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August 19, 1965

REPORT ON PANAMAI. Assessment of Current SituationA. PoliticalCanal Negotiations

Conflicts of interests over the operation and control of the Panama Canal and the Canal Zone dominate U.S./Panamanian relations. The Canal issue also pervades the Panamanian political scene and poses the most explosive threat to stability in Panama. Panama has long been dissatisfied with the Treaty of 1903 which governs the Canal and the Canal Zone, and Panamanian desire for the adjustment of the treaty structure has for many years been a source of conflict with the United States. Panama objects to the exercise of sovereign powers in the Canal Zone by the United States and believes that it should receive greater economic benefits from the Canal which it views as an exploitation of its principal natural resource, i.e., its geographic position.

In recent years Panamanian pressure for change in the Canal treaties has erupted into mob violence against the Canal Zone and the United States presence on the Isthmus. The nationalistic and emotional Canal issue is subject to exploitation by Castro/Communists, ultra-nationalists, and opportunistic politicians. No Panamanian Government can avoid taking a strongly nationalistic stand on the Canal question and the present Government is committed to obtaining a new Canal treaty from the United States.

On April 3, 1964, Panama and the United States agreed to renew diplomatic relations, which had been broken by Panama during the January 1964 riots, and to appoint special representatives to discuss all areas of conflict between the two countries. This agreement was widely interpreted in Panama as a United States commitment to renegotiate the 1903 Canal Treaty. Several meetings were held between the Special Representatives, but little progress was made in the resolution of points of conflict.

On December 18,

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On December 18, 1964, President Johnson announced that the United States will proceed with plans for the construction of an interoceanic sea level canal. He also announced that the United States is willing to negotiate with Panama a new treaty for the Panama Canal to replace the Treaty of 1903 and its amendments. As outlined by President Johnson, the new treaty would recognize Panamanian sovereignty over the Canal and would eliminate the present perpetuity clause by providing for its own termination upon the opening of a sea level canal--thereby meeting two of Panama's major objections to the 1903 Treaty. Detailed negotiations began in May 1965. The negotiators have agreed to negotiate separately but concurrently three agreements, (1) a base rights and status of forces agreement for the United States military installations in the Canal Zone, (2) an agreement for the possible construction and operation in Panama of a sea level canal and (3) a new Panama Canal treaty. Although certain difficulties are foreseen in reaching agreement on the new Panama Canal treaty and the sea level canal agreement, the negotiations are progressing well and we hope to reach agreement on major issues by the end of 1965. In the meantime, however, the Panamanian Government faces increasing pressure to show rapid evidence of progress in the negotiations in the obtainment of Panamanian aspirations. This pressure will increase and could become critical in early October when the Panamanian National Assembly will reconvene and opposition forces can be expected to attack the Government's conduct of the negotiations. In order to prevent a possible political crisis the GOP desires to issue a statement of progress in the negotiations before October 1.

Opposition to Robles' Government

President Marco Robles was elected in May 1964, narrowly defeating ex-President Arnulfo Arias. Robles was the principal candidate of Panama's traditional ruling group and was actively supported by the incumbent government. Arias, who had been twice elected to and twice deposed from the Presidency, had wide popular support and was given an excellent chance of winning the election. However, he was greatly feared and hated by the vested interest group which

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united at the last moment behind Robles. Arias carried both Panama City and Colón by substantial margins but Robles' majority in the interior was sufficiently large to give him a narrow victory. Arias, who had predicted that the oligarchy would attempt to steal the election from him, charged that the election was fraudulent. The charges were not substantiated, but Arias and his Panameñista Party have remained in implacable opposition to Robles and still maintain that Arias is the legitimate President of Panama.

The Arias supporters have been continually engaged in plots against the Robles Administration and in early 1965 were reported to be seeking a working alliance with the Communists for an armed move against Robles. However, there is no evidence that efforts to form such an alliance were successful, and Robles, who has the firm support of the National Guard, appears able at present to meet any threat to his Government that the Panameñistas may mount.

In April and May 1965 reports were received that members of Robles' political coalition were considering a coup. This threat from the vested interest group apparently stemmed primarily from the disappointment of certain political leaders over their failure to receive expected patronage. However, Robles made several cabinet changes in July which have apparently ended, at least for the present, the threat of a move against him from members of his own political coalition.

