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OUTGOING TELEGRAM Department of State

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MAY 23 5 40 PM '67

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Origin ACTION: Amembassy SANTO DOMINGO

Info: STATE:

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1. CASP reviewed by IRG May 8 and accepted with minor modifications. Following key issues discussed and decisions made as summarized below:

(1) Is Dominican Republic worth effort and expense required maintain political stability there?

Decision: Yes.

(2) Should we support Balaguer or merely any constitutional non-Communist Dominican President?

Decision: We should support Balaguer who, for next three years, synonymous with constitutional government in Dominican Republic.

(3) Should we become heavily involved in their internal affairs in order make our support effective?

Decision: Yes, recognizing a very high degree of involvement is necessary but limiting involvement to what is strictly necessary in each circumstance.

(4) Is Country Team recommendation concerning treatment of devaluation issue acceptable?

(2) Decision: IRG accepted Country Team position that in short run, it not politically feasible make devaluation of peso a condition precedent to continued US assistance. Country Team is requested examine all possibilities for

Santo Domingo
200229

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bringing about measure of "de facto" devaluation and start now prepare foundation for official devaluation, possibly to take place latter half of 1968 or whenever the combination of political and economic circumstances will permit. Some measures suggested by IRG are:

a) Discussion with Balaguer by Ambassador concerning need for further import restraints through imposition of surcharges and possible use of income from surcharges for export promotion.

b) GODR should be quietly urged seek IMF technical advice during forthcoming IMF mission visit. We believe IMF would not object to import surcharges if such assistance were adopted with view toward eventual devaluation. FYI. Since IRG meeting, we have discussed with IBRD question of IBRD team visit at early date. IBRD may be in position send mission towards latter part 1967 but does not repeat not want us to encourage Dominican request for early team visit. END FYI.

c) Country Team should consider ways (without attribution to US) in which self-interest various Dominican groups, particularly agricultural producers and exporters, could be played upon to generate local support for devaluation. This will entail low key educational program which should be nurtured slowly and carefully over next year.

(5) If sharp drop in lending level from 1968 to 1969 is carried out, will effect on employment and other economic indices be politically acceptable?

Decision: IRG requested Country Team prepare an economic analysis to show the magnitude of external assistance required achieve acceptable growth rate under a continuing austerity program. In order provide alternatives for a US decision on

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level and composition of support forecast of requirements should preferably be based on different models, such as (1) maintaining minimum level economic activity, and (2) providing for more desirable growth rate. In any case a disbursement rate should be planned which will maintain politically acceptable level of economic activity through election year 1970. Country's absorptive capacity should be discussed in analysis as one of the aspects of the level of assistance.

(6) Country Team seems be relying upon further restrictions on imports achieve balance of payments goals of Balaguer Government, which are in part basis for Country Team's belief that emergency external assistance can be avoided after FY 1967. Is it realistic believe that increasing already high level of duties or other new import restrictions will significantly improve balance of payments situation?

Decision: Economic analysis referred to in (5) should include hard assessment of balance-of-payments outlook and government's budget performance. Based on latest order data, balance-of-payments analysis prepared for IRG indicated gap on/~~border~~ of \$45 million this year, with commercial arrears increasing to nearly \$30 million. In considering magnitude and composition external assistance Country Team should again consider matter of incentives for use of SLC's.

(7) Does AID Public Safety Program provide adequate balance of resources between riot control operations and developing ordinary police capability?

Decision: Proportion is proper. However IRG noted that statement of objectives extremely generalized and could be applied to almost any country in world.

2. ~~Searching examination~~ Searching examination called for in Program Memorandum sets framework for additional analyses requested by IRG. Information should be incorporated

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Page 4 of telegram to Ambassador DR. J. B. G. G.

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in Program Memorandum but also submitted separately by early June 1967. Program Memorandum should be structured so that a policy decision as to most acceptable alternative can be applied to an action program specified in Program Memorandum.

3. A few editorial corrections will be made in CASP and pertinent parts this message plus reference to economic integration will be inserted in appropriate sections.

CASP

Approved/~~amended~~ pages will follow.

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