Regional Confluence: Foreign Enterprise and Nicaraguan Costeño Society

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Abstract: This article discusses the economic nature of British and U.S. foreign investment in Central America. It examines the political, social, and economic structures unique to Nicaragua’s Atlantic Coast peoples (Costeños) and the historical conditions that fostered the entry of foreign enterprise. It carefully traces the development of British and U.S. corporate enterprise on the Atlantic Coast and its impact upon the indigenous societies. In particular, it explains the development of the “enclave economy” as a means to maximize investment returns and the lasting impression that these entities had on the local economic and social structures. Thus, it demonstrates that, despite their contribution of infrastructure, manufactured goods, and sources of employment, foreign enterprise increased local exploitation and corruption in the host country and ultimately failed to act with social responsibility.

Keywords: Central America, costeño society, enclave economy, foreign investment, Miskito nation, Sandino, Somoza

1 Since the beginning of the modern age, societies have been trading over long distances in an effort to acquire foreign goods and secure markets for their own commodities (Cameron, 1997: 296). With increased trade came unprecedented communications among diverse peoples and cross-pollination of their cultures. The advent of industrialization led to greater technical efficiency and productivity among exporting nations as well as decreases in the costs of production and transportation because of the application of new technologies such as railways, steam engines, and feats of mechanical engineering resulting in labor-enhancing devices increasing productivity while lowering commodity price with broader sales. Consequently, modern industry generated tremendous increases of wealth and income for foreign investment.

2 In addition to such economic factors, improved communications would likewise begin a transfer of cultural factors that would engender political processes in support of investment strategies starting with the Spanish conquest and establishment of the encomienda (a labor management system wherein local native vassals would offer up their own people for colonial service; Wilson, 2009: 117). As a result, seemingly unconnected cultural factors, such as religious reform in Bohemia/Moravia, a Scottish philosophy of self-interest, the American Revolution, the Anglo-French war, the Haitian Revolution, in addition to the Industrial Revolution would all impact life and culture on the Caribbean shores of Central America.

3 In relation to both Great Britain and the United States, free trade and industrialization proved to be decisive factors in their decisions to invest abroad. However, the character of that foreign investment would invariably be determined by economic considerations specific to each country. Although Britain had been the first to develop a strong industrial base, its shortage of natural resources increased its dependence on overseas trade to secure the necessary raw materials for its enterprises. This often required the British to provide foreign investment in the form of financial assistance and technology transfer (improved extraction methods, transportation infrastructure…) to its trading partners to better facilitate the acquisition of raw materials.
The United States, on the other hand, had an abundance of natural resources and looked instead to commerce as a means to expand its industrial base and provide markets for its products. North Americans used foreign investment to create economic environments within a host country from which to maximize their own profits. This approach not only enabled North American manufacturers to sell their products to low income wage laborers, but also provided workers with the proper incentive to continue working within foreign enterprise. Yet before operations could be established, the host country had to sponsor certain economic conditions that would favor the introduction of foreign capital. This support often involved the host government granting numerous economic and legal concessions to foreign enterprises in exchange for a higher percentage of the revenues. Such activities tended to promote government corruption as well as foster local politicians who increasingly favored foreign economic interests over the common welfare.

In the course of this paper, I will trace the historical development of British and U.S. corporate enterprise on Nicaragua’s Atlantic Coast and its impact upon the indigenous societies (especially Costeño culture). In particular, I will discuss diverse global factors that came to bear in this somewhat remote region as a result of improved communication and political influences. Further, I will explain the development of the “enclave societies” as a means to maximize investment returns and the lasting impression that these entities had on the local political, economic, and social structures.

**Evolution of Foreign Investment in Central America**

At the onset of the Anglo-French War (1803-1814), Napoleon feared an Anglo-U.S. alliance in which the French Louisiana Territory would be lost to the United States giving it a major port serving the U.S. central plains east of the Mississippi River allowing access to the Gulf of Mexico and a direct connection to the Caribbean Basin. The Louisiana Territory had supplied food to the French sugar and coffee plantations in Santo Domingo but was of lesser importance due to the Haitian rebellion against French colonial rule (Napoleon would exclaim, "Damn sugar, damn coffee, damn colonies!"). Napoleon opted to sell Louisiana to the U.S. for $15 million dollars, circumventing the opening of an additional war front in the Americas and obtaining badly needed cash to conduct his wars in Europe (Rappaport, 1975: 54).

When Napoleon crossed the Pyrenees to depose the Spanish King Ferdinand VII, the New World colonial ties to Spain were weakened leading to trade missions from the United States and Great Britain in addition to revolts against Spanish rule throughout Latin America (Rappaport 1975: 88). U.S. merchants distributed copies of the Declaration of Independence and the U.S. Constitution at trading ports throughout Latin America. Great Britain and the United States would stand side by side in opposition to any armed intrusion into Latin America to restore colonial rule by European powers (Perkins, 1927: 232-233).

By the end of the Napoleonic era, Great Britain had emerged as the premier manufacturing nation, producing one-fourth of the world’s total industrial output. Through increased agricultural productivity, infrastructural improvements, and the application of new technologies, Britain was transformed from a largely agrarian society to a major producer of coal, iron, textiles, and other manufactured products. Yet unlike most other industrializing nations of the time, Britain was deficient in natural resources needed to maintain its economic wellbeing. Therefore, high priority was placed upon its merchant marine to secure essential raw materials from abroad.

Over time, Britain became the world’s leading commercial power, accounting for nearly one-third of all international commerce (Cameron, 1997: 224-227). However, because of its heavy dependency upon imports, it became necessary for Britain to invest overseas in hopes that a higher rate of return might reverse the growing deficit in its commodity trade. In the case of Central America, British entrepreneurs would build public utilities such as railroads, shipping facilities, mines, and ranches to provide an infrastructure from which these newly independent nations might participate in the world economy (Wilkins, 1978: 3; Cameron, 1997: 309).

