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## INTELLIGENCE MEMORANDUM

### FACTORS OF INSTABILITY IN PANAMA

### DIRECTORATE OF INTELLIGENCE

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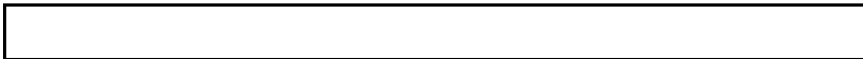
CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
6 September 1966

INTELLIGENCE MEMORANDUM

Factors of Instability in Panama

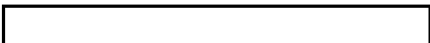
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Summary

By early 1967, Panama's politicians will have begun serious campaigning for the 1968 national elections. The campaign will come at a time when the government is particularly vulnerable to criticism from the opposition because of the long-drawn-out canal negotiations with the US. The Robles administration is also subject to attacks because the public is dissatisfied with its lot under the oligarchy.

Under these circumstances, both the conduct and outcome of the campaign will be important to US interests. The US stake in the present lock canal and in a future sea-level canal gives Panama a lever for applying pressure and embarrassing Washington. Panama has used this leverage irresponsibly in the past, and its internal problems of the moment may well inspire a more dangerous employment in the next year and a half.

Panama has more than enough issues at home for political competition. With the country's fragile and strife-ridden social order, its general underdevelopment because of undistributed wealth, and the over-all failure of government to respond to national needs, political contests are traditionally personalistic and nonsubstantive. Evidence suggests that the public's impatience with these conditions may be nearing the point of combustibility.

At the same time that popular frustration and restiveness are threatening the old, corrupt system, the protracted canal negotiations between Panama and the US are breeding a strong nationalistic mood, and both sources of unease could be readily exploited by a popular demagogue. Such a one is, in fact, waiting in the wings: Arnulfo Arias, irascible foe of the elite who has twice in the past won the presidency with fervent support from a disaffected populace. He is the leader of the country's largest political party and has undoubtedly set his sights on the presidency in 1968.

Incumbent President Marco Robles is gambling on a successful conclusion to the treaty negotiations as a solution to Panama's multitude of socio-economic

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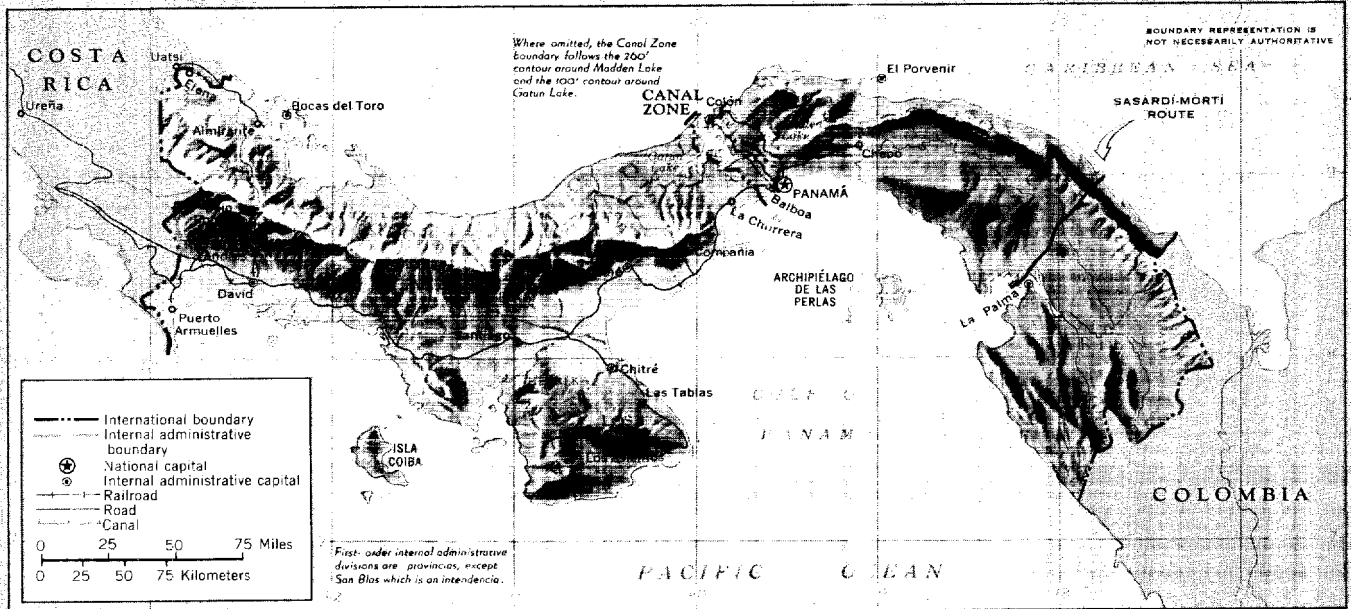
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problems, as well as to his and his party's political problems vis-a-vis the upcoming elections. Should he be unable to win concessions from the US that would satisfy national aspirations, this may drive him to take an irrational attitude toward the US and could even lead to his ouster. If the canal treaty remains an open issue for the next presidential campaign, the successor government might be more extreme in its demands.

