

BRIEFING PAPER ON PANAMA FOR AMBASSADOR FREEMAN
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US/PAN*

A. Political Situation and Problems

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President Marco A. Robles was elected in May 1964, narrowly defeating ex-President Arnulfo Arias. Arias, who is the only political personality in Panama with wide popular support and whose election was strongly opposed by Panama's traditional political and economic elite, has remained in complete opposition to the Robles Government and claims that the people will eventually recall him to power.

Robles made a sincere attempt to implement needed economic and social reform programs during his first year in office. His major success was the passage by the National Assembly of a comprehensive tax reform bill. However, hampered by a tenuous coalition majority in the Assembly and the Panamanian oligarchy's opposition to meaningful reform, Robles will have difficulty in undertaking further reform efforts.

Robles has pledged that his Government will obtain Panama's long-standing Canal aspirations in a new treaty with the United States, and the moderate political strength he now has is based, in large part, upon the fact that comprehensive United States-Panamanian canal treaty negotiations have begun. These negotiations began after President Johnson's December 18, 1964 statement, announcing that the United States was proceeding with plans for a sea level canal and was prepared to negotiate with Panama a new Panama Canal treaty to replace the Treaty of 1903. The September 24, 1965 Joint Presidential Statement on the status of the negotiations announced that certain general areas of agreement had been reached in the negotiations for a new Panama Canal treaty, a base rights and status of forces agreement and a treaty under which a sea level canal might be constructed in Panama. The general areas of agreement outlined for the new Panama Canal treaty indicated considerable progress by Panama in the attainment of her major aspirations. Negotiations are continuing on the details of these general areas of agreement.

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The Canal issue and the present treaty negotiations dominate Panama's internal politics and relations with the United States. The emotional nationalism with which the Panamanian populace views the United States-Panamanian canal dispute is a potentially explosive force with which both the United States and the Robles Government must contend. Thus far the Robles Administration has effectively countered criticism by opposition political groups of its conduct of the negotiations and has followed a realistic, statesmanlike course in the negotiations themselves. In this regard, Robles has been strengthened by his success in suppressing attempts by Arias' supporters, ultra-nationalists and Communists to create public disorder and violence. However, any evidence of a lack of progress in the attainment of Panama's demands in the negotiations would be quickly exploited by Arias and other opposition forces and could possibly lead to the fall of the Robles Government and/or outbreaks of violence similar to that of January 1964.

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B. Economic Situation and Problems

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The Panamanian economy has grown very rapidly in recent years under the stimulus of a sharp rise in income generated from the Canal Zone, and increased private and public investment, both foreign and domestic. Even in 1964, when political disturbances prompted the flight of domestic and foreign capital and put a damper on private investment, the gross domestic product increased 5.7 percent, or 2.7 percent per capita. For the five year period 1960-64 the average annual increase in the GDP was 7.8 percent. A gain of 8.5 percent is projected for 1965. Panama's per capita GDP (\$470 in 1964) is one of the highest in Latin America, and exceeds that of any of the Central American countries.

Despite this impressive overall record of economic growth, overdependence on the Canal Zone, low agricultural productivity, extensive under-employment and high unemployment continue to present major problems. They are being attacked vigorously under the Alliance for Progress. During the past five years

\$89.0 million

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\$89.0 million of Alliance Funds (\$53.4 loans and \$35.6 grants) have been earmarked for the Government of Panama to cover economic and social development projects, principally roads, schools, health centers, water supply and power facilities. Under the Robles Plan, modernization of the agricultural sector is receiving the highest priority in the country's development efforts, but progress has been impeded by difficulties and delay in implementing the agrarian reform legislation.

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The Government of Panama understandably is concerned over the possible future economic dislocations which might result from the construction of a sea level canal. Given the successful conclusion of treaty negotiations in keeping with the guidelines of the September 24, 1965 Joint Statement of President Johnson and President Robles, Panama could be expected to receive substantially increased benefits from the present lock canal which it could employ, during the 10-15 years required for the construction of a new canal, to solve its basic development and growth problems. Further, as the Joint Statement notes: "The United States and Panama will seek the necessary solutions to the economic problems which would be caused by the construction of a sea level canal".

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C. United States Aspirations in Panama

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1. To conclude a durable treaty arrangement with Panama responsive to the legitimate interests of both our countries and of world commerce, which will guarantee the present and future availability of an efficiently operated and adequately defended interoceanic canal with reasonable tolls.

2. To assist in Panama's economic and social modernization under the overall programs of the Alliance for Progress

and

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and specifically through the negotiation of a new canal treaty structure that is, to the greatest extent feasible, responsive to Panama's desire to obtain greater economic benefits from the present Canal.

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D. Suggestions

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1. The OAS Conference officially commended the United States and Panama on their progress in settling the Canal dispute. The Mexican President might consider it appropriate to indicate to Panama Mexico's continued interest in a final settlement of the Canal problem and the continued effective operation and defense of the Canal with reasonable toll rates.

2. Technical assistance from Mexico might be particularly helpful to Panama in two fields: (1) agricultural credit; (2) tourism.

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