It was in British interest to insure the success of the independence movements throughout Latin America and such interests were threatened by the Quadruple Alliance of Great Britain, Austria, Prussia, and Russia that defeated Napoleon and restored the monarchies of Spain and France. The restored Spanish King Ferdinand VII asked the allies to restore his rule in his former colonies in the Americas (Rappaport 1975: 89). Rumors of a Franco-Spanish force en route to the Americas reached the United States and Great Britain in 1822 causing great concern (Rappaport 1975: 89). To defuse the possible restoration of the Spanish colonies in America, the English foreign secretary, George Canning, proposed that the United States declare, jointly with Britain, a doctrine of noninterference by European powers (Rappaport, 1975: 89-91). President James Monroe’s cabinet led by Secretary of State, John Quincy Adams, discussed the proposal. Adams convinced the President to “go it alone” in his state-of-the-union message in December 2, 1823, with what would
Since the disintegration of the United Provinces of Central America in 1838, the region had succumbed to a number of territorial disputes and factional rivalries that threatened to postpone the establishment of any sense of political or economic stability. By removing the archaic structures of Spanish imperial rule, the white Creole elite were no longer forced to contend with trade barriers and restrictions that stifled capital accumulation and investment. However, as long as the existing local capital was invariably committed toward armed struggle between opposing political factions, there would be few domestic resources for economic development. The ruling oligarchies were split over how to proceed with modernization.

While recognizing the need for economic development, traditionalists (Conservatives) held fast to the monopolies and special protections of the old order and were concerned, therefore, with the societal ramifications of secularism and individualism that exemplified Western modernization (O’Brien, 1996: 15). On the other hand, the proponents of liberalism (Liberals), guided by the Scottish philosophical school founded by Francis Hutcheson and expanded by Adam Smith, encouraged the complete freedom of market forces directed by the self-interest of industrial investors and the dissection of communal landholdings so as to coerce every individual into the market economy (Herman, 2001: 62 & 161-163). These competing visions of nation building held little regard for the social and economic sensibilities of Indian, mestizo, and black Creole peasants who most often “constituted the vast majority of their national populations” (O’Brien, 1996: 15).

As the nineteenth century progressed, Central America’s ruling classes came to embrace an agenda of national development based upon the example set by European and North American capitalist societies. Such a plan included the adoption of “liberal political and cultural concepts,” but more importantly the “commercialization of agriculture” (O’Brien, 1996: 15-16). To stimulate economic growth, various governments of Central America provided British entrepreneurs with “land, tax exemptions and duty-free import privileges” as an incentive for capital investment (Wilkins, 1978: 3). In return, British companies began to construct railroads, banks, telegraphs, slaughterhouses, and gas works across the region in an effort to modernize agriculture, mining, and other domestic enterprises. Foreign investment presented “minimum costs, with a potential for maximum benefits” (O’Brien, 1996: 5; Wilkins, 1978: 1-2). From the outset, British corporations were able to cover the high entry costs that were associated with certain industries (O’Brien, 1996: 2-5). By the end of the nineteenth century, Great Britain had become the principal foreign investor in Central America. Nevertheless, this investment would never amount to more than 10 percent of Britain’s total financial resources (Wilkins, 1978: 2).

In a similar vein, the economic transformation of the United States from an agrarian to an industrialized nation precipitated a desire to invest excess capital into foreign enterprises. One such industrialized center was located in Bethlehem, Pennsylvania, having been founded by the Moravian followers of Bohemia’s Jan Hus. The Moravian Church, a dissident minority, migrated to the United States seeking religious freedom (Our History, 2012: 1-2). This footnote in history would become an important factor in the cultural development on the Atlantic coast of Central America.

After the American Civil War, the U.S. federal government enacted a series of protectionist policies aimed at stimulating industrial growth. Following land grants and special concessions, entrepreneurs allocated their resources toward the development of a national network of railroads and telegraphs that subsequently aided in the growth of new economic enterprises (Cameron, 1997: 230-231; O’Brien, 1996: 22). The efficiency of production and the expansion of markets made it necessary to replace the “informal organizational structures of family-run management systems” with the strict labor hierarchy of the modern corporation (O’Brien, 1996: 22-23).

By the turn of the century, this “American corporate culture” took on a global dimension as entrepreneurs attempted to export North American technology, consumerism, and work ethic to the underdeveloped world (O’Brien, 1996: 31-32). The growing demand for raw materials combined with the need for geographical diversification prompted many corporations to invest in Central America (Wilkins 1974: 3-4, O’Brien 1996: 33). Due to the abundance of natural resources, a favorable rate of exchange, and its proximity to a nearby port (New Orleans) connecting it to the North American heartland, U.S. investment in the region grew from less than $30 million in 1880 to over $225 million by 1930, surpassing even that of Great Britain (Woodward, 1985: 185-186).

From coal mines to banana plantations, American entrepreneurs were allowed to take direct administrative control over the production process of existing enterprises, at which point, capital, management, technology, and skills could then be transferred directly to the recipient industries. The extraction of raw materials served to augment industrial activities in the United States. Nevertheless, the desire of U.S. companies to expand their market share would precipitate the consolidation of various local
18 Whereas British companies had largely restricted their investments to the creation of infrastructure in support of commodity export, American firms sought to maximize the potential for economic benefit on every conceivable level. Rather than continue to pay rents, U.S. companies started to purchase land and property outright from both governments and other foreign investors in an effort to reduce the overhead costs. Likewise, North American entrepreneurs began to synthesize miscellaneous extraction, processing, and marketing activities associated with production into a single cohesive effort (Wilkins, 1978: 4-7).