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P A N A M A



SELECTED DATA

POPULATION: 1.3 million (1966) increasing at 3% annually

TOTAL EXPORTS (1965) \$76.9 million (refined petroleum and petroleum products, bananas, shrimp, sugar, coffee).

UNEMPLOYMENT: 20-30% in Panamá City and Colón

TOTAL IMPORTS (1965) \$185.5 million (crude petroleum, foodstuffs, machinery and manufactured items).

GROSS NATIONAL PRODUCT:  
 \$617 million (1965)  
 \$572 million (1964)  
 Per Capita GNP \$497



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I. THE CANAL AND US RELATIONSHIP

1. Two basic and related factors tend to make the situation in Panama highly combustible: the increasing fragility of the social and political order, and the strong national consensus on the need to revise the canal arrangement with the US. These factors are interrelated whenever the entrenched oligarchy seeks to divert growing discontent among Panama's urban masses away from its own privileged position and against the US presence.

2. Panamanians of all parties and all strata are agreed that the 1903 treaty must be abrogated and a new compact negotiated that meets the country's long-standing basic aspirations. They believe that the US has special obligations to Panama and tend to blame the US for the country's economic and social ills. They regard the canal as the country's greatest asset and think they should have more jobs and more money from its operation. Finally, they believe that the present canal, and any sea-level canal built across the isthmus, should sooner or later be completely Panamanian.

3. US relations with Panama are unique. The US created the country and has inherited some responsibility for it; this was acknowledged in the indemnification of Colombia for US actions in 1903. Panama's achievement of independence simultaneously with the transformation of the canal route into a foreign-dominated enterprise had a deep and far-reaching effect on the country's external relations. What might have been a more affirmative patriotism and concern for the national interest was modified by the omnipresent alien irritant into an often negative set of attitudes directed against a single quasi-parental foreign power.

4. The most objectionable concession in the 1903 treaty was the surrender of sovereignty over the waterway to the US "in perpetuity." In addition, Panama was saddled with a provision allowing unilateral intervention by the US in its internal

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affairs. Panamanians were equally displeased with the right of the US to take any territory outside the Canal Zone which was felt to be necessary for the maintenance, operation, sanitation, or defense of the canal. The annuity provision of the treaty and the commercial competition that retail outlets in the zone represent to Panamanian merchants also proved to be points of dissension. While many of these issues were modified in later treaty revisions and by substantial US concessions, in the eyes of Panamanians the canal arrangement has never been satisfactory.

5. President Johnson announced in December 1964 that the US had "completed an intensive review of policy toward the present and the future of the Panama Canal" and that "we are ready to negotiate a new treaty" which "would replace the treaty of 1903 and its amendments." The President noted that such a treaty should recognize the sovereignty of Panama, provide for its own termination when a sea-level canal became operational, retain the rights necessary for the effective operation and protection of the canal and the administration of the areas that are necessary for these purposes, and lastly to allow for effective discharge of our common responsibilities for the defense of the hemisphere.

