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*Subject  
Panama  
Pan-U.S.*

Subject: Review of Developments in Panama for Panama Canal  
Company Board Meeting, April 10, 1965

## I. Political

### 1. Internal Political Situation:

#### a. Communist Arrests

The Robles Government continued its crackdown on Communist activities with the arrest in February of 12 members of the Communist party's national directorate. Although the leaders have since been released and the GOP's ability to prosecute them is doubtful, the arrests have further demoralized and weakened the Communist movement.

#### b. Possible Coup Attempt

The followers of defeated presidential candidate Arnulfo Arias continue their ineffectual plotting against the Robles Government. There are rumors of a possible attempted coup by the Arnulfistas and the Communists. However, it is not believed that Robles, who has the firm support of the National Guard, would be seriously threatened by any such attempt.

#### c. Sugar Workers Strike

There is a strike of sugar mill workers at the Chiari and Delvalle mills. Despite Communist attempts to exploit the strike, it is not expected to cause any serious difficulty for the Robles Government.

### 2. Canal Negotiations:

State and Defense have reached nearly complete agreement on a draft sea level canal treaty which will be used in the forthcoming negotiations. We have also prepared two general statements of principle: one on the new treaty for the Panama Canal and the other on the sea level canal treaty. The first will be given to Panama within the next several days in answer to the detailed Panamanian list of

aspirations

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aspirations on the present canal which was presented to the United States in January. The statement on the sea level canal treaty will be given to all four countries and, it is hoped, will serve as the general framework for the negotiations.

There is some urgency in replying to the Panamanians because of a growing concern in Panama over the lack of progress in the negotiations.

### 3. New Ambassador to Panama:

Mr. John Irwin, a private attorney and former Assistant Secretary of Defense, has been appointed United States Special Representative for Inter-oceanic Canal Negotiations. Mr. Irwin will work closely with Ambassador Anderson and will be assisted by Mr. Robert Woodward, recently United States Ambassador to Spain, and Mr. Ed Smith.

## II. Economic Developments

The tempo of economic activity in Panama has recovered from the setback it suffered in the first half of 1964 following the riots and rupture of diplomatic relations with the United States. The immediate outlook for the private sector is generally favorable, but there is considerable doubt as to whether the public sector will be able to mobilize the domestic resources contemplated in the development plan for 1964-66.

The Robles Government, which took office in October 1964, inherited an all-time record floating debt, which was the product of chronic over-budgeting by the legislature and failure of the previous administrations to exercise effective budgetary control. It also inherited an all-time record funded debt, with resultant heavy service charges. The new administration has made strenuous efforts to increase revenues through increased taxes and improved tax enforcement procedures, but its efforts have met with only limited success because of opposition by the legislature and the business community. So far it has not undertaken to cut authorized expenditures to the level of anticipated revenues, but reportedly is planning some steps in this direction. It is hoped that it will develop a sound fiscal program in concert with the IMF during standby agreement negotiations which are scheduled to begin in the latter part of April.

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