19 To this end, North American firms established company towns in remote areas complete with housing, schools, and churches, as well as commissaries stocked with manufactured goods for the workers and their families. With this type of “enclave society,” companies profited not only from the worker discipline that the isolated communities provided, but also through the re-circulation of wages back into the foreign commercial structure (O’Brien 1996: 40; Wilkins, 1978: 7). By providing better jobs, higher wages, and new commodities for the population of Central America, multinational corporations served to advance the national development agenda of the ruling elite (Kissling, 1978: 88; Wilkins, 1978: 10).

20 Prior to setting up operations in Central America, multinational corporations sought a number of preconditions from which to insure a high rate of return upon their investments. Among the highest of considerations were those of industrial capacity and per capita income within a particular country. In their effort to extract raw materials, entrepreneurs often solicited workers from regions where wages were already low, thus enabling a company to secure a large labor force with little financial commitment (Becker, 1987: 50). Likewise, corporations pursued investments within countries whose domestic industries were still within the nascent stages of development to capitalize upon their own endeavors. Nonetheless, such conditions were hardly conducive toward creating new markets for North American products. Therefore, corporations began demanding low import duties and other special protections for North American manufactured goods as to encourage native consumption (Becker, 1987: 51; Powelson, 1978: 112-113).

21 Within a matter of decades, multinational corporations had used their economic clout to secure “unrestricted markets for excess goods, higher profit margins, and cheaper raw materials” from Central America, but as a result of corporate interference within government processes, regional political structures had been severely compromised by the ensuing widespread corruption (Ranis, 1978: 181). Companies had been allowed to repatriate a large portion of their profits, leaving operations to be financed by reinvested earnings and local savings rather than new foreign capital (Powelson, 1978: 109 &112-116; Wilkins, 1978:11). Such was the case of Nicaragua’s Atlantic Coast, where extensive contact between British mercantilists and local traders during the earliest period of European commercial expansion had fostered an ideal political and social environment for the entry of foreign capital.

The Ethnic and Cultural Foundations of Indigenous Costeño Societies

22 In 1493, the Catholic Church granted the King and Queen of Spain (and their heirs) full power and authority over the western portion of newly discovered lands in the Americas (Alexander VI, 1493). In deference to this papal gift, the crown sought to preserve native authority, liberty, and titles in these new lands through the creation of local vassals. The crown assured the Catholic Church of ample resources and even allowed it to run its own courts, schools, hospitals, and charitable services. This connection facilitated the institution of the Patronato Real in which the Spanish crown put American lands under the direct administration of the Catholic Church. A symbiotic relationship then developed in which Spanish colonial endeavors were tied to the proliferation of Catholic culture. And in return, the Church became an “effective agent of social control and a principle vehicle for the acculturation of indigenous peoples.” This role of the Catholic Church tended to “undermine the Indian potential for resistance and rebellion” and ultimately integrated the Indians into the framework of colonial economics, legitimizing the entire system (Dobson, 1993: 123).

23 Accordingly, the encomienda (wherein native vassals were to offer up their own people for colonial service) was created to control Indian labor and use it efficiently in agriculture and mining. This system was easily corrupted leading to abuses including the virtual enslavement of the local Indian population (strictly speaking slavery was outlawed in Spanish possessions in 1542, Paul III, 1537; Donovan, 1974: 6-7). There were clergy who actively sought to protect the Indians from exploitation by colonial landowners. For example, the local Bishop, Antonio de Valdivieso, deposed Rodrigo de Contreras, governor of León, over Indian issues as reported by Bartolomé de las Casas (1951: 453), future Bishop of Chiapas. Pedro and Hernando de Contreras, the sons of the deposed governor (Porrohar, 1989: 2-3; Casas, 1951: 453), assassinated Valdivieso (a celebrated Nicaraguan martyr) for his defense of the Indians.
Prolonged coexistence between the Spaniards and the Indians and the lack of Spanish females (Wilson, 2010: 5) resulted in a racially mixed society within the confines of the dominant Hispanic culture. Although the Spanish language, religion, and social customs pervaded the Pacific region of what would become Nicaragua (including Mixtec/Mayan peoples who had migrated south from northern regions), the Spanish failed to exert the same influence and control over a geographically isolated region known as the Atlantic Coast (including tribes who had migrated north from South America) (Macaulay, 1967: 21; Phillips, 2010: 24-25). Therefore, the British could establish their influence over the Atlantic Coast through a commercial relationship that proved mutually beneficial to both themselves and the coastal inhabitants or Costeños (Vilas, 1989: 13-16; Dennis, 1981: 274).

The nearby British settlement on Providence Island established commercial relations with members of the Bawikas tribe on the Atlantic Coast. The Indians traded meat and fish in exchange for metal tools and other highly sought-after manufactured goods. However, when the British colony was destroyed during a Spanish naval bombardment in 1641, many of the surviving colonists chose to resettle on the Coast, eventually integrating into the local Indian communities. The racially mixed descendants of these communities coalesced into what would become the Miskito nation, with its own distinctive language and culture (Brown, 1986: 178; Bermann, 1984: 2). The Miskitos had become intermediaries for the British in trading with other tribes further inland. By 1687, the British had established a protectorate over the region under the auspices of a Miskito Kingdom. For generations to come, Miskito kings would be recognized and commissioned by a British superintendent who governed through a system of indirect administration (Vilas, 1989: 17-19; Dennis, 1981: 276). Nevertheless, the Miskitos embraced their political ties to Great Britain, not as subjects of the crown but rather as partners of a lucrative trade.