6. This statement placed US-Panamanian relations on a new and more positive basis and temporarily alleviated the bitterness stemming from the January 1964 anti-US riots. However, negotiations have dragged on now for over 20 months and the initial enthusiasm for the US initiative has been transformed into growing disenchantment over the slow pace of the talks. Deep divisions over the canal problem have developed among the factions that make up the Robles coalition, and there is increasing speculation in Panama that the negotiations may not be concluded before Robles' term ends in October 1968.

7. The politicians of the oligarchy, long adroit in diverting popular resentments away from themselves and against the US, can still exploit the canal issue when their positions of power are

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threatened. The canal issue is also a promising one for the opposition: Arnulfo Arias, the Communists, and the ultranationalists.

8. The government of President Robles is committed to the replacement of the 1903 treaty. He has gambled on the successful negotiation of new treaties--one on the existing canal, another on the proposed sea-level canal, and a third dealing with base rights and status of forces--as perhaps the best means of resolving the country's social and economic ills. He also sees this as a principal solution to his own political problems vis-a-vis the 1968 elections. Robles' gamble could pay off if a mutually satisfactory canal arrangement can be concluded before campaigning begins for the 1968 elections, and if the new treaties can be sold to the Panamanian public despite the objections of Arnulfo Arias and other opponents.

9. If, however, Robles is unable to win US acquiescence to a bilateral relationship in keeping with long-standing Panamanian aspirations, he would probably be driven to a less rational attitude toward the US, and might even be ousted. A successor government could be far more extreme in its demands.

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## II. THE OLIGARCHY

1. A few wealthy families--making up one to two percent of the population--have maintained a firm grip on the political and economic life of the country since independence. This oligarchy is composed of the old elite Panamanian families augmented by a newer immigrant element. Both are substantially wealthy, but the old families are the more tradition-bound and politically minded. The newer element is generally accepted upon acquisition of wealth and education, and sometimes marries into the old families. The upper class is predominantly white and has been extremely careful to avoid racial mixture, which is a major obstacle to upper-class status, although not an insurmountable one, given sufficient wealth.

2. Ownership of land, both rural and urban, is an important source of income and prestige for the upper class. Fortunes are also based on cattle raising, the sugar and coffee industries, public information media, liquor manufacturing, and the import-export business. It is largely to protect these interests and extract maximum profit from them that the oligarchy keeps control of the political destinies of the country.

3. The Arosemena, Duque, Chiari, Eleta, Aleman, Fabrega, and other prominent families have supplied presidents, cabinet ministers, and deputies since the first days of the republic. Presidents are normally placed in power for the prime purpose of protecting the interests of the elite; corruption and chicanery of all sorts are accepted as a matter of course within the government; and presidents, no matter how well intentioned, have been too controlled by their backers to change the system.

4. Strong demands from the masses for improved living conditions have led the elite to permit some limited economic and social reform, but only as a means of protecting its own preferential status. Its resistance to rapid, widespread reform has perpetuated the country's most serious

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problems--economic underdevelopment and imbalance--  
and this in turn has resulted in political unrest.  
Early in his term (1964-68) President Robles, [REDACTED]

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[REDACTED]  
[REDACTED] made a deter-  
mined effort to carry through with some of the re-  
forms he had promised during his campaign. However,  
powerful interests soon began to oppose him on  
specific issues. A tariff reform measure was de-  
feated and a tax reform bill was enacted only after  
it had been considerably watered down. Government  
efforts to provide low-cost housing for the poor  
have been in part obstructed by wealthy owners of  
slum housing.

