

The economy has been oriented for centuries toward servicing transit trade and international commerce. In the past 50 years the major force in shaping the country's economic development has been the demand for goods and services generated by the Panamá Canal and the Canal Zone. The greater part of the activity has been in the terminal cities of Colón and Panamá City, where an advanced service-centered, commercially oriented, urban economy has been developed.

Panamá has achieved rapid economic growth in the past decade. Progress, however, has been heavily concentrated in the urban areas. Nearly half of the population still is engaged in subsistence agriculture and has little contact with the money economy. Agricultural production and income are inadequate as a source of supply to the nation and as a market for indus-

trial products. Thus the market economy of Panamá continues to depend to a considerable degree on external demand.

Panamá's commodity trade deficit is partly offset by earnings from the sale of goods and services to the Canal Zone. However, the contribution of the Canal Zone to Panamá's economy has become less significant as the country's economy has developed.

Since 1968 Panamá has developed into a major international financial center, capitalizing upon its liberal banking law, its location, good communications and transportation facilities, absence of exchange controls, and use of the dollar as the Panamanian currency. Panamá is especially attractive to depositors from South America, because it is the principal banking center using the Spanish language. Since 1970, when the banking law went into effect, the number of banks licensed in Panamá has increased from 25 to 58 with total assets at the end of 1973 at \$3.6 billion, up 65 percent from 1972.

## PANAMA CANAL AND CANAL ZONE

The focal point of Panamá's foreign policy is the Panamá Canal. The U.S. Government administers the Panamá Canal and the Canal Zone in accordance with the treaty of 1903, as amended in 1936 and 1955. The canal opened in 1914, and since that time the United States has operated, maintained, and defended it. The Panamá Canal enterprise is divided into two agencies: the Canal Zone Government, responsible for all civilian government functions in the zone, and the Panamá Canal Company, which operates the waterway and supporting installations. These agencies are under the direction of the Governor, who is appointed by the U.S. President. He administers the Canal Zone Government and is *ex officio* director and president of the Panamá Canal Company. Residence in the zone is restricted by treaty to persons connected with the operation, maintenance, or defense of the canal.

Panamanians have been dissatisfied with the 1903 treaty and its amendments. The conclusion of new canal

treaties is a priority goal. The riots of January 1964 brought to a head this longstanding dissatisfaction and caused Panamá to break diplomatic relations with the United States. Upon the reestablishment of relations in April 1964 the two governments agreed to appoint Special Ambassadors with sufficient powers to seek the prompt elimination of the causes of conflict between the two countries.

Negotiations began shortly thereafter, and in June 1967 the United States and Panamanian negotiators completed preparation of three draft treaties dealing with the existing lock canal, a possible sea level canal in Panamá, and defense matters. These draft treaties were never acted upon by either government, and in 1970 the Panamanian Government publicly rejected them.

Intensive negotiations for a new Panamá Canal treaty to replace the treaty of 1903 resumed in June 1971. By year's end, the United States had presented a treaty offer covering most of the relevant issues. The Panamanian negotiators carried the offer to Panamá for review in December 1971. During 1972 the attention of the Panamanian leadership was directed primarily to the political restructuring of the country. Consequently, the negotiations were not resumed until December 1972, when a U.S. delegation traveled to Panamá.

These talks were not productive. Panamá presented the United States with a comprehensive response to the offer of December 1971, but it was evident that agreement would require further intensive negotiation.

In March 1973 the U.N. Security Council, at the invitation of Panamá, then serving a 2-year term as a temporary Council member, met in Panamá. Panamá used the Security Council session to criticize the U.S. posture on the canal question and sought a resolution supporting its position. The United States vetoed the resolution, however, on the grounds that it was unbalanced, incomplete, and involved the United Nations in a bilateral matter under amicable negotiation.

In September 1973 Secretary Kissinger appointed Ambassador at Large Ellsworth Bunker as Chief U.S.

Negotiator for the treaty talks. Ambassador Bunker's trips to Panama in late 1973 and early 1974 resulted in a Joint Statement of Principles signed in February 1974 by Secretary Kissinger and Foreign Minister Tack. The principles are a general outline upon which a new treaty will be based. By concluding a new treaty that protects U.S. interests while being responsive to Panamanian aspirations, the United States seeks to reduce the tensions surrounding the Canal issue in its relationship with Panama and to provide a more satisfactory environment for the operation of the Canal. Primary U.S. objectives are the rights to continue to operate and defend the Canal for an extended period of time. Until a new Canal treaty is ratified, the 1903 treaty and its amendments continue in force.

#### FOREIGN RELATIONS

The Government of Panama maintains diplomatic relations with a wide

range of governments. Outside the Western Hemisphere Panama's closest relations are with Western European nations and Japan. In recent years it has strengthened its relations with the five Central American countries.

Panama also maintains relations with some Eastern European countries. It does not maintain relations with the Soviet Union, although some informal contacts, such as exchanges of cultural and sports groups have occurred. Very recently, it has been taking steps to increase its ties with the so-called Third World nations.

#### U.S.-PANAMA RELATIONS

The United States seeks to maintain a friendly relationship with Panama and cooperates through its own and international agencies with the Panamanian Government in the promotion of economic, political, and social development. The United States desires to change the Panama Canal treaty relationship so that it reflects pres-

ent day realities and is mutually satisfactory to both nations.

#### Principal U.S. Officials

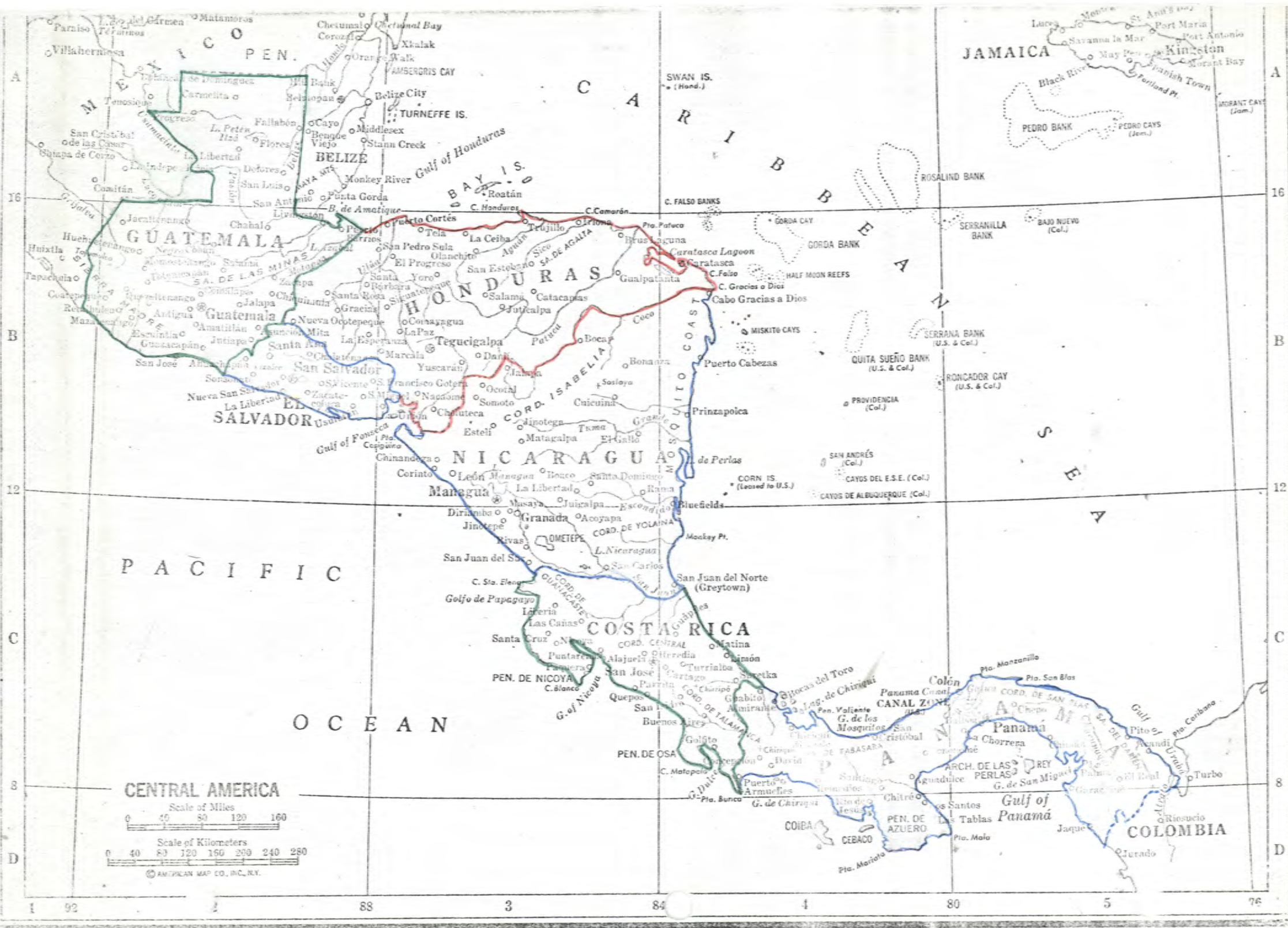
Ambassador—William J. Jorden  
 Deputy Chief of Mission—Raymond E. Gonzalez  
 Director, U.S. AID Mission—Alexander Firfer  
 Counselor for Political Affairs—John D. Blacken  
 Counselor for Economic Affairs—John G. Panos  
 Counselor for Consular Affairs—Blaine C. Tueller  
 Public Affairs Officer (USIS)—Robert Rockweiler

Governor of the Canal Zone—Maj. Gen. David S. Parker, U.S.A.  
 Commander in Chief, Southern Command—Gen. William B. Rosson, U.S.A.

The U.S. Embassy in Panama is located at Avenida Balboa at 38th Street, Panamá.