In exchange for British manufactured goods, the Miskito Kingdom provided the British Caribbean colonies with plantains, bananas, and sugarcane. This type of three-way trading partnership created an efficient trade network that would expand and intensify over the coming centuries into the modern age. Black slave laborers from Jamaica and the Cayman Islands were imported to work these plantations along the Atlantic Coast. Many of these immigrants would form the basis of a separate black, English-speaking community. This black Creole group, with its command of the English language and better education, would eventually dominate the Kingdom’s bureaucracy. As a condition of the Convention of London in 1787, Great Britain relinquished its control over the Miskito Kingdom to Spain in exchange for exclusive lumbering rights in Belize. Interestingly enough, the Spanish never renewed their attempt to colonize the region, effectively endorsing the local authority of the Miskito king.

The Miskitos entered into a profitable contraband trade in mahogany with the Spanish residing to the west. This activity precipitated the rise of port centers such as Bluefields and Greytown (San Juan de la Norte) that facilitated the transit of valuable goods westward along the major river ways. With the declaration of Central American independence in 1821, however, trading with the Spanish came to an abrupt end. And with the departure of Spain from the region, the British sought to revive its influence over the Coast by re-establishing its protectorate (Vilas, 1989: 21-23).

To strengthen its hold on the region, especially in the wake of the Spanish departure, the English sought to form better ties with Indian culture. The reform movement of Jan Hus in Bohemia resulted in a new denomination in neighboring Moravia after his death. During religious upheavals in Bohemia and Moravia, many members took refuge in Herrnhut in eastern Germany on the Count Zinzendorf estate where they were allowed to flourish. Encouraged to evangelize, many sailed down the Rhine to ports in Amsterdam and Rotterdam for immigration to America. Receiving a land grant in Pennsylvania, they founded Nazereth and Bethlehem (Our history, 2012: 1-2). First-hand experience of the benefits of industrialization of which Bethlehem was an important center would have a great impact on Moravian Christian culture.

At the behest of the British superintendent, missionaries representing the Moravian Church in Bethlehem began to arrive on the Atlantic Coast in 1847. This entrance was perhaps one of the most important events to have taken place during this period in terms of its lasting impact upon the coastal society. With evangelization came the establishment of the first permanent institutions from which to provide health care and education to the people at large (Dennis, 1981: 277). More significantly, through the Protestant faith came a new expression of ethnic identity and the Coastal Missions became the center of village life, thereby providing Miskitos, Sumus, Ramas, and Creoles alike with a unifying force from which to transcend their own cultures.

The Moravian Church played a profound role in creating a new social consciousness among the Coastal inhabitants, which not only extolled the virtues of morality and family life, but also the value of hard work and agricultural production (Vilas, 1989: 34). Yet more importantly, the missionaries helped to foster a conviction that capitalism could increase the prospect for social mobility among the indigenous
population, thereby challenging the Hispanic perception of ethnic minorities as a subservient class (Vilas, 1989: 35).

In 1849, the discovery of gold in California had sparked interest in an interoceanic route from east to west via Central America. The anticipated stream of American travelers through the region increased the need for travel-related enterprises such as infrastructure, local trade, and lodging (Dozier, 1985: 45-47; Vilas, 1989: 25). The British attempted to capitalize upon this demand by transforming the coastal towns of Bluefields and Greytown into bases for transit across the Escondido and San Juan Rivers toward the Pacific Ocean. At the time, however, the two towns only had the capacity to receive small boats used in trading along the river. Therefore, the British imported the necessary materials and equipment from Jamaica and contracted the local population to dredge the harbors and construct the wharves and buildings required for the size of this operation. Upon completion of the project, the British acquired the monthly services of the Royal West India Mail Steam Packet Company to provide the steamship connections to the outside world (Dozier, 1985: 59 & 65).

**State Intervention and the Rise of U.S. Investment on the Atlantic Coast**

Even during the negotiation of the final peace agreement ending the American Revolutionary War and establishing an independent United States in North America, the British negotiator Lord Shelburne "would, at one stroke, put America in Britain's debt and cause Britain to replace France as America's best friend" (Rappaport, 1975: 28). When France's interest in regaining New France and Spain's desire to hold on to lands east of the Mississippi became apparent in the negotiations, the United States became strangely allied with Britain in the midst of their effort to end U.S./British hostilities (Rapport, 1975: 29-30). Britain had had trading interests in the Caribbean for nearly two centuries. Yet in the aftermath of a conflict that had just previously put the two at odds, Britain and the United States both found themselves with shared economic concerns in Latin America that made forming a political alliance seem all-the-more natural, particularly in the face of potential Spanish and French colonial threats in the region.

From this history, the United States would long tolerate the British commercial presence on the Atlantic Coast with little regard for the Monroe Doctrine. Nevertheless, a complaint by Pedro Fernandez Madrid of the New Granadan Foreign Office over the crowning of a new Miskito King by the Bishop of Jamaica would cause "a new burst of resentment against British interference" (Perkins, 1933: 164). The search for new markets to satisfy growing agricultural concerns along the Mississippi and emergent industrialization in the Northeast would also contribute to a revival of Monroe Doctrine interests. Finally, the U.S. move to annex the newly independent Republic of Texas over British objections would lead to additional fissures in Anglo-U.S. relations (Perkins, 1933: 62-69).

In light of these political anxieties and an increasing British preponderance over transportation enterprises to California through Nicaragua, the British had come into direct conflict with North American interests. Over the next decade, a series of treaties between the two countries gradually diminished the British presence on the Coast, allowing more control by the Nicaraguan government (Dozier, 1985: 69). Nevertheless, the Costeños were able to retain much of the local authority and commercial enterprises as part of an autonomous reserve within national boundaries (O’Brein, 1996: 25-27).

Although the locus of power remained firmly in the hands of the Miskito king, an important transition had begun following the departure of the British. Since the establishment of the Miskito Reserve in 1861, Bluefields had emerged as the seat of government as well as an important commercial center for the region (Vilas, 1989: 31). As time went on, members of the black Creole population achieved greater representation within these local bureaucratic entities thanks to their increasingly urban orientation that provided them with better access to education and a far greater number of business opportunities (Ollen, 1984: 10-15).