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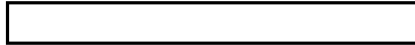
5. The elite families do not always pursue a  
common political course and their history has been  
characterized by considerable rivalry and infighting.  
When the power structure is threatened, however, they  
pull together and will often go to any extreme to  
maintain it. In the past, politicians of the oli-  
garchy have formed seemingly incongruous alliances  
with extreme leftists and Communists. The latter,  
who seem to recognize that for a while longer they  
stand to gain from the continuing erosion of the  
present power structure, perform useful services  
for the oligarchy. They control a certain number  
of votes and many of them are effective agitators  
and campaigners. For instance, the rabble-rousing  
pro-Castro Thelma King ran for re-election as  
deputy in 1964 on the ticket of a party supporting  
one of the oligarchy's two presidential candidates.  
In the same year, then presidential candidate  
Marco Robles made a pre-election deal with Socialist  
Party leader Carlos Ivan Zuniga, who was running  
for deputy in Chiriqui Province. Robles is believed  
to have supplied Zuniga with campaign money in re-  
turn for the latter's agreement to launch a strong  
campaign against Arnulfo Arias.

6. Perhaps even more dangerous than these  
tactical alliances to which the oligarchy has re-  
sorted for short-range advantage is its frequent  
accommodation with ultranationalists and pro-Com-  
munist advisers whose metier is the manipulation  
of public opinion. Indeed, it has been the oligarchy's

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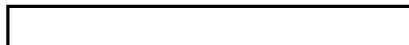
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adroitness in diverting popular resentments away from itself and against the US presence in the Canal Zone that has helped keep the elite in power. Former president Chiari's handling of the anti-US riots in January 1964, which he made no serious initial effort to contain, is one of the more recent examples of this. The canal issue is one that draws together Panamanians of all socio-economic classes. Should a crisis arise over the canal negotiations, there is no reason to believe that the oligarchy would not again fan nationalist fervor against the US.



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### III. THE UNSTABLE POLITICAL SYSTEM

#### The Proliferation of Parties

1. Panama's political system has not attained the high ideals of democracy envisioned in its constitution. Political change proceeds in a highly personalized fashion, and a sense of public responsibility is practically nonexistent in a society where revolt and violence are accepted as political methods. Most Panamanian politicians pay lip service to democratic goals, but few have sought to realize them.

2. Oligarchic rule has led to the formation of a shifting number of political parties based on personal rivalries, and has frustrated the growth of a national consensus. These parties are without ideological roots and are generally dormant between elections. They remain conservative, being responsive to the ambitions of their leaders rather than to the needs of their constituents. To gain political bargaining power, party leaders form coalitions which bring, in turn, disunity and impotence to the National Assembly. The legislature, in effect, is a reflection of the fragmentation of Panama's political parties. A strong executive and a unified reformist grouping in the assembly are required to eliminate the basic weaknesses of the present electoral system.

#### Difficulties of the Robles Government

3. The present government has been unable to break away from the heavy hand of the past. Panama is still an underdeveloped society on the verge of transition to modernization, and it is retarded by vestiges of Spanish authoritarian values: deference to political authority, social disparity, coercion, and rule by an entrenched oligarchy. Robles apparently sincerely desires to effect fundamental reforms but has been hampered by his own lack of political skill, his weak political base, and the need to hold together a precarious coalition government through political payoffs and appointments.

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The President has but a slim and undependable majority in the assembly, which has stymied his efforts to obtain any meaningful legislation. He has avoided initiating any new or controversial reform measures that would risk what little political strength he has and perhaps jeopardize ratification of the expected canal treaty.

4. Hoping to broaden his base of support, Robles earlier this year reshuffled his cabinet to bring additional parties into the coalition. By granting a ministerial post to a member of the Third Nationalist Party of Gilberto Arias--news-paper magnate and nephew of Arnulfo Arias--Robles hoped to gain more favorable press treatment for his administration. However, there has been no respite from attacks by Gilberto's influential news media, and Robles gained little from the change other than some support from a few small peripheral parties. There had been earlier indications that Robles wanted to build a political following loyal to himself rather than to his party, but he is apparently hesitant to use a tactic that might disrupt his increasingly tenuous political backing.

#### Reformist Movements

5. Within a few political parties, small reform-minded groupings have gained some influence and are trying to challenge the older, conservative, and oligarchical elements. As yet these groups have had no opportunity to test their strength. Reformist wings have developed in smaller parties such as the National Liberation Movement, Labor Agrarian, Democratic Action, and Progressive parties.