Robles, himself, suffers from a lack of popular appeal and his Government has failed to inspire the support of the lower classes. Arnulfo Arias remains the only figure in Panama who has strong popular support. He now appears to have decided against any direct move to unseat Robles but is convinced that at some point the Robles regime will falter so badly that popular opinion will demand Arias' return to the Presidency.

Communism

The Panamanian Communist movement is small and badly splintered. There are estimated to be only about 500 active Communists in Panama with perhaps 500 to 1,000 active supporters.

The movement

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The movement suffers from an ideological split between the Moscow-oriented Partido del Pueblo (PDP) and a smaller activist group known as the Movimiento de Unidad Reformista (MUR) which favors immediate terrorist action against the Panamanian Government and the U.S. presence in the Canal Zone.

In spite of their lack of numbers and strong leadership, the Communists have in the recent past exercised a significant influence in Panama. Through their penetration of the student movement and national news media, they have been able to capitalize on the Canal issue and to bring potent pressure to bear on the GOP. During the January 1964 riots, Communists seized control of student and nationalist groups. Because of national acceptance of their roles as patriotic student spokesmen, the Communists were able to exercise a considerable influence on national policy during the aftermath of the riots. Although the United States decision to negotiate a new Canal Treaty has largely eliminated the most potent issue available to the Communists, they would attempt to capitalize quickly on any failure in the negotiations and will continue to harass the GOP and the United States on the Canal question, and the course of the negotiations.

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B. Economic

The Panamanian economy has grown very rapidly in the past decade, particularly since 1960. During 1960-63, the average annual growth rate in the gross domestic product (GDP) in real terms was about 8.5 percent, as compared with an annual increase of slightly less than 5 percent in the 1950's. Acceleration of the rate of growth in the early 1960's was stimulated mainly by new foreign investments and a sharp increase in direct and indirect income generated by the Canal. Rising public investment also was an important contributing factor. Although the growth rate declined to about 3-4 percent in 1964 owing mainly to the repercussions of the January riots and uncertainties as to the outcome of the elections, per capita average GDP remained well above that of any of the Central American countries and was one of the highest in Latin America.

Aftereffects of the 1964 setback are still evident, but recovery is gaining momentum, and an increase of 5.5 percent in GDP, equivalent to about 2.5 percent per capita, is projected for 1965. Despite the rapid growth in Panama's national output, and the country's relatively high per capita income, at least a third of the farmers live at subsistence levels, as do large numbers of under-employed and chronically unemployed, whose members are conspicuously high in the slum areas adjacent to the Canal Zone, and who constitute an ever-present source of political and social unrest.

The immediate outlook for the Panamanian economy is relatively favorable, but the longer-term outlook is overshadowed by uncertainties as to possible changes in the treaty relationships with the United States, which may have important economic implications for Panama, and above all by the potential adverse impact of a sea level canal on the country's economy. The Government of Panama is endeavoring to reduce the economy's overdependence on the Panama Canal by stimulating agricultural and industrial development, but it would be very unrealistic to expect rapid progress in this direction. During the past decade of extraordinary economic growth, income generated directly and indirectly from the Canal and related activities

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accounted for at least one-third of Panama's annual GDP, and for about 40 percent of the total, on the average, in the past five years.

C. Threat of Insurgency

The present threat of insurgency in Panama is slight. The Government of President Marco Robles, while it must still deal with the strong opposition of defeated Presidential candidate Arnulfo Arias' Panamenista Party, has been strengthened substantially by the initiation of canal treaty negotiations with the U.S. and by Robles' success in maintaining public order and preventing anti-U.S. and anti-GOP demonstrations.

The Robles Government followed its firm repression of extremist attempts to exploit the first anniversary of the January 1964 riots by the arrest in February of this year of several members of the national directorate of the proscribed Communist party (PDP). Although the GOP was unable to prosecute the arrested leaders, the arrests further demoralized the already badly-splintered PDP. Sporadic bombings and other terrorist activities by Panamenista activists and hard-line Communists have continued, but these have been largely ineffectual.

It was rumored that the Panamenista Party, possibly with the support of the PDP, would attempt to overthrow the Robles Government in May or June. To date, however, the Panamenistas have been unable to marshal sufficient force to mount a serious offensive against Robles, and it appears that the planned alliance with the Communists has not been consummated. The Guardia Nacional has continued to show firm support of Robles and there is no evidence that it would acquiesce in his overthrow.