The construction of a trans-isthmic railroad (and later a canal) across Panama had greatly reduced the demand for transportation services in Greytown and Bluefields, prompting Costeños to revitalize the production of lumber, gold, rubber and bananas to compensate for the loss of revenues (Vilas, 1989: 29). Shortly thereafter, U.S. entrepreneurs were encouraged to invest within these operations by offers of low cost concessions and promises of few economic restraints from Miskito authorities. By 1884, the John D. Emery Company of Boston had firmly established itself upon the reservation to cut mahogany, ushering in a period of unprecedented foreign investment into the region (Dozier, 1985: 142).

The accession of American enterprise had not only rescued the region from further economic decline but had in fact established the Atlantic Coast as a world leader in the export of raw materials. Through American capital, technology, and economic organization, various local extraction and transportation enterprises were
consolidated into larger firms such as the Bluefields Fruit and Steamship Company that could handle both the production and shipment of bananas to outside markets. As more raw materials and basic commodities came to be exported, money and highly sought-after manufactured goods started to filter into villages and rural areas, transforming a primitive economy based on subsistence agriculture to one linked financially to world trade (Dozier, 1985: 142-143; Vilas, 1989: 30).

Over time, however, the increasing number of special monopolies and protective tariffs provided by the Miskito government, allowed North American businesses to gain control of over 90 percent of the wealth, enterprise, and commerce of the Atlantic Coast. Even local laborers who had been contracted as salaried workers, found their role to be seriously diminished as U.S. entrepreneurs tried to augment their labor by introducing migrant workers from Jamaica and the American South (Dozier, 1985: 143-148; O’Brien, 1996: 59). Nonetheless, Nicaraguan authorities began to reconsider their policies toward the Atlantic Coast in the wake of its new economic prosperity that was jealously regarded by the “Spanish” officials to the west of the Reserve.

From the outset, relations between the Nicaraguan government and the Miskito Reserve had been marked by mutual suspicion and mistrust. The Coast population had been only too aware of the expansionist tendencies of the Nicaraguan state and had fought tenaciously to preserve their own cultural heritage through regional autonomy. Consequently, the Miskito government adopted a number of measures to frustrate any attempt by the Nicaraguan government to penetrate the region. For instance, Nicaraguan mercantilist activities along the river ways of the reservation were strictly regulated by decree of the Miskito Executive Council. Likewise, Nicaraguan troops were forbidden within the borders of the Miskito Reserve without the expressed permission of the Miskito authorities. However, in light of their recent prosperity, the state had come to resent the special status that these Costeños enjoyed, viewing the Miskito Reserve as an obstacle toward the development of a national infrastructure and a satisfactory foreign policy (Vilas, 1989: 31-32).

In 1894, President José Santos Zelaya of the ruling Liberal Party ordered a Nicaraguan expeditionary force to occupy the Atlantic Coast and remove the authority of the Miskito King under the pretense of curtailing the foreign economic presence. Zelaya argued that only the national government had control over external policy with foreign entities (Vilas, 1989:31-32). This loss of autonomy would place any earnings from Coastal enterprise at the disposal of the Nicaraguan government rather than the Miskito authorities and would eventually supply disproportionately to the national revenue. The Miskito Reserve was subsequently incorporated into the rest of Nicaragua as the Department of Zelaya. Over the next several decades, the government engaged in a campaign to “Hispanicize” the region by promoting Spanish as the official language of education and administration. In addition, large numbers of mestizo peasants were encouraged to migrate to the sparsely populated region in an attempt to alter the ethnic balance (Vilas, 1989: 38-40; Olien, 1984: 22-24).

Ironically, it was President Zelaya who would encourage even greater levels of North American investment with the promise of tax incentives and economic autonomy, precipitating the growth of large-scale multinational corporations on the Coast (Olien, 1984: 17-18). Thus, for nearly half a century, foreign companies, which had been given virtually absolute control over the region’s natural resources (Bugajski, 1990: 67), would dominate the Atlantic Coast. However, as the relationship between the state and foreign investment continued to develop, it would become identified with the increasing disparity between foreign enterprise and the domestic economy (O’Brien, 1996: 57-59).

By the beginning of the twentieth century, North American companies had gained almost complete control over economic life on the Atlantic Coast. In Bluefields alone, American corporate firms such as Brown & Harris and Samuel Weil & Co. had generated over $1 million in capitalization due to their participation in the local wholesale and retail trades. Elsewhere in the Department of Zelaya, 15 American banana plantations as well as a number of gold-mining camps had come into operation under the authority of La Luz and Los Angeles Company. The single largest firm to locate on the Atlantic Coast had been the John D. Emery Company of Boston whose mahogany cutting and milling operations had by this time averaged 12,500 logs per year (Dozier, 1985: 157-159). North American companies on the Atlantic Coast were able to expand at a remarkable rate (Dozier, 1985: 157). However, the very policies that had been responsible for advancing foreign enterprise were, on the other hand, detrimental to the promotion of local economic initiative, thus further aggravating provincial antagonisms against the state (Vilas, 1989: 41-48).