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Office of Media Services  
 Bureau of Public Affairs



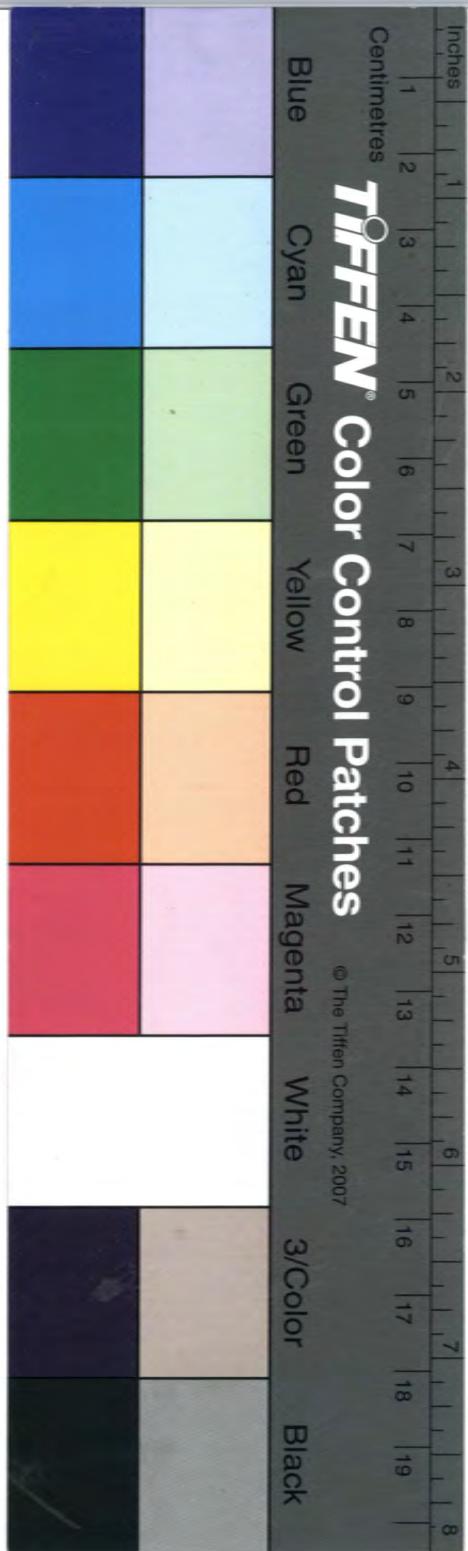
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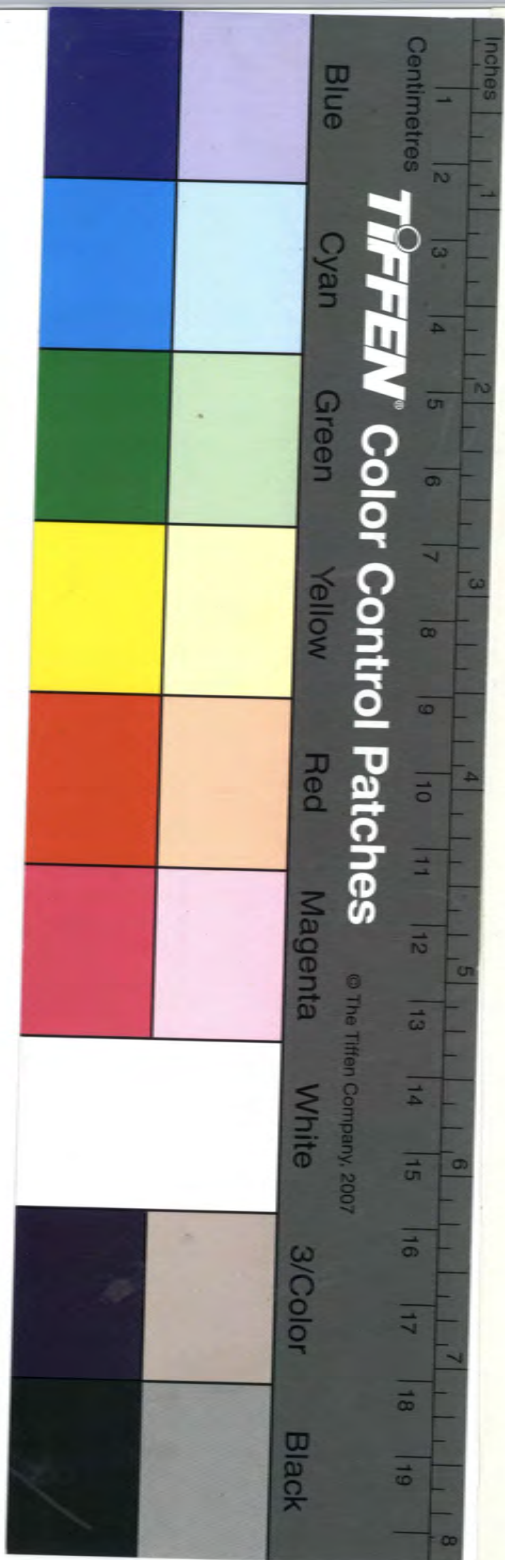
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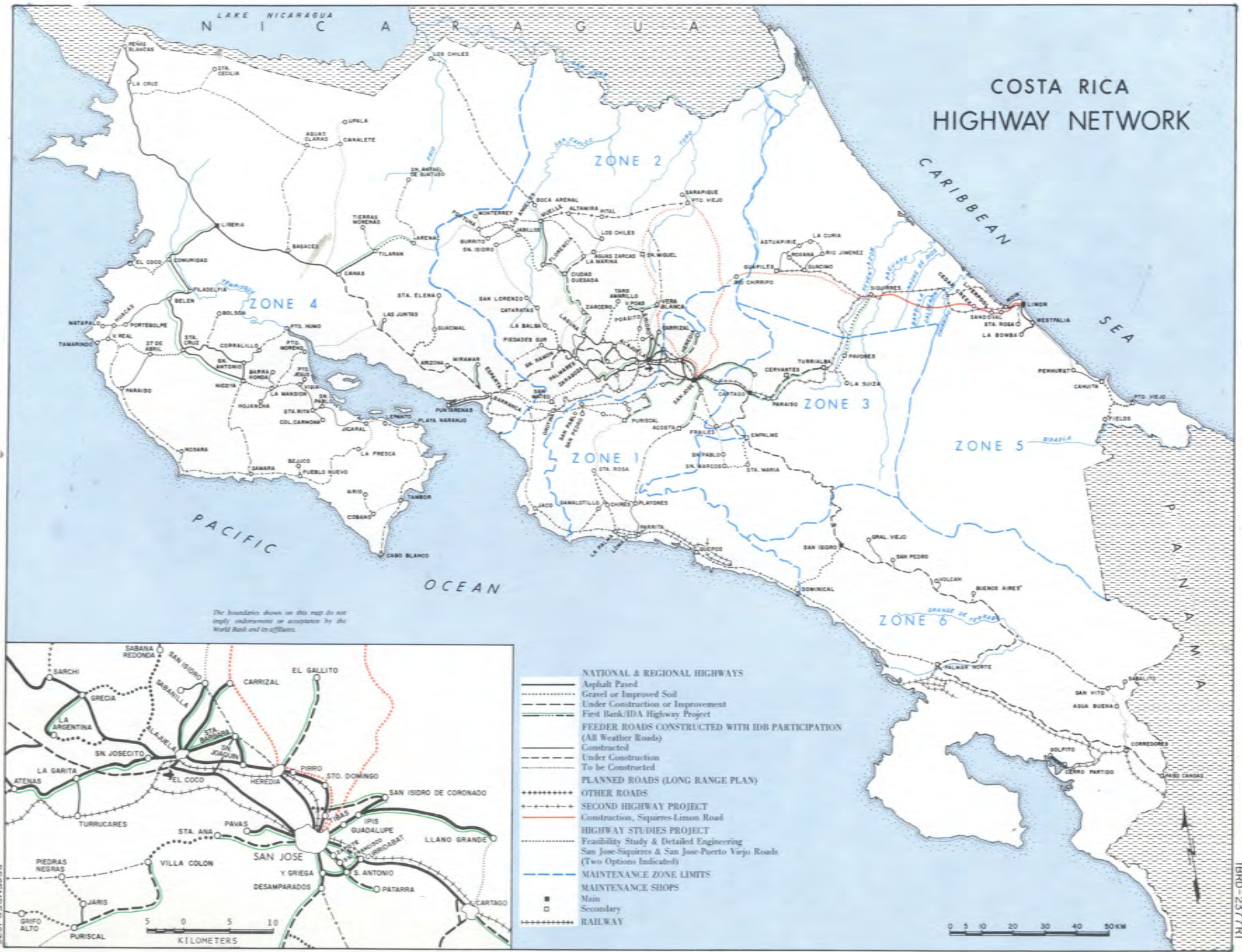