Nevertheless, a significant, although not imminent, threat to security does exist in Panama. The communists and Panamenistas would be quick to seize on any adverse development or failure in the U.S.-Panamanian treaty negotiations and might be able to incite large-scale violence and rioting against the

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Canal Zone and the GOP. The GOP might either be unable to suppress the violence or might even permit it to occur in an effort to turn public anger away from itself and toward the U.S. Such violence would initially be directed against the U.S., but once unleashed and directed by trained communist agitators, as in January 1964, it might turn inward and threaten the political and social structure of the country.

Furthermore, reports persist of a planned Panamenista armed coup and it is still possible that Arias and his followers will form a working alliance with the hard-line Communists. Although economic conditions are generally favorable, unemployment could create difficulties for Robles if remedial action is not taken.

A threat to security also exists in western Panama where leftist agitators have been active among the labor force of the United Fruit Company.

D. Local Security Forces

National Guard

The 3,800 man National Guard is the only armed force in Panama, and receives U.S. support under the military assistance program and from AID's Office of Public Safety. The Guard is relatively well-trained and is judged capable of maintaining internal order under normal conditions. It would not, however, be able to control prolonged or widespread rioting and would have difficulty in suppressing well-organized insurgency. The Guard will increase its forces to a total of 4,200 men by the end of 1966 and thereby significantly strengthen its internal security capability. The first year's cost of this increase is being paid for by a \$500,000 U.S. grant.

DENI

The National Department of Investigations (DENI) has responsibility for anti-subversive activities. It is a plain clothes force of about 250 men and through U.S. technical assistance and training has increased its effectiveness in recent years. It suffers, however, from frequent turnover of personnel and limited resources.

II. Action

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II. Action Recommendations

The Latin American Ad Hoc Inter-Agency Group on Counter-Insurgency has reviewed the situation in Panama as set forth above and concludes that the following steps should be taken to support and strengthen Panama's counter-insurgency capability:

1) The greatest potential for violence and disorder in Panama lies in the conflict between the United States and Panama over the Panama Canal. For Panamanians the Canal issue is explosively nationalistic and emotional. It is susceptible to easy exploitation by Castro/Communists, demagogues and self-seeking politicians. While the bogey-man is the United States, and the conflict therefore international in character rather than internal, once unleashed the violence, under activist Communist-directed leadership, could swiftly turn inward to threaten the existing structure of government and society. The United States should therefore direct its primary effort to the early conclusion of new treaty arrangements with Panama which will be responsive to Panama's psychological and material needs and at the same time protect the essential interests of the United States.

2) President Robles is not a popular figure. Nor does his Administration enjoy popular support. His Government has been under severe pressure from both rightist and leftist sectors and in particular from the Panamefista (Arnulfo Arias') Party. The latter alleged fraud in the close elections of May 1964 and believes that at some point the Robles Government will falter so badly that Arias will be called upon by popular demand to assume the Presidency. Robles, who thus far has weathered all threats to his Administration, has shown moderation regarding the Canal Treaty problem, has made well-intentioned efforts at fiscal and tax reform, has been firmly anti-Communist and has therefore received the encouragement and support of the United States Government in various ways. However, we should be alert to the possibility that under certain circumstances, e.g., a serious internal scandal or a breakdown in treaty negotiations, Robles might be toppled and a new Government come to power. For contingency purposes therefore, a study should be made which would set forth the

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various circumstances which might bring about the fall of the Robles Government, what the nature of a new Government to succeed Robles in each set of circumstances might be and an evaluation of each potential Government in terms of United States interests.

3) The MAP and AID/OPS are both involved in support and training of the Panama National Guard. The Ambassador, the Country Team and the Panama Review Committee should continue to examine the activities of both to avoid duplication and competitiveness and to ensure that the programs of each are evaluated in terms of over-all United States objectives.

4) It is noted that both MAP and AID/OPS have provided and are providing communications equipment to the National Guard and DENI. The provision of such equipment should be carefully coordinated to insure the compatibility and interchangeability of the systems at all times.

5) Every effort should be made to encourage the establishment of a civil service type professional force in the DENI.

6) Special attention should be paid to the potential for subversion and insurgency in Chiriqui in connection with the operations of the Chiriqui Land Company (United Fruit Company) in that area.

7) Note has been taken that the most serious threat of Communist activism and therefore insurgency lies in control by the Communists of student organizations, particularly the Union of University Students. President Robles has indicated that at the proper time he will be prepared to press for major administrative reforms at the University in an effort to break the Communist power. We should be prepared to offer and deliver effective assistance to Robles at such time as he may make his move.

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