By granting economic concessions to North American companies, the Zelaya government had hoped that the growth of foreign enterprise might in turn stimulate the development of local industries. North American firms, however, had instead used this opportunity to establish monopolies over virtually every economic enterprise that occurred on the Atlantic Coast, thus stifling any potential domestic competition. To make matters worse, Zelaya had imposed a series of municipal taxes upon the Atlantic Coast, thus stifling any potential domestic competition. To make matters worse, Zelaya had imposed a series of municipal taxes upon the Atlantic Coast, thus stifling any potential domestic competition.
Reacting to their continuing plight, Miskito and Creole workers began to walk away from their jobs in protest. Villages united in defiance of government efforts to break up their communal holdings, and ever more frequently, Costeños engaged in acts of violence against the symbols and structures of the foreign encroachment (Vilas, 1989: 42; O’Brien, 1996: 60-61). Zelaya had promised to put an immediate end to the local strife. However, as the confrontations continued to mount, it soon became clear that the government no longer had the capacity to keep order. The Conservative opposition, under the leadership of Juan Estrada, saw an opportunity to take advantage of the situation, launching a revolt against the Zelaya regime in October 1909. In the face of so many enemies, North American corporations had lost faith in the government’s ability to protect foreign interests, and consequently, many North American firms began to back the conservative rebels (O’Brien, 1996: 64-66). Thus, a government formed by the opposition would find itself even more inclined to acquiesce to North American economic interests (Dozier, 1985: 182; Vilas, 1989: 43).

Conservative Rule and the Emergence of Multi-National Corporations

The new government, under the presidency of Adolfo Díaz, was facing a massive accumulation of foreign debt following the campaign against Zelaya (Vilas, 1989: 184; Karnes, 1978: 107). Rather than run the risk of default, Díaz instead authorized a new round of economic concessions to create “a positive environment for U.S. investment” (O’Brien, 1996: 68). In 1919, the Cuyamel Fruit Company of New Orleans invested $2.5 million in the region to develop a series of banana plantations around Bluefields. In return, the Nicaraguan government demanded few taxes and left the company’s extracting and exporting activities largely unsupervised, and as a result, Cuyamel Fruit became the largest producer of bananas in the region (O’Brien, 1996: 67-68; Vilas, 1989: 189 & 200).

In a similar vein, Bragman’s Bluff Lumber Company, a subsidiary of Standard Fruit and Steamship Company of Louisiana, purchased a 50,000-acre land concession in 1921 to exploit the vast pine and mahogany reserves. The company found it necessary to hire additional workers to construct the railroads, saw mills, and wharf facilities needed to maintain production (Karnes, 1978: 108-109; Dozier, 1985: 200). Commercial centers, such as Puerto Cabezas, were thus transformed into company towns providing hotels, dormitories, mess halls, commissaries, and medical facilities for employees of the firm. The company town allowed laborers to work within close proximity to their families, but more importantly, the creation of such utilities allowed wages to be re-circulated back into the company coffers (Dozier, 1985: 201; Karnes, 1978: 112).

By 1929, Bragman’s Bluff Lumber Company had invested a total of $12 million within various enterprises on the Atlantic Coast. Local workers had generally received higher wages from the company than they would from the domestic economy as well as housing, medical care, and access to a greater range of consumer goods (O’Brien, 1996: 68-72). A growing number of Indians, mestizos, and Creoles had largely abandoned subsistence agriculture to devote their full energies to wage labor (Karnes, 1978: 115-117). The company eventually expanded into banana cultivation to compete for the profits of Cuyamel Fruit and the small private farmers who were already struggling (Karnes, 1978: 119).

Despite their relative prosperity, North American companies on the Atlantic Coast operated under the threat of civil unrest at any given moment. Although many of the Miskitos appreciated the material benefits that the U.S. companies had to offer, an ever-larger number of Indians resented having lost their land rights to foreign enterprise. Prior to the re-incorporation, the Nicaraguan government had promised Indian and Creole communities certain portions of land to be set aside for grazing, agriculture, and the construction of villages (Dozier, 1985: 201; O’Brien, 1996: 71). However, as the state found itself under an increasing financial strain, most of these lands were parceled out to North American companies for badly needed cash. By the end of 1929, private farmers found themselves increasingly unable to compete with U.S. companies that dominated the local infrastructure (Brown, 1986: 179; O’Brien, 1996: 71).

In the decades following the collapse of the Zelaya government, Liberal and Conservative forces continued to engage in periodic skirmishes for control of state power. Such conflicts not only resulted in huge setbacks for national development, but also contributed to the chronic political instability that plagued the country.

There was nothing new or unique about this Liberal/Conservative struggle or the ensuing U.S. intervention and occasional British incursions to restore some semblance
of stability or to restore economic rights according to treaty agreements (Rappaport, 1975: 22). For example, when Panamanian nationalists attempted to seize the trans-

isthmus railroad, the U.S. sent marines to protect its rights gained through treaty

between the two nations. Construction of the railroad began (Rappaport, 1975: 224). The United States subsequently established protectorates over Puerto Rico (1898), Cuba (1903), Panama (1903), Dominican Republic (1905), Nicaragua (1911), and Haiti (1915) by a series of treaties (Rappaport, 1975: 230-238). In the case of Nicaragua, the Bryan-

Chamorro Treaty also granted rights to build a trans-isthmus canal and to lease two strategic islands to guard the ports of the planned canal (Rappaport, 1975: 230).

51 Between 1913 and 1924, U.S. marines would be dispatched to the Atlantic Coast no fewer than ten times to protect North American business interests (O’Brien, 1996: 69-70; Dozier, 1985: 205) and to restore order through Nicaragua’s first free election in 1924 in which conservative candidate Carlos Solórzano was elected president and liberal candidate Dr Juan Bautista Sacasa was elected vice-president (Macaulay: 1967: 24). However, with the signing of the Tipitapa Agreement in May 1927, the Liberals and Conservatives agreed to a U.S.-negotiated settlement that allowed both parties a more equal share of both the political positions and the economic benefits generated by foreign investment. Nevertheless, one military officer within the Liberal camp refused to accept what he perceived as the wholesale manipulation of the Nicaraguan government by North American economic imperialists (Karnes, 1978: 128 & 137; Black, 1981: 12).