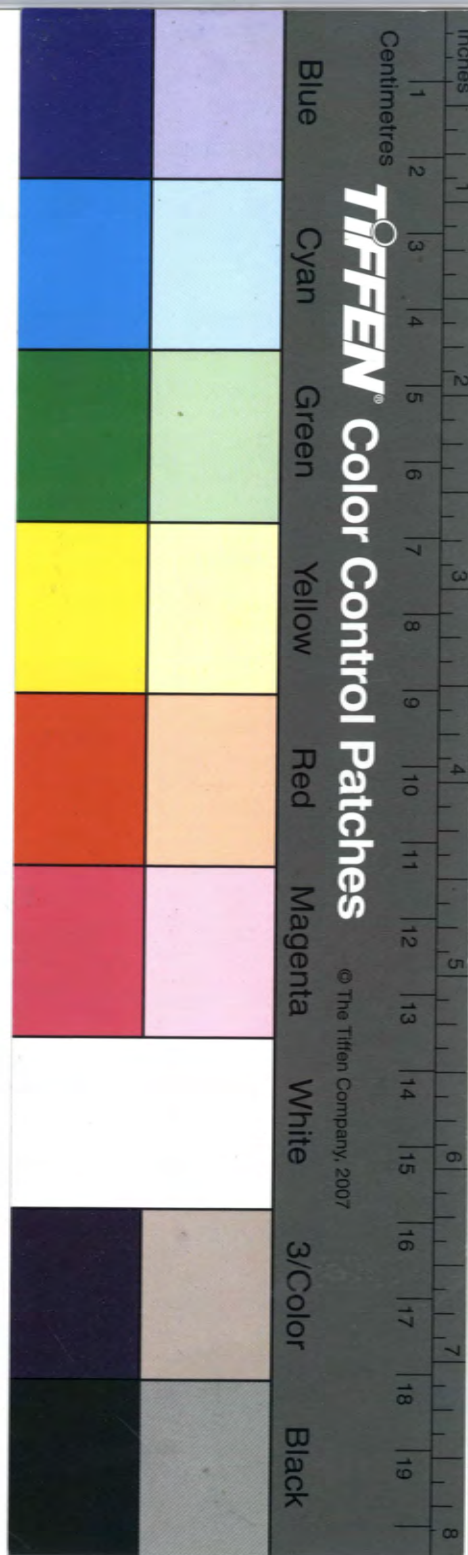
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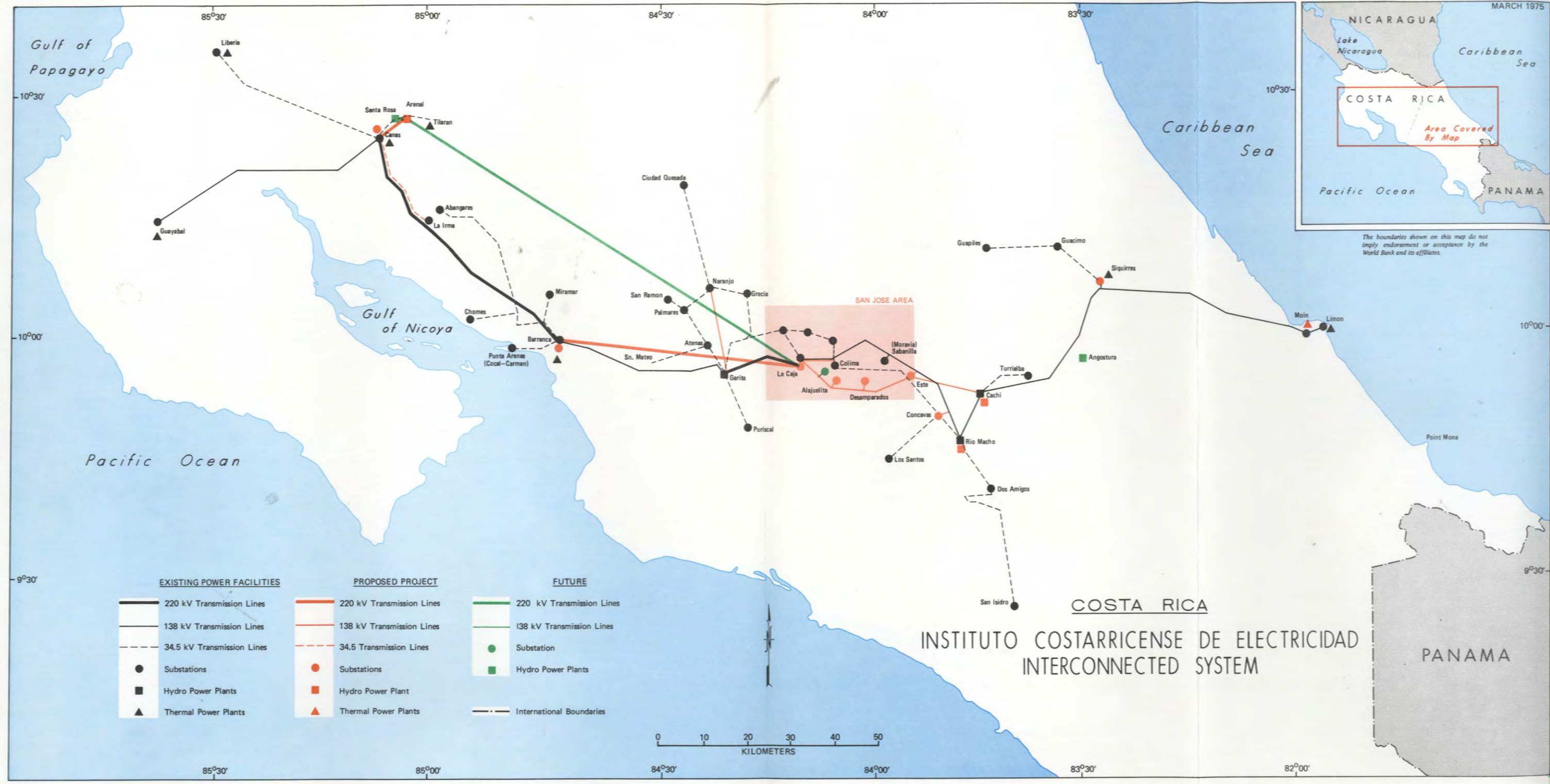
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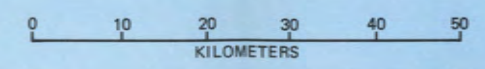


The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.



EXISTING POWER FACILITIES	PROPOSED PROJECT	FUTURE
220 kV Transmission Lines	220 kV Transmission Lines	220 kV Transmission Lines
138 kV Transmission Lines	138 kV Transmission Lines	138 kV Transmission Lines
34.5 kV Transmission Lines	34.5 kV Transmission Lines	34.5 kV Transmission Lines
Substations	Substations	Substation
Hydro Power Plants	Hydro Power Plant	Hydro Power Plants
Thermal Power Plants	Thermal Power Plants	Hydro Power Plants
		International Boundaries

COSTA RICA  
INSTITUTO COSTARRICENSE DE ELECTRICIDAD  
INTERCONNECTED SYSTEM

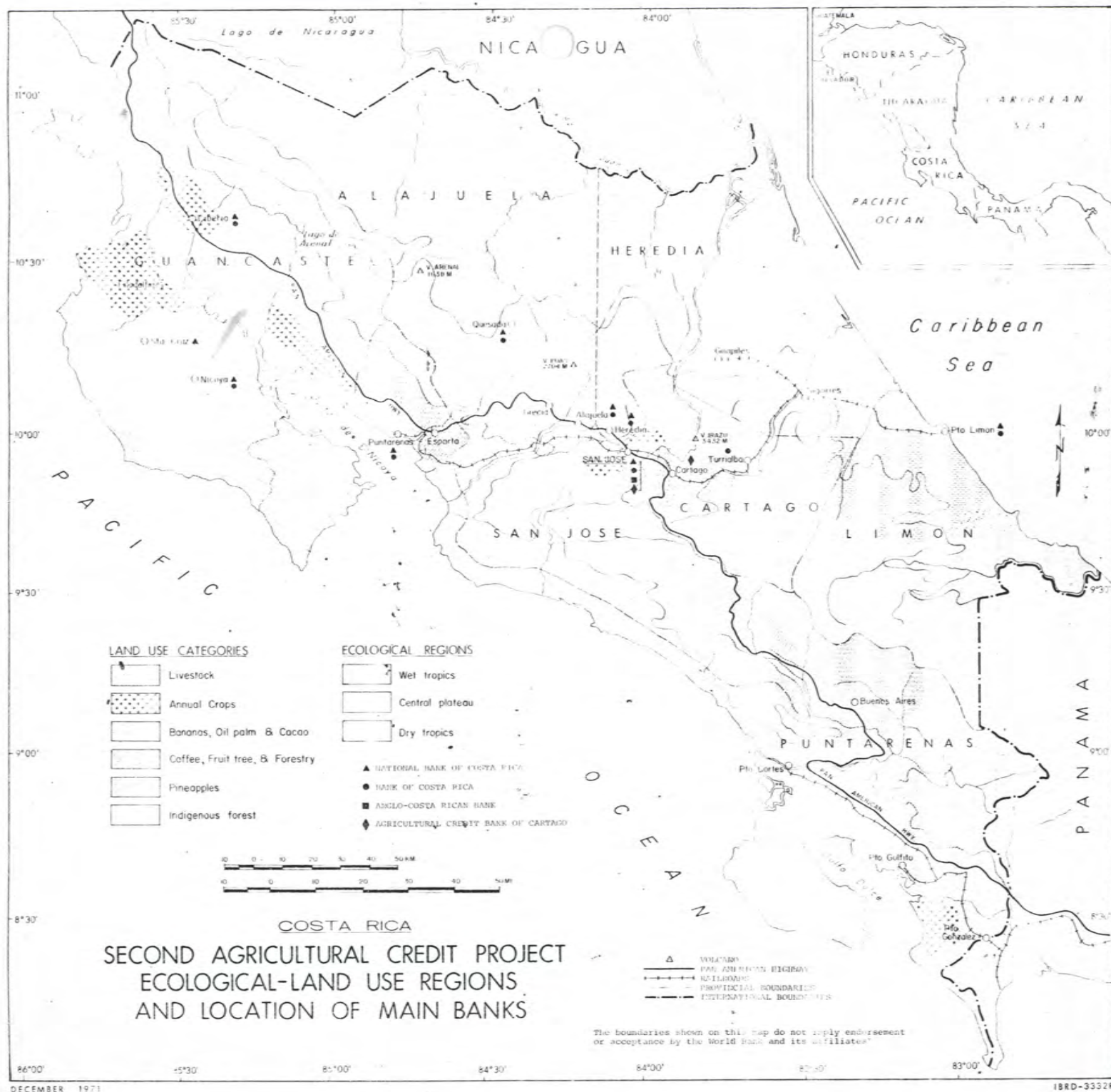


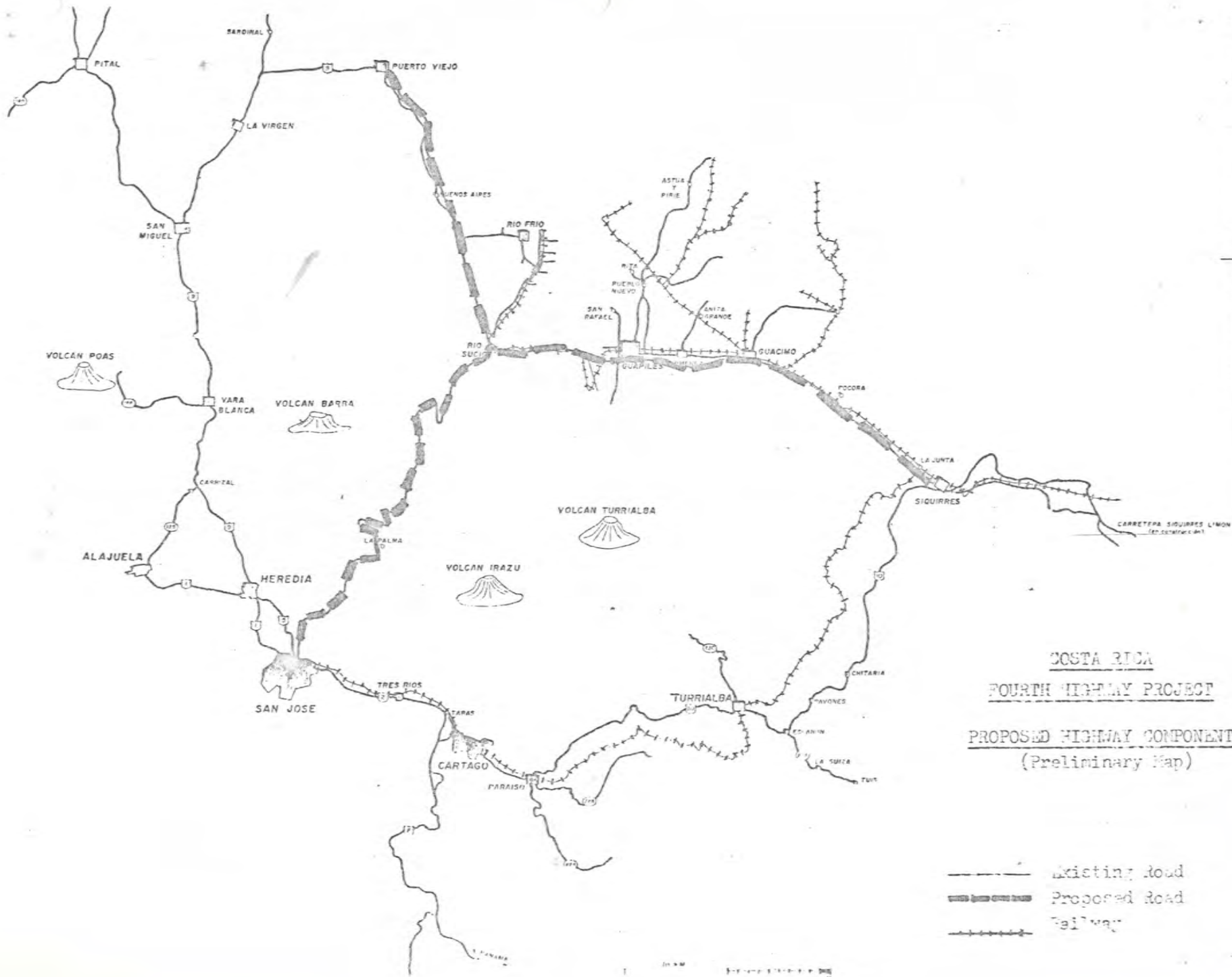
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**COSTA RICA**  
**FOURTH HIGHWAY PROJECT**  
**PROPOSED HIGHWAY COMPONENT**  
 (Preliminary Map)