52 As a former employee of South Penn Oil Company and Huasteca Petroleum Company in the Tampico oil fields of Mexico, Augusto Calderón (César) Sandino had witnessed the detrimental effects of unrestricted commercialization first-hand and had made contact with radical groups of “socialist, syndicalist, anarchist, and communist” organizers/agitators (Macaulay, 1967: 51-52). In Mexico, he had developed an anti-imperialist attitude and determination to prevent the same fate in his native country. Sandino resented how foreign investment had exploited Central American resources using foreign controlled ventures for which locals appeared mainly as wage laborers. He would later comment that North Americans were welcome to work in Nicaragua but not to be the bosses (Macaulay, 1967: 247).

53 Upon his return to Nicaragua in 1926, Sandino joined some Liberals in their attack upon the Conservative/Liberal government coalition forces (Karnes, 1978: 128). A vigorous offensive featuring soldiers from the newly trained Guardia Nacional (National Guard) had made devastating attacks upon the guerrillas. Even so, ten heavily armed marines had left the Ocatol garrison on December 31, 1929, to repair sabotaged telephone lines; they were trapped in a firefight in which all but two were killed (Macaulay, 1967:181). Whereas the Liberal Party had fought solely against the repressive rule of the Conservative-led state, Sandino expanded those attacks to include the symbols of U.S. corporate culture (O’Brien, 1996: 75).

54 In March 1931, Sandino launched a direct assault upon the operations of La Luz and Los Angeles Mining Company. This action was followed by a similar attack on a Bragman’s Bluff installation near Puerto Cabezas (O’Brien, 1996: 76; Dozier, 1985: 211). The United States soon realized that a much larger military commitment would be required to pacify the rebel insurgency and preserve its economic interests in the region, but the ongoing depression would limit U.S. involvement (Karnes, 1978: 133; Everingham, 1996: 45; Macaulay, 1967: 184). “The Hoover administration hoped to cool off the Nicaraguan crisis by de-escalation—by a staged withdrawal of American forces” ordered by Washington (Macaulay, 1967: 185).

55 For the next two and a half years, Sandino and his followers harassed U.S. marines through a protracted guerrilla campaign and acts of terror against U.S. ventures along the Coco and Wawa River valleys in the hope that it would send a clear message to the United States (Macaulay, 1967: 192-201). Aside from stealing supplies and burning facilities, the guerrillas would behead North Americans and eventually turn to more ritualistic forms of mutilation and torture. Popular guerrilla methods included use of the corte de chaleco (vest cut, the lopping off of the head and arms), corte de cumbo (gourd cut, in which part of the skull is sliced off exposing the brain in which the victim is shackled), corte de bloomers wherein the victim’s legs are cut off at the knees leading to death by bleeding (Macaulay, 1967: 212). The Miskitos and other Indians, however, had come to rely upon U.S. corporations for their livelihood and were, therefore, largely unmoved by Sandino’s anti-American crusade (O’Brien, 1996: 77).

56 Along with the deaths of thousands of guerrillas (1,115 killed by the Guardia alone), 136 U.S. marines and 75 National Guardsmen had lost their lives in the six years of this guerilla war (Macaulay, 1967: 239-240). The remaining combat marines were eventually recalled in 1933. In their place, the United States government established the Guardia Nacional as a non-partisan “police” force from which to protect foreign assets and create some degree of political stability (Dozier, 1985: 212-213; Black, 1981: 11). Having successfully thwarted U.S. corporate ambitions in the region resulting in a near-complete U.S. military withdrawal, Sandino accepted a truce on
“behalf” of the Nicaraguan government. In the spring of 1933, Sandino published a 
"Manifesto to the Peoples of the Earth and in Particular to the People of Nicaragua" giving moral support to Juan Sacasa, the newly elected president, and proposing the 
organization of agricultural cooperatives along the Coco River that would become 
known as “Federal District of Central America” (Macaulay, 1967: 248)."

Sandino was familiar with the Atlantic Coast and its success in economic development 
over nearly three centuries and seemed determined to develop an autonomous region 
under his own auspices. While the Miskito King had done well in his partnership with 
great Britain (when military might was less mechanized leaving the Atlantic Coast 
more isolated from the Hispanic west), it seems doubtful that similar arrangements 
could be made in the twentieth century without international incidence. The success of 
such arrangements today depends on the interaction of a newly autonomous region 
with the international community.

So long as the parent country does not attempt to subjugate that seceding state or 
province through military intervention, the autonomous region has a fair chance of 
survival (Graham and Horne, 2000: 8). Taiwan, for example, is very successful 
commercially through international trade, whereas Kosovo is largely protected by 
moral attitudes of the international community for the atrocities committed by the 
home state (Graham and Horne, 2000: 8). The degree of international recognition 
lowers the costs of territorial defense by increasing the probability that foreign powers 
will intervene if a country is invaded (Graham and Horne, 2000: 9). The 
Fuerzas Armadas Revolucionarias de Colombia (FARC) maintains its commercial status 
through illicit industry and smuggling. Yet the FARC does not attempt to secede. It 
only seeks to maintain territorial control for profit (Graham and Horne, 2000: 6). 
Recognition for the “Federal District of Central America” by the international 
community would be one requirement that Sandino would have difficulty overcoming.

Somoza was concerned about Sandino’s Coco River project and had agreed to the 
creation of armed Emergency Auxiliaries under Sandino’s General Francisco Estrada. 
He was even more concerned over suspicions of disloyalty by the director of the 
Guardia Nacional, Sacasa’s Vice President, Rodolfo Espinosa, informed “the American 
legation that General Anastasio Somoza García was conspiring to overthrow the 
President” (Macaulay, 1967: 249). Meanwhile, Sandino sent a message to the 
American Minister, Arthur Bliss Lane, that he would need his Emergency Auxiliaries 
sufficiently armed to protect President Sacasa from Somoza. Following Sandino’s 
request for more weapons and ammunition for his men, Sacasa adamantly refused 
and summoned Sandino to Managua for a “frank discussion” (Macaulay, 1967: 250).