- Existing Road
- - - Proposed Road
- + + + Railway

D



COSTA RICA

Lic. Daniel Oduber Quiros

President of the Republic

MEMBERS OF THE CABINET

The Cabinet of President Oduber, which took office May 8, 1974, is composed of the following:

Dr. Carlos Manuel Castillo

Minister of Presidency and  
First Vice President

Dr. Fernando Guzman Mata

Second Vice President

Lic. Gonzalo Facio Segreda

Minister of Foreign Affairs

Lic. Porfirio Morera Batres

Minister of Finance

Lic. Edgar Arroyo Cordero

Minister of Interior

Lic. Fernando Volio Jimenez

Minister of Public Education

Mr. Hernan Garron Salazar

Minister of Agriculture

Ing. Alvaro Jenkins Morales

Minister of Public Works and  
Transportation

Lic. Francisco Morales Hernandez

Minister of Labor and Social  
Welfare

Dr. Herman Weinstock

Minister of Public Health

Mr. Mario Charpentier Gamboa

Minister of Public Security

Lic. Jorge Sanchez Mendez

Minister of Economy, Industry  
and Commerce

Lic. Oscar Arias Sanchez

Minister of Planning

Lic. Carmen Naranjo Coto

Minister of Culture, Youth and  
Sports

Other prominent Government officials include:

Lic. Bernal Jimenez Monge

Executive President of the  
Central Bank

Ing. Alex Murray

Executive President of ICE  
(National Power and Telecom-  
munications Authority)

Dr. Fernando Naranjo

Coordinator General of the  
Ministry of Presidency and  
Chief Economic Advisor to  
President Oduber and Vice  
President Castillo

Ing. Rodolfo Silva Vargas

Ambassador to Washington.

Lic. Daniel ODUBER Quiros

President Oduber was born into a San Jose family of modest means on August 21, 1921. He paid his way through law school by working in the American-run local telegraph office. After completing his thesis on "The Right to Strike", he opened a law firm and worked in San Jose until moving to Montreal where he obtained a master's degree in philosophy at McGill University. In 1949, he studied at the Sorbonne in Paris. While there, he met and married Marjorie Elliott, the daughter of a Canadian diplomat. They have an 11-year-old adopted son, Luis Adrian.

His first political activity was at the age of 19, when he participated in the creation of the Center for the Study of National Problems, a body that brought together a group of impatient young politicians and intellectuals (whose leader was Jose Figueres). This group eventually was the leading force behind the revolution of 1948 and strongly influenced the shaping of the Constitution of 1949. Beginning in 1951, when the National Liberation Party (PLN) was founded, Oduber gave more and more time to politics, eventually abandoning his law practice. He became a leader of the wing of the PLN favoring a more activist Government role in the economy and was chosen Secretary-General of the Party in 1956. He entered Congress in 1958. In 1961 he made an unsuccessful bid to become the PLN nominee for the Presidency. (PLN nominated Francisco Orlich, who won the election.) From 1962 to 1964 Oduber was Foreign Minister, a post in which he supported the Alliance for Progress and frequently spoke of his close relationship with President Kennedy. In his next bid for the Presidency (1966), he won the party nomination but was defeated by J.J. Trejos Fernandez by 4,220 out of 441,000 votes.

During the second presidential term of Figueres (1970-74), Oduber served as the President of Congress. During that time the Congress was heavily dominated by PLN which used the opportunity to pass social welfare legislation as well as to increase the powers of the Presidency. (While Oduber was presiding over the Congress, the Vesco case was discussed at length. Oduber, however, remained essentially aloof, neither attacking Vesco nor defending President Figueres, who, as far as the opposition was concerned, was the main culprit.) Oduber won the 1974 election with 43.4 percent of the vote, which was enough to avoid a runoff.

Unlike his two PLN predecessors, Figueres and Orlich, who were both extremely popular with the average Costa Rican, particularly the campesino, Oduber's image has always been that of an intellectual, somewhat remote from "the masses". Oduber spent his term as President of the Congress very much in the shadow of Figueres, who also gave Oduber less than whole-hearted support during his election campaign. During his first year in office, Oduber stepped out of Figueres' shadow and considerably increased his popularity. (Figueres, however, retained control over the PLN and remains the leading political figure in Costa Rica.)

President Oduber maintains close and frequent contacts with Western European social-democratic leaders and is very active in the international social-democratic movement. He also maintains excellent relations with the Central American leaders, notably with Generals Somoza of Nicaragua and Torrijos of Panama. His relations with Venezuela are also good -- he is a personal friend of President Perez from the days when Perez lived in Costa Rica (during the Jimenez regime in Venezuela).

Mr. Oduber is reasonably well-off (he owns a sizeable ranch in the Province of Guanacaste); however, his wealth does not approach that of the richest Costa Ricans.

Dr. Carlos Manuel CASTILLO - Minister of the Presidency and First Vice President

Dr. Castillo was born in 1931, the son of an artisan from the town of Guadalupe. In 1947 he began his studies at the local Law School, remaining there until 1949, when he obtained a scholarship from the University of Wisconsin, specializing in agricultural economics. In 1953 he received his M.A. in agricultural economics and rural sociology from the University of Tennessee and, in 1956, his Ph.D. in economics from the University of Wisconsin.

Dr. Castillo worked for CEPAL from 1956 to 1966, when he became Secretary General of SIECA. In 1971 he was appointed Minister of Economy, Industry and Commerce in the Figueres Administration, but resigned in 1972 to devote himself to running the election campaign for President Oduber, on whose ticket he ran as a candidate for Vice Presidency. He assumed his present duties on February 8, 1974, and is believed to have presidential ambitions for 1978.

Lic. Gonzalo FACIO Segredo - Minister of Foreign Affairs

Lic. Facio was born in 1918 and graduated from the Costa Rican Law School in 1941. He studied comparative law at New York University, where he obtained his M.A. and Ph.D. He has been a professor at the University of Costa Rica since 1944.

Lic. Facio is one of the founders of the party now in power-- Partido Liberacion Nacional (PLN). Following the 1948 coup, Mr. Facio was one of the members of the Governing Junta (presided by Mr. Figueres). He served as Minister of Justice in 1948; Foreign Minister and Minister of Economy, 1948-49; President of the Congress, 1953-55; and Costa Rican Ambassador to Washington, 1962-66. He again became Foreign Minister under Mr. Figueres' Administration in 1970--a post which he has held since then. He is very active in the UN and OAS. (Costa Rica presently has a seat in the UN Security Council.)

Lic. Facio is believed to have presidential ambitions for 1978.

Lic. Porfirio MORERA Batres - Minister of Finance

Before taking up his present duties as Minister of Finance, Lic. Morera spent about 10 years in the service of CEPAL in Mexico and has returned to Costa Rica following an invitation from Vice President Castillo, a personal friend.

Because he has not previously served in any important posts in the Administration, there was much skepticism about Mr. Morera's independence as Minister of Finance; he was considered as a "front man" for Vice President Castillo, who is in charge of the country's economic policy and who reportedly did not want an independent Minister of Finance. Although obviously taking his orders from Dr. Castillo, Lic. Morera has subsequently established his own reputation as a competent professional.

Lic. Morera has shown very keen interest in the Bank's economic work, and has very actively sought increased assistance and advice on macroeconomic issues from the Bank.

Mr. Hernan GARRON Salazar - Minister of Agriculture

Mr. Garron was born in 1917. A PLN supporter from its foundation, he was elected Congressman from the city of Limon on the PLN ticket in 1953. Mr. Garron was reelected Congressman from 1958-62 and again from 1966-70. In 1967 he became President of the Congress.

In the government of President F. Orlich, Mr. Garron was appointed Minister of Industry and Commerce from 1962 to 1964. Before taking his present position of Minister of Agriculture in 1974, Mr. Garron served as the General Manager of the Atlantic Ports and Railways Authority (JAPDEVA). Simultaneously from 1971 to 1974, Mr. Garron served as the President of the Board of Directors of the Central Bank of Costa Rica.

Mr. Garron derives much of his political strength from the city and province of Limon, where he spent his early years as Congressman and is considered the strongest advocate and promoter of Limon regional interests.

In his present post in the Ministry of Agriculture, he has devoted his efforts to improving the lot of the small farmer. He is also believed to have presidential ambitions for 1978.

Ing. Alvaro JENKINS Morales - Minister of Public Works and Transportation

Minister Jenkins has a degree in mechanical engineering from Iowa State University. In 1952-53 he worked for the USAID program. From 1954 to 1970 he was involved in the Costa Rican sugar industry in which he has considerable financial interest. Before taking the post of Minister of Public Works and Transportation (1974), Minister Jenkins served as the President of the Association of Cane Growers and Director of the Chamber of Sugar Industry.

Lic. Jorge SANCHEZ Mendez - Minister of Economy, Industry and Commerce

Minister Sanchez (age 41) is one of the younger Ministers in President Oduber's Cabinet. He graduated from the Costa Rican School of Economics in 1960 and worked for several years for one of Costa Rica's commercial banks. In 1965 Minister Sanchez was appointed representative of Costa Rica in the Executive Council of SIECA. He also taught Central American economics at the University of Costa Rica and represented his country in various meetings of CEPAL and the Central American Common Market. In 1970 Lic. Sanchez was appointed Vice-Minister of Economy, Industry and Commerce in charge of Central American integration affairs. From 1972-73 he served as the Minister of Economy, Industry and Commerce -- a post from which he resigned to devote his time to work within PLN. He has been in charge of the Ministry of Economy since May 1974.

Dr. Oscar ARIAS Sanchez - Minister of Planning

Dr. Arias became Minister of Planning in the Figueres Administration (1970-74) as one of the younger members of the Cabinet and personal protégé of President Figueres. Mr. Figueres reportedly prevailed upon President Oduber to keep Dr. Arias as the Minister of Planning.

Mr. Arias graduated from the University of Costa Rica, where he is presently teaching at the Law School. (Dr. Arias has also published a book on the subject of political pressure groups in Costa Rica.) In 1974 Dr. Arias obtained a doctorate in political science from the University of Essex in Britain.

Dr. Arias belongs to one of the richest families of Costa Rican land-owners and is also involved in the sugar industry.

Lic. Bernal JIMENEZ Monge - Executive President of the Central Bank

Lic. Jimenez (born in 1930), graduated in economics from the University of Costa Rica. He subsequently obtained his M.A. from the Interamerican Statistical Center in Santiago de Chile.

Lic. Jimenez served on the Board of the Central Bank in 1959 and again from 1963-66. From 1963-66 he was also Minister of Finance and Economy, in addition to serving as the Minister of Industry from 1965-66.

From 1966-68 Lic. Jimenez was a member of the International Commission of the Alliance for Progress. From 1968 he participated on this Commission as one of the seven experts ("seven wise men") advising on development matters.

In his earlier years, Lic. Jimenez also published several works, the best known of which is called The Status of Economic and Social Planning in Latin America. Lic. Jimenez belongs to a very rich family and has extensive real estate interests. In his private business he has reportedly developed numerous contacts with the private banking communities in Europe and the USA which prompted his nomination as the Executive President of the Central Bank in 1974. (Reportedly, Lic. Jimenez is a close friend of President Oduber and Vice President Castillo.)

Dr. Fernando NARANJO - Coordinator General of the Ministry of Presidency and Chief Economic Advisor to President Oduber and Vice President Castillo

Dr. Naranjo was born in 1942. He graduated in economics from the University of Costa Rica and subsequently pursued a Ph.D. in econometrics at the University of Pennsylvania. He assumed his present responsibilities as Coordinator General of the Ministry of Presidency, in which capacity he advises President Oduber and Vice President Castillo on economic matters, while teaching economics and econometrics at the University of Costa Rica, where he has also served as the Dean of the School of Economics (1971-74).

Ing. Rodolfo SILVA Vargas - Ambassador to Washington

Ambassador Silva belongs to the younger generation of Costa Rican politicians. Unlike a number of PLN politicians from President Oduber's Administration (or Mr. Figueres', during whose term Mr. Silva served as Minister of Public Works and Transport) who at one time or another were accused by the opposition of various improprieties, Mr. Silva's reputation for honesty and integrity so far remains untainted. He is viewed by local observers as a potential candidate for President sometime in the future.

Ambassador Silva has a degree in civil engineering from a U.S. university. He is married to an American.

Jose FIGUERES Ferrer - Ex-President of Costa Rica (1953-58, 1970-74)

Mr. Figueres, widely known as "Don Pepe," was born in 1906, the eldest of the four sons of an immigrant family from Catalonia. From 1922 to 1926 Mr. Figueres studied hydraulics and combustion at MIT. He is married to an American (Doña Karen) and has one son. In 1928 he established a small farm in the mountains of southern Costa Rica which he still owns and which he named "Battle 'Til the End." In the course of his business career, he founded about 30 different businesses--with varying degrees of success. From 1942 to 1944 Mr. Figueres was exiled because of his strongly worded criticisms of the government then in power. In 1944 he joined forces with the opposition, and in 1948 he became leader of the 18-month long revolution, the ultimate result of which was the adoption of a new Constitution (1949) and foundation of the present Second Republic which re-established democratic processes and institutions.

Mr. Figueres won the 1953 election to become the first elected President of the Second Republic. In 1970 he became President for the second time. His influence and popularity are enormous and remain undiminished in spite of the Vesco affair, which is the latest of a number of controversial issues in which he has been involved during his lifetime. (His explanation of this matter went roughly as follows: For years Wall Street had no qualms about flight capital from South America. Now, for once, the situation is reversed and everybody there is screaming.... Costa Rica should make the most of it.)

Mr. Figueres continues to dominate the National Liberation Party (PLN) which he founded; it would not have been possible for President Oduber to win the PLN nomination without Mr. Figueres' approval. In periods when he is not in public office, Mr. Figueres spends his time running his farms and businesses, teaching at various universities (including at Harvard), writing, consulting for the UN and travelling.

His latest book was published during his last (1970-74) term as President and is entitled "La Pobreza de las Naciones" ("The Poverty of Nations"). A few quotations from this book illustrate Mr. Figueres' thinking:

- Most exploitation [of poor countries] occurs today...through the channels of international trade.
- Contemporary societies are committing the error of waging the war for universal education before the war for good nutrition.... I do not know how many millions are wasted every year...trying to teach ABC to students whose greatest necessity is a glass of milk.
- A difficulty is that the so called 'orthodox' monetary policy, of which our nationalized banks have not managed to rid themselves, recommends certain (fixed) amounts of credit and money



in circulation in order to maintain 'a strong currency,' without taking into account production or employment.... Credit is being limited to avoid an increase in domestic prices while other...measures are not being taken to avoid unemployment.

- With a minimum legal wage (in our case adjusted to low yields of coffee), the society has established a minimum pay for a day of work. It does not consider how many mouths can be fed for this pay. A wider...concept is needed: minimum subsistence income per consumer.
- It was at Stanford University...in 1949, where I said for the first time that economic assistance would be unnecessary if coffee and other primary products were paid according to the work required (for their production). The economists of the World Bank, then recently founded, deigned to comment upon the error in my theses. I was talking interference with free supply and demand, which determine the prices, said they with angelic originality.... Eight years after... Stanford, the new President of the World Bank said in Chicago that the best way to reduce the financial burden of his Bank would be to stabilize coffee and other international products at prices which make possible the development of the [undeveloped] world with its own resources.
- Twice in four decades I have seen famine in Costa Rica. Twice the cause was, by and large, erroneous monetary contraction.
- Our economy does not progress enough because of fear. The fear that reserves of foreign exchange will diminish; the fear that internal prices will increase. The fear of fiscal deficit.
- (in 1964 and 1970-72)...the international organizations... increased the pressure on our banks to reduce internal credit, even if it were for productive purposes, 'to avoid inflation.' Our experts say 'amen.' That is the present state of the art. The thing to do is to create confidence (in local currency) and famine.

EL SALVADOR

Arturo Armando MOLINA Barazza - President of the Republic

Arturo Armando Molina has been President of El Salvador since July 1, 1972.

President Molina was born in San Salvador on June 18, 1927. He is a graduate of the Salvadorean Military Academy having finished first in his class in 1949. From 1953 to 1955 he was on duty at the Military Academy. Following this, he attended the Mexican Superior War College and received additional training in Spain. An artillery officer, Colonel Molina held various positions in military until 1964 when he was appointed Director of the Autonomous Port Commission. In 1969 he became private secretary to then President Fidel Sanchez Hernandez.

As Secretary to the President, Molina demonstrated a gift for organization and a detailed knowledge of the programs and policies of the administration. While not active in politics, and relatively unknown outside of government military circles, he was supported for the Presidential nomination of the National Conciliation Party by President Sanchez. He was elected President for a 5 year term by the Legislative Assembly following a closely contested election in February of 1972.

As President, Molina has put special emphasis on programs in agriculture, public health, employment and housing in which he has long had interest.

The President is married to the former Maria Elena Contreras and has five children.

(José) Guillermo HIDALGO Qüichl  
(Phonetic: eeDALLgo)

EL SALVADOR

President of Central  
Reserve Bank



A well-trained economist, Guillermo Hidalgo, 51, became Minister of Economy and a member of the government's Monetary Council in October 1973. The following January he was elected to a 1-year term as President of the Governors of the Central American Bank for Economic Integration. After serving for 11 years as his country's Alternate Governor, Hidalgo became a Governor of the Inter-American Development Bank (IDB) in 1974. He has attended IDB meetings since 1963.

He was appointed President of the Central Reserve Bank in October 1975.

Hidalgo believes that economic integration and the elimination of trade barriers are vital to the future of the Central American nations. At the meetings of Central American Economic Ministers in Guatemala in February 1975, Hidalgo condemned regional trade restrictions and urged the reestablishment of the Central American Common Market. He participated in bilateral trade discussions with Guatemala in March 1975.

Hidalgo received a doctor of laws degree from the University of El Salvador in 1952; during 1957-58 he studied business and banking at the London School of Economics. After serving as Vice Minister of Finance for a few months in 1961, he spent the next 12 years as vice president of the Central Reserve Bank.

Hidalgo enjoys water skiing. He speaks English. Married to the former Isabelle Widmer, of Swiss origin, he has two daughters.

GUATEMALA

Kjell LAUGERUD Garcia (LAOgurrude)  
President of Guatemala

Brig.Gen. (Ret.) Kjell Laugerud, 45, has been President of Guatemala since July 1974. A career army officer who does not belong to a political party, he ran for the Presidency as a candidate of the coalition -- composed of the National Liberation Movement and the Democratic Institutional Party -- that has ruled the country since 1970. Laugerud characterizes himself as a democrat and nationalist who is in the center of the Guatemalan political spectrum. He has said his administration will give priority to the most needy people, focusing on food, education, medical assistance and jobs. He is a strong supporter of the Central American Common Market.

The son of an immigrant Norwegian hotel manager, Laugerud graduated from the Polytechnic School, Guatemala's West Point, in 1949. He has taken a number of professional courses at Fort Benning, Georgia, and Fort Leavenworth, Kansas. During 1968-1970 he served as naval and military attache in Washington. In 1970 he became Army Chief of Staff, and from July 1972 until January 1973 he was Minister of Defense.

In addition to the United States, Laugerud has visited Europe, Israel, Asia, South America and the other Central American countries. He speaks English fluently. He is married to the former Helena Losi and has three sons and one daughter.

GUATEMALA

Jorge LAMPORT Rodil (LAHMport)  
Minister of Finance

Jorge Lamport, 47, became Minister of Finance in July 1970 and has retained the post in the Cabinet of President Kjell Laugerud, who was inaugurated in July 1974. Lamport serves concurrently as a member of the Guatemalan Monetary Council, the country's highest authority on monetary policy. A leading member of the Democratic Institutional Party (PID), he served as a PID Deputy to the National Congress during 1966-70. He has traveled to the United States on several occasions.

One of Lamport's achievements as Minister of Finance has been the reorganization and modernization of Guatemala's tax collection system. He introduced computer methods to identify tax delinquents and thus improved collections. Lamport favors foreign investments as a means to reduce unemployment, diversify exports and increase productivity.

Lamport has studied business and economics in Canada and Guatemala. Married, Lamport has two sons. He speaks English fluently.