Somoza requested a meeting with Minister Lane to discuss the Sandino situation and 
the possibility that he might not be able to restrain some of the Guardia who were 
intent on killing Sandino. Leaving Lane’s residence, Somoza went directly to the 
Campo de Marte compound where twelve of his officers were waiting and explained 
that he had just come from a meeting with the American Minister and “that the 
government in Washington supports and recommends the elimination of Augusto 
César Sandino” (Macaulay, 1967: 253). A pact entitled “The Death of César” was 
signed by all present. Sandino and some of his aids had had a meeting at Sacasa’s 
home that same afternoon concluding with a dinner. As Sandino and his entourage left 
the residence, they were arrested and taken to Managua Airport and shot (Macaulay, 
1967: 254-256). Somoza then sent the Guardia to the Coco River establishment and 
killed the leaderless Sandino army and supporters (Dozier, 1985: 214; Everingham, 
1996: 45).

Somoza had considered Sandino to be a threat not only to the longevity of foreign 
enterprise but also to his own personal political ambitions. With the conflict resolved 
and the U.S. marines withdrawn, Somoza was given the opportunity to consolidate his 
power within the Guardia Nacional by filling key positions with like-minded soldiers. 
This reinforcement placed him in a position from which to wield political clout within 
the state. Liberals and North American entrepreneurs alike regarded Somoza to be a 
leader who could both contain civil unrest and protect foreign investment (Tulchin and 

**Somoza and the Economic Decline of the Atlantic Coast**

The ascension of Somoza to power signaled a new era of imposed political stability and 
closer relations with the United States. Under his rule, U.S. corporations would enjoy 
the free importation of machinery, tools, and other industrial inputs needed to 
maintain production. They would likewise be exempt from the government and 
municipal taxes that cut into export revenues (Dozier, 1985: 216; Kanes, 1978: 121). 
In return, Somoza demanded that each company pay $3,000 per month for their 
commercial use of the land in addition to a 15 percent share of whatever wealth they 
might generate from the Atlantic Coast. Such an arrangement tended to enrich the 
dictator’s personal coffers at the expense of company earnings. Foreign companies 
would be protected from civil unrest through the Guardia Nacional (Vilas, 1989: 47).
The favorable economic and political climate created by the Somoza regime should have ushered in a period of renewed foreign investment for the region. However, since the onset of the Great Depression, low export prices on the world market had forced many corporations to cease their expansion and seriously curtail their commercial activities (O’Brien, 1996: 76). To make matters worse, the continuous cultivation of bananas and other agricultural products had led to a gradual depletion of fertile soils. Such exhaustion combined with the spread of Sigatoka and other crop diseases had resulted in much smaller yields, making profits all the more negligible (Karnes, 1978: 139). By the early 1940’s the cultivation of bananas and other export crops had been reduced to a few small-scale ventures with limited commercial impact (Karnes, 1978: 140-141).

Despite the collapse of the banana industry, mining and logging companies would continue to operate as long as there were timber and mineral reserves. During World War II, lumber companies experienced an unexpected boost from the Allied demand for additional sources of natural rubber to supplement those cut off by the Japanese occupation of Southeast Asia. This recovery, nevertheless, proved to be short-lived, and by the end of the war, North American enterprise on the Atlantic Coast had once again become a highly localized affair (Dozier, 1985: 218-219).

Roads, communications, and transportation facilities began to deteriorate as corporations neglected to maintain their upkeep. Over time, the foreign companies abandoned their operations upon the depletion of a particular resource, leaving the local population unemployed and disenfranchised. The rise of the “enclave economy” on the Atlantic Coast had been seen as a solution to the complex problems associated with national development. Yet in failing to monitor the industries and excesses of foreign corporations, the Nicaraguan government faced a regional economic and environmental crisis that it could hardly begin to address (Vilas, 1989: 43-48).

Conclusion

The spread of industrialization had lowered the costs of both transportation and production through the application of new technologies such as the railroad and the steam engine, leading to an explosion in the number of manufactured goods that increased the generation of wealth and income. These two elements had helped to create an excess of accumulated capital that nations could then use for investment abroad. A number of economic considerations specific to each country would determine the nature of that foreign investment.

In the case of Great Britain, a deficiency of natural resources at home had resulted in an increased reliance upon international commerce in acquiring the raw materials needed to maintain her economic wellbeing. British commercial policies had thus emphasized the importance of successful trading relationships to gain necessary commodities and reduce trade deficits upon imported goods. As a result, this relationship between British capital and local enterprise had tended to benefit both parties involved.

North American entrepreneurs had invested overseas in the belief that they could achieve a higher rate of return abroad than they could at home. Thus, North American entrepreneurs had sought to merely expand their industrial base and establish new markets for their products. The nature of U.S. foreign investment on Nicaragua’s Atlantic Coast had been driven, therefore, by the desire for profit rather than the acquisition of raw materials.

The creation of an “enclave economy” on the Atlantic Coast was a corporate effort to profit from the local enterprises of the region. With the construction of company towns around specific resources, local workers and their families had been provided with food, housing, education, and even greater access to manufactured goods as an incentive to continue working within foreign enterprise. In return, U.S. corporations had not only gained new markets for their products, but also a reliable source of labor for their regional industries.

This type of corporate organization, however, had a tendency to disrupt indigenous communal patterns as local inhabitants increasingly abandoned their traditional occupations in favor of wage labor. It had likewise increased government corruption as North American entrepreneurs supported regimes that best accommodated the interests of foreign enterprise. In the absence of a strong local government, U.S. corporations ignored their social responsibility to the host country and exploited the Atlantic Coast for all that it was worth.
Literature