Eduardo Antonio PALOMO Escobar (pahLOmo)  
Minister of Economy

A lawyer with a decade of government experience, Eduardo Palomo, 44, has been Minister of Economy since July 1974. He serves concurrently as a Governor of the International Bank for Reconstruction and Development and has been a member of the Guatemalan Monetary Council, the highest monetary authority, since 1972. During 1972-74 he was vice president of the Bank of Guatemala, his country's central bank. Palomo is a supporter of the Central American Common Market.

Born in ~~San Salvador~~, Palomo is a Guatemalan citizen by law. He attended high school in Mississippi during 1947-50 and graduated from the Law School of the University of San Carlos in Guatemala City in 1959. Among the more important positions Palomo has held are those of Vice Minister of Economy, Ambassador to the UN European Office in Geneva, and representative of the Secretariat of the Central American Common Market to the European Community in Brussels. Palomo has attended many international economic meetings in Western Europe, Asia and the Western Hemisphere, including the United States.

## GUATEMALA

Palomo speaks English and French. He is married to the former Ana Maria Kanter. As of 1966 the Palomos had five children.

Manuel MENDEZ Escobar (MENdez)  
President, Bank of Guatemala

Manuel Mendez, 42, was appointed president of the Bank of Guatemala, his country's central bank, in July 1974. He is concurrently a member of the Guatemalan Monetary Council, the highest monetary authority in the country. A respected economist, Mendez had previously served since 1970 as manager of the bank and adviser to the Monetary Council. He was a temporary Alternate Governor of the International Monetary Fund in 1972 and 1973.

### Qualifications

Graduate, University of San Carlos, Guatemala; degree in economics. Since 1964 has attended meetings of various international organizations, including IMF, IBRD, UN General Assembly, UN Conference on Trade and Development, Inter-American Economic and Social Council, Latin American Parliament and Inter-American Development Bank.

## HONDURAS

Juan Alberto MELGAR Castro (MEL-gar)  
Chief of State of Honduras

Colonel Juan Melgar was named Chief of State on April 22. He succeeded General Oswaldo Lopez Arrellano who resigned in the wake of the revelation that United Brands paid \$1.25 million bribe to undisclosed Honduran officials.

Juan Alberto Melgar Castro was born on June 26, 1930 in Marcala, La Paz, Honduras. After receiving minimal formal education as a youth, he enlisted at age 17 in the Honduran Army. Subsequently, he was commissioned and assigned to officer training school. After ten years service in the First Infantry Battalion, he was named commander of the Second Military Zone at San Pedro Sula. During his tenure in that post, he worked hard at public relations and won widespread respect for fairness. In January 1972, he was named commander of the national police. In December of that year he joined the newly formed Lopez administration as Minister of Government and Justice. He held that post until January of this year when he returned to San Pedro Sula as Zone Commander. He served in that position until March 31 when he was named to replace Lopez as Chief of the Armed Forces. Three weeks later he succeeded Lopez as Chief of State.

Colonel Melgar is married to the former Alba Nora Gunera. He has two children by a previous marriage.

HONDURAS

Porfirio ZAVALA  
Minister of Finance

Porfirio Zavala became Minister of Finance in April 1975. An honest and capable civil servant with no political following, Zavala had previously served for some time as General Manager of the Central Bank of Honduras. Born about 1936 in Minas de Oro in the central highlands of Honduras, Zavala was trained at the Central Commercial Institute. He studied at the University of Panama and also has a certificate from the Central American School of Banking. Until assuming his present position, Zavala had spent his entire career in the Central Bank. He began with the Bank in a low level position and progressed to increasingly responsible posts including Superintendent of Banks, Acting Director and Assistant Director General. In September 1974, he was a member of the Honduran Delegation to the meetings of the International Monetary Fund and the World Bank. He is married to the former Alba Inez Lopez and has two children.



## HONDURAS

Armando SAN MARTIN Casaca  
Minister of Economy and Commerce

On April 23, 1975 Armando San Martin (pronounced sahn mahRTEEN), a businessman and former airforce officer, became Minister of Economy and Commerce following the ouster of Chief of State Oswaldo Lopez.

### Meteorologist

Armando San Martin Casaca was born on 17 April 1921 in Santa Rosa de Copan. He graduated from high school in 1940 and from the Military Aviation School as an aviation cadet in 1941. He took a Pan American Airways-sponsored course in meteorology in Brownsville, Texas, during 1941-1942, and upon his return to Honduras became an adjutant in the Honduran Air Force. From February to September 1943, San Martin studied at the Inter-American Meteorology Institute in Medellin, Colombia, on a scholarship from the U.S. Weather Bureau. He then took a professional training course in meteorology at UCLA. In September 1944 he completed his training there and received a diploma as a professional meteorologist.

From 1944 to 1949 San Martin worked as a weather forecaster with the Compania Mexicana de Aviacion in Mexico City. Upon his return to Honduras he became chief of the Meteorological Service, which is affiliated with the Bureau of Civil Aviation.

### Businessman

San Martin has had considerable and varied business experience. He has served as president of TACA International (an airline), director of Ahorro Hondureno (an insurance company), president of the board of Marmoleria Colbra (a marble factory), vice president of the Private Enterprise Council, a director of the Central Bank and a director of the Honduran Development Bank. In 1974 he served on the Economic and Social Council, which advised Lopez on reconstruction following Hurricane Fifi.

He speaks English well. He is married to the former Doris Aida Bendoria and has six children.

HONDURAS

Guillermo BUESO

President, Central Bank

On 5 May 1975 Guillermo Bueso (pronounced BWEHsuh), an employee of the Central Bank of Honduras for 24 years, became president of the bank. A brilliant economist and probably Honduras' top monetary expert, he also acts as a key economic adviser to Chief of State Juan Melgar. Bueso had previously served since November 1974 as manager of the Central Bank.

#### Banking Career

A Honduran citizen, Guillermo Buésó was born on 8 December 1931 in San Salvador, El Salvador. He attended primary and secondary school in Honduras. Upon graduation from high school in 1951, Bueso began his banking career as an assistant statistician in the Central Bank's Economic Studies Section, which does statistical research and analyzes national income statistics. While working for the bank, he concurrently studied economics at the National Autonomous University of Honduras (UNAH) and also did graduate work in economics at Harvard University. In 1958 Bueso became chief of the Central Bank's Economic Studies Section and served in that capacity until November 1974.

During 1973-74 Bueso represented Central America, Mexico and Venezuela as an executive director of the International Monetary Fund (IMF) in Washington. He has traveled extensively to the United States and throughout Latin America. Since at least 1965 he has attended annual meetings of the IMF and the International Bank for Reconstruction and Development. Bueso has also represented his country at UN seminars on development and at the 1970 meeting of the Central American Economic Ministers in Managua.

#### Personal Data

Bueso speaks English fluently. His wife died in August 1975 in an apparent suicide leaving several children. Bueso is a half-brother of former Minister of Economy (1957-63) and Liberal Party spokesman Jorge Bueso Arias.

NICARAGUA

1979  
30  
49

Anastasio SOMOZA Debayle (So-MO-sah)  
President of Nicaragua



On 1 December 1974 Lt. Gen. Anastasio Somoza began his second term as President of Nicaragua, a term that the country's 1974 Constitution limits to 6 1/2 years, with no right to seek reelection. The general, who had previously served as President during 1967-72, had exercised de facto executive authority during 1972-74, remaining Nicaragua's strong man and the dominant voice of authority in his capacity as Supreme Commander of the Armed Forces and president of the Nationalist Liberal Party (PLN) and of the National Emergency Committee.

General Somoza is the latest in an unbroken line since the 1930's to exercise suzerainty over his country. His father, Gen. Anastasio Somoza Garcia, took power after the departure of the US Marines in 1933 and, from behind the scenes or as President (1937-47, 1950-56), ruled absolutely until his assassination in 1956. Immediately, Somoza Garcia's eldest son, Luis Somoza Debayle, succeeded his father as President. In 1963 Luis turned over the Presidency to a handpicked successor but retained the PLN and Nicaragua's only armed force, the National Guard, under the family's control. Luis died in 1967, just before his younger brother Anastasio's first inauguration as President.

Somoza was constitutionally barred from immediately succeeding himself as President at the end of his term in April 1972. He decided to create a temporary three-man chief executive which would run the country until a new President could be elected in 1974. In March 1971 Somoza and Fernando Aguero, a leader of one of the factions of the only legally recognized opposition party, the Conservatives, signed a pact, popularly called the Kupia Kumi, which, in a local Indian language, means "one heart, one nation." In return for recognizing Somoza's eligibility to seek the Presidency in the projected 1974 national elections, the Conservatives received a seat on the National Governing Council, the three-man interim executive authority; additional representation in Congress; and some advisory posts in the Ministries. In May 1972 Somoza turned over the executive power to the National

Governing Council, composed of Aguero and two PLN stalwarts. Still the dominant figure in Nicaragua, however, Somoza wielded power from his presidency of the PLN and his newly created post of Supreme Commander of the Armed Forces.

On the night of 23 December 1972, Managua was destroyed by an earthquake that left as many as 10,000 persons dead and a quarter of a million homeless. Declaring martial law in Managua, Somoza set up a National Emergency Committee (NEC) with himself as president. He decided that Managua would be rebuilt on its present site with large open spaces, parks and buildings constructed according to a strict earthquake code. According to a US news account, Somoza emerged from the confusion of the earthquake with his political power stronger than ever.

In late April 1974 the PLN held its national nominating convention and formally confirmed Somoza as its Presidential candidate. Edmundo Paguaga's faction of the Conservative Party selected him as its candidate.

Nicaraguans went to the polls on 4 September 1974. On 28 September the Electoral Tribunal announced the final tallies, giving Somoza 733,662 votes, or 91.7 percent of the total, and Paguaga 66,320 votes, or 8.3 percent. As specified in the Kupia Kumi, Paguaga received a Senate seat, while his followers picked up 40 percent of the Congressional seats and other posts.

The Somozas have made friendship with the United States a cardinal rule of their foreign policy. Questioned in Mexico during 1973 about his country's policy toward the United States, Somoza replied that it was a realistic one, with Nicaragua repaying the United States fully for the services it receives.

A strong anti-Communist, Somoza has been opposed to Fidel Castro's Cuba since Castro assumed power in 1959. During the first weeks after the earthquake, Somoza accepted the presence of a fully equipped Cuban field hospital in Nicaragua, but his government soon alleged that the Cuban medical team was engaging in subversive activities. In December 1974 members of the Sandinista National Liberation Front (FSLN) attacked a private home in Managua where a holiday party was taking place for diplomatic and high government officials. After killing four men, the FSLN held 13 others hostage, including Somoza's brother-in-law. In order to save lives, Somoza yielded to the terrorists' demands, including flying the FSLN members to Cuba and paying a significant ransom. He has since blasted Cuba for its alleged support of the FSLN and charged that country with being an accomplice in the terrorist act.

Official contacts with Eastern Europe and the Soviet Union are very limited. Somoza's government does not maintain diplomatic relations with any Communist government except that of Poland.

Anastasio Somoza Debayle was born 5 December 1925 in Leon, Nicaragua. He received his early education at the Leon Pedagogical Institute, St. Leo Preparatory School in Tampa, Florida, and La Salle Military Academy in New York.

In addition to Somoza's military and political activities, he is a ~~successful businessman~~. Included among the widely diversified assets of Somoza and his family are large or controlling interests in some 30-odd companies in agriculture, food processing, communications, transportation, manufacturing, retailing, banking, insurance, construction and real estate. He is also the owner of huge cotton, sugar, rice and coffee plantations. The Somozas are the wealthiest family in Nicaragua.

In December 1950 Somoza married his second cousin, Hope Portocarrero Debayle. Born on 28 June 1929 in Tampa, Florida, of Nicaraguan parents, Hope Portocarrero graduated from Barnard College in New York City. Energetic, intelligent and elegant, Mrs. Somoza is interested in the theater and social work. The Somozas have three sons and two daughters.

## NICARAGUA

### Biographic Sketch

Gustavo MONTIEL Bermúdez  
Minister of Finance  
NICARAGUA

Brigadier General (ret.) Gustavo Montiel has been Minister of Finance of Nicaragua since May 1967, when he was first named to that post by President Anastasio Somoza. Montiel served previously as Chief of the Office of National Security from 1958 until 1967 and concurrently, from 1966 to 1967, as Chief of Staff of the National Guard. He has been friendly and cooperative with U.S. Government representatives in Nicaragua, who consider him a capable administrator. Montiel lacks a background in economic matters.

### Early Life and Career

Gustavo Montiel Bermúdez was born on 19 January 1914 in Juigalpa, Chontales, Nicaragua. He graduated from the National School of Orientation at Granada in 1931. He subsequently joined the National Guard (GN) and served in various capacities, including the following: company officer, 1932-37; assistant paymaster general, Managua, 1937-42 and 1946-49; auditor of the Rubber Development Corporation, 1942-46; military commander of Puerto Cabezas prison, 1950-51; chief of police of Managua, 1951-57; and commanding officer, General Somoza Battalion, 1958.

Montiel has traveled extensively. He visited the United States in 1954 and 1964 and the Canal Zone in 1957. He accompanied Anastasio Somoza on his world trip in 1961 and has attended several ministerial meetings in Central America.

### Personal Data

Suave and aloof, Montiel is difficult to get to know. He speaks and acts quickly. A neat dresser, Montiel is often seen at social functions but usually tends to remain in the background. He speaks fair English.

Montiel is married to the former Angelina Muñoz, who is at least 10 years his senior. Mrs. Montiel is an influential person in her own right and active among the wives of members of the GN. The Montiels have one daughter, who married Francisco Alberto Tosta, a Venezuelan, in September 1970. A nephew, Jose Luis Montiel Gutiérrez, was an executive director of the Inter-American Development Bank in 1969.

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## NICARAGUA

### Biographic Sketch

Juan José MARTINEZ López  
Minister of Economy  
NICARAGUA

Juan José Martínez has been Nicaraguan Minister of Economy since January 1969, when he was first appointed to that position by President Anastasio Somoza. Since January 1971 Martínez has served concurrently as a member of the directive council of the Nicaraguan Coffee Council.

### Early Life and Career

Juan José Martínez López was born of humble origins on 19 March 1927 in Managua. He attended local primary and secondary schools and then studied economics at the National Autonomous University of Mexico until 1954. He obtained his degree 10 years later, probably from the University of Nicaragua. During the interim he worked in Managua with the National Development Institute, the Office of Planning and the National Bank. Martínez worked for the Central Bank during 1961-69, serving first as assistant to the director and then as director of the Department of Economic Studies.

Martínez traveled extensively during his tenure with the Central Bank. In 1963 he spent 2 months in Mexico working in a USAID program. In 1968 he accompanied President Somoza to Costa Rica and Honduras for meetings concerning the Central American Common Market. In February 1969 he attended the informal meeting of Central American Ministers of Economy in Guatemala. The same year he also attended a meeting of the Inter-American Committee for the Alliance for Progress in Washington, D.C., in March; the Sixth Annual Meeting of the Inter-American Economic and Social Council, held in Port of Spain, Trinidad, in June; and a meeting of the International Bank for Reconstruction and Development in Washington, in September.

Martínez accompanied Somoza on the latter's official visits to Japan in June 1970, the UN General Assembly in October 1970, the United States in May 1971, Mexico in August 1971 and Panama in February 1972. In April 1972 Martínez attended the annual meeting of the Inter-American Development Bank in Quito, Ecuador. He also attended the annual meetings of the IBRD and IMF in Washington during August 1975.

### Personal Data

According to US officials, Martínez is pleasant and cooperative. He is not an outgoing person and does not circulate much at social functions. Martínez does not speak English.

Martínez is a good friend of Roberto Incer, a former Secretary of the Presidency and the current president of the Central Bank. Martínez' wife, the former Alberta Alarcon Rangel, is Mexican.

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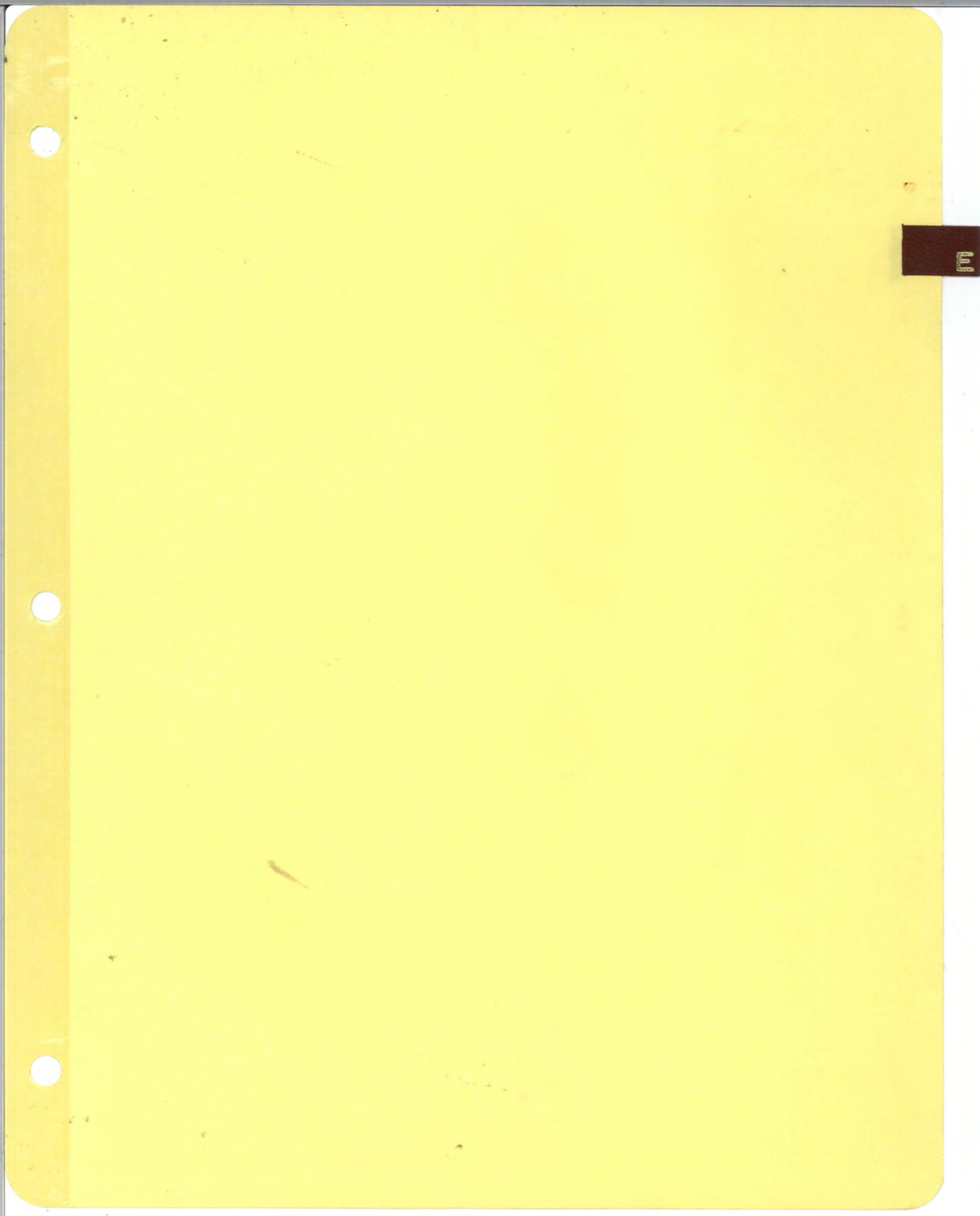
BIOGRAPHICAL DATAGeneral Omar TORRIJOS Herrera

1. General Torrijos' accepted title is Head of State and Leader of the Revolutionary Government.
2. Forty-six years old, General Torrijos was born in Veraguas, a comparatively poor and rural province in the western part of Panama. This background has strongly influenced his personality and interests; he is keenly aware of, and responsive to, the aspirations of small farmers whose interests had, on the whole, been neglected by previous governments. General Torrijos likes to travel through the country by helicopter, and is a frequent visitor of communities in the provinces, where many important Government meetings are now held. The 1972 Constitution which he helped shape, gives considerable nominal power to an Assembly of Community Representatives, in which rural communities are heavily represented.
3. General Torrijos' English is poor. He attended secondary school in Veraguas and his training has otherwise been oriented towards his career in the National Guards, in which he became a General in 1969. He is married and has three children.

Dr. Nicolas Ardito BARLETTA, Minister of Planning and Economic Policy

4. General Torrijos may be accompanied by the Minister of Economy, who is bilingual. Dr. Barletta, who is in his late thirties, is well known to Bank staff and has headed Panamanian Delegations to the Annual Meetings since 1973. He was chosen to speak for the Latin American countries at this year's Annual Meetings.
5. A Ph. D. from the University of Chicago, Dr. Barletta served in the Ministry of Finance and Planning Office before being appointed Planning Director in 1969, soon after General Torrijos took over Government. In 1970 Dr. Barletta moved to the OAS where he became Director of the Department of Economic Affairs, and returned to Panama in 1973, at General Torrijos' request, to serve in his present capacity. Dr. Barletta so far has had the full confidence of General Torrijos on matters of economic and fiscal policy. He is a respected figure in private business and banking circles in Panama.





## E. TOPICS FOR DISCUSSION

### Background to Meetings

As of this writing it is not clear how many of the Central American Presidents will attend the proposed meeting with you on November 6 or which advisers they will bring. In cases where the Presidents are unable to attend, it is expected that their principal economic advisors will attend. President Oduber has requested that each country delegation in any event be limited to two or three persons, and he desires that the meeting be conducted as much as possible in an informal atmosphere.

The five Presidents get together periodically to discuss matters ranging from restoration of normal relations between El Salvador and Honduras to the purchase from Mexico of the controlling interest in a fertilizer company operating in Central America. When you meet with them, they will have met together just one week before in Guatemala. Although President Torrijos of Panama (which is not a member of the Central American Common Market) does not normally participate in these meetings, he will be attending the Guatemala meeting and is expected to join the Costa Rica meeting.

Representatives of the five countries have over the past three years developed a common position on various major issues, and are now attempting to prepare an agreed text of a draft treaty for restructuring the Common Market. There are a number of long range political questions which have arisen in this process; of particular importance is the degree to which social integration should be a CACM goal and the extent to which decisions affecting the member countries would be delegated to the official organs of a restructured CACM (see Section 4(f) of the CACM briefing). Also, the immediate political issue of a settlement of the Honduras/El Salvador border dispute must be resolved before an agreed upon treaty can be adopted. Honduras is participating in the development of the new CACM treaty, but it is not prepared to participate fully in a restructured CACM until the dispute is settled.

### Issues for Discussion

The Central American Common Market (CACM) briefing note, Section F(1) of the Briefing Book, identifies a variety of integration issues. We would suggest that you inquire as to the prospects of further economic integration in Central America and the current status of the draft treaty. You may wish to ask the Central American representatives what they see as the major economic issues which must be resolved if agreement is to be reached on a final draft treaty.

Economic Issues

We see these issues as follows:

(a) Regional Balance - This basically involves the question of special preferences for Honduras as the least developed CACM member. Honduras did receive some limited special treatment in the previous CACM arrangements and is again requesting: (i) preferential treatment of its exports; (ii) the right to impose duties on imports from other CACM countries; and (iii) preferential fiscal incentives (see Section 4(a) of the CACM briefing).

(b) Industrial Incentives - The fiscal incentives provided under the previous CACM arrangement have posed a number of problems for the countries such as the creation of a bias toward capital and import intensive products and production technologies, and have created a serious drain on public revenues. A revision of the incentives schemes is necessary in order to promote a more efficient industrial development while minimizing the negative effects on public revenues. (See Section 4(c) of CACM briefing).

(c) Identification and Allocation of New Regional Industries - It is important at this time for the industrial development of CACM that it begin to look at the possibilities for producing intermediate and basic capital goods. Particular care must be taken in the selection of such industries, however, because the region constitutes a small market, and it is in the production of such goods that it is least likely to have a comparative advantage. The Common Market Secretariat (SIECA) has identified a series of intermediate goods industries which would require substantial investment. It is imperative that such proposals be analyzed and evaluated with care, using economic as well as financial and technical criteria. SIECA and CABEI still appear to need assistance in this regard. Furthermore, it is important that the countries not lose sight of the good project opportunities that still exist in the area of agro-industry where the Region is highly competitive (see Section 4(d) of the CACM briefing).

(d) Export Promotion - Growth in exports to countries outside the CACM has lagged behind intra-regional exports. There is a need to expand extra regional trade, and the draft treaty could contain proposals in this regard. (See Section 4(e) of the CACM briefing.)

(e) Regional Agricultural Development - Although some initiatives have recently been taken in the area of coordinating basic grains policies, integrated agricultural planning has received little serious attention. Agricultural growth has been slow over the past decade and the Central Americans are now examining ways of reorienting the Common Market to provide some

impetus to agriculture sector growth. It has been difficult, however, to find areas for meaningful regional action. (See Section 4(b) of the CACM briefing.)

Sectoral Issues

In addition to the Common Market issue, there are a number of sectoral issues which you may wish to explore. The most significant are in the area of regional financing for industrial development and regional power integration. The Bank has been involved in discussions in these two areas and the Central American countries expect us to participate significantly in them.

(a) Industry - CABEI: The Central American Bank (CABEI) is playing an increasing role in financing regional integration industries. Whereas in the past it depended on soft loan financing from AID and IDB to provide most of its resources, it has increasingly had to resort to commercial bank borrowing. We have been discussing for some time a possible Bank loan to support CABEI's industrial lending program; however the need imposed by our Articles for member country guarantees has thus far made it impossible to conclude an operation. In view of the delay in substantial World Bank involvement in the sector, individual countries (particularly El Salvador and Costa Rica) have requested direct Bank financing and we intend to complete industrial sector surveys in these countries in the near future. We are also beginning to consider a possible DFC operation for small industry credit in Nicaragua. At the same time, at this year's annual meeting, CABEI came forward with a new proposal to resolve the guarantee problem. The proposal involves essentially a Bank loan to each of the Governments which would place the proceeds in a trust fund for industrial development to be administered by CABEI. We advised CABEI that this scheme is acceptable in principle to the Bank, and CABEI is now developing the proposal with a view to testing its acceptability with the Governments before the end of the year. Since CABEI has yet to present the proposal to the Governments, we do not suggest that you raise it with the delegations. You may wish to say that while we continue to hope to be able to assist the CABEI program as an efficient and effective way to provide Bank support for industrial development in Central America, we are prepared to consider direct loans to the countries. (See Section 4(h) of the CACM briefing).

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(b) Power - The oil price rise has greatly increased the attractiveness of hydroelectric projects in Central America, and regional interconnection would make such projects more attractive by permitting them to be developed on a larger scale than could be justified on the basis of individual national markets. Interconnection raises the basic political problem of whether the countries are prepared to adopt development plans which will make them dependent on each other for their supply of power. This issue will arise in connection with the first such project, the El Cajon Hydroelectric Project in Honduras, which is proposed as a source of power for Nicaragua in the 1980s. You may wish to inquire as to the countries' views on this problem, and the status of other current interconnection proposals, e.g., Costa Rica with Nicaragua and Guatemala with El Salvador. (See Section 4(i-1) of the CACM briefing.)

Other Issues - Several other issues closely related to Bank policy are likely to be raised by the countries' representatives. These include: (a) IDA and Third Window eligibility. At present, only Honduras and El Salvador (with US\$320 and US\$350 per capita GDP's respectively) are eligible for IDA and both are going phased out. The LAC Region intends to propose El Salvador as a candidate for Third Window lending on the basis of its poverty and the continued vulnerability of its export products. At the time of the last CPP review (June 1974), Honduras' economic prospects appeared to be much brighter than they are now after the 1974 hurricane and a substantial deterioration in prices of its principal exports. At the CPP review it was determined that IDA should not be continued for Honduras beyond the fourth replenishment. Given the current economic situation and prospects, the LAC Region may propose that this decision be reconsidered. The Guatemala delegation inquired at the recent Annual Meeting as to possible Third Window eligibility. They were advised that it was highly unlikely that Guatemala (per capita GDP of US\$500) could qualify for Third Window funds.

(c) Bank Rural Development Policy. Most of the Central American Governments and Panama are trying with varying degrees of intensity to begin to deal with the problems of the rural poor. While this is a less significant problem in Costa Rica, the other five countries face the possibility of serious rural unrest due to rural poverty, unequal land distribution and low productivity in their rural areas. The countries making the greatest effort to come to grips with the rural problem right now are clearly Panama and Honduras, which are attempting to implement ambitious agrarian reform programs. Nicaragua is getting organized to begin implementing an AID-promoted program of integrated rural development in two of the most densely populated rural areas; and Guatemala is formulating a program of assistance to rural (mostly Indian) cooperatives, which have been growing rapidly in the past few years. El Salvador recently passed its first comprehensive land reform law, although the Government's original proposal was greatly watered down by the Congress (e.g., each project of "agrarian transformation" must be presented to the Congress for approval.) These countries are all aware of the priority the Bank has given to rural development and they may request an amplification of the Bank's policy on this subject and suggestions as to the assistance the Bank might provide them in their efforts.

With regard to Bank assistance, you might point out that, through our cooperative arrangement with FAO we are assisting, or have made arrangements to assist, in the preparation of projects in Panama, Honduras, Nicaragua and Guatemala. We hope to do more, but our efforts have been delayed primarily by weakness in local project identification and preparation capacity. The Bank has been participating jointly with AID and the IDB in a series of agriculture sector surveys in each of the five Central American countries. We hope to identify through this process new rural development project possibilities, as well as the types of technical assistance that might be useful in improving the project preparation process.

Country Issues:

There will be a limited time available on November 6 for a discussion of country issues with individual delegations. (There will, of course, be additional time on November 7 for discussion of Costa Rican matters.)



**JEFE DE GOBIERNO**

PANAMÁ, R. DE P.

TRANSLATION

Panama, October 21, 1975

Mr. Robert McNamara  
President of the World Bank  
1818 H Street, N. W.  
Washington, D. C. 20433

Dear Mr. McNamara:

I take the opportunity to convey my greetings and congratulations for your dynamic performance in the World Bank, under very difficult conditions as those present to day. I have followed your work closely since we met in New York in September of 1969 and I was very pleased to see the effort which you have placed in seeking solutions to the problems of rural poverty and more recently of urban poverty. I have put great efforts of this government searching for the solutions to the problems of people who do not participate in the monetary economy both in the rural and urban areas with positive accomplishments. I find no other work more important than this one.

With regards to the Bank's program in Panama, I wish to reaffirm in the name of my government, the loan request presented on July of 1974 for the financing of the construction of the Panama-Colon transisthmian highway.

I understand that this request has not been under active consideration by the bank's program during the last few months, during which time my government has been able to review its priority and urgency. I wish to point out the direct effects that this project will have over other projects which will be developed close to the cities of Panama and Colon, designed basically to expand our exports and strengthen our balance of payments taking advantage of our unique geographical location which includes an inter-ocean transport system which is complementary commercially with the Panama Canal, the oil pipeline the international airport and the container ports.

The revision of the project has taken into account the technical recommendations made by the bank's staff last may, all of which make feasible the construction of this project in a shorter period of time. A sizable investment has been made by both the bank and my government in the preparation and analysis of this project, an effort which should continue until its succesful completion.

I would appreciate if the bank's staff would make contact with the corresponding government officials to explore real and effective possibilities which could produce the implementation of this project in the short run with the bank's participation in the most favorable terms and conditions.

I extend my regards and best wishes to you and hope that you will be able to visit this region of the world in the - near future. I would appreciate if in the course of your - visits you could stop in Panama where very important projects financed by the bank are being implemented.

Yours very truly,

GENERAL OMAR TORRIJOS H.  
Head of the Government of Panama