6. The growing importance of the Liberal Progressive Movement (MLP) within Robles' National Liberal Party (PLN) provides the most notable example of this trend. The PLN, the oldest party in Panama, has eight deputies in the assembly, three of whom are reformist members of the MLP. This movement--headed by the opportunistic finance minister, David Samudio, espouses a doctrine that would effect a more equitable distribution of

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national wealth. The MLP recognizes the need for a strong measure of reform in Panama and is advocating a progressive political ideology that rejects both the paternalistic practices of the oligarchy and the spoils system. MLP members have been working to increase their influence among labor and student groups and to extend ties to like-minded groups in other parties.

7. From their base in the Liberal Party, MLP leaders are pushing for Samudio's candidacy and for political power in 1968. However, they are essentially a "brain trust" of nationalistic professional people handicapped by a lack of political skill and a clear electoral program.

#### The Christian Democrats

8. Panama's small Christian Democratic Party (PDC) is the only party active between elections. Despite its weak leadership and serious organizational problems, it might some day develop into a political challenge to Panama's oligarchical groupings. Because the PDC has been reluctant to enter coalition agreements, it has been unable to participate successfully within Panama's multiparty political system. The party has been criticized frequently for parroting the Communist line, and its youth wing at the University of Panama consistently adopts an extremist position.

9. Although the PDC membership comprises only three percent of the electorate, it is planning to run a candidate in the 1968 election. The party appeals primarily to the middle classes; it has not been able to make inroads on the lower classes because of the overwhelming popularity of Arnulfo Arias. To the extent it commands support from the middle class, the PDC will probably tend to pull votes away from the government-oriented political parties to the advantage of Arnulfo's Panamenistas.

#### Prospects of a Multicoalition Race in 1968

10. Most Panamanian politicians are more concerned with the approaching presidential election

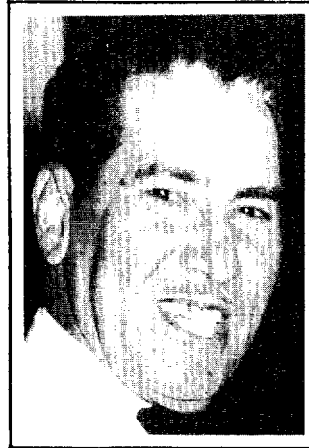
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# Republic of Panama



MARCO ROBLES  
President



## POTENTIAL CANDIDATES FOR THE 1968 ELECTION

ARNULFO ARIAS  
Leader of Panamenista Party



JOSE D. BAZAN  
Minister of Government



FERNANDO ELETA  
Minister of Foreign Relations



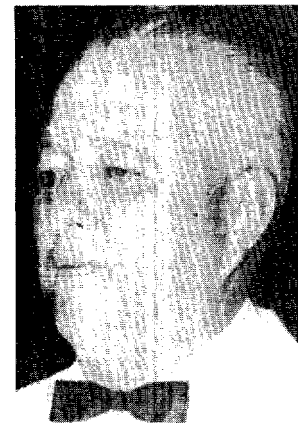
ALFREDO RAMIREZ  
Minister of the Presidency



DAVID SAMUDIO  
Minister of Finance and Treasury



JORGE VELASQUEZ  
Director of National Bank



GEN. BOLIVAR VALLARINO  
Commandant of the National Guard



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than with the multitude of problems facing the country. Among President Robles' myriad troubles is the maneuvering of six top members of his government who are interested in the presidency. Most of these individuals have not worked as a team, but have cynically looked out for their own political interests. The potential aspirants to date are: Jose D. Bazan, minister of government and justice; Fernando Eleta, foreign minister; Alfredo Ramirez, minister of the presidency; David Samudio, minister of finance and treasury; General Bolivar Vallarino, commandant of the National Guard; and Jorge Velasquez, director of the National Bank.

[REDACTED]

11. There is a distinct possibility that two coalition groupings of progovernment parties will enter candidates in the 1968 presidential election. This would serve only to enhance the chances for an opposition victory by Arnulfo Arias. At present, it is difficult to see how any one party or coalition could beat Arnulfo Arias, and, if a number of small parties were to cut into the non-Arias vote, his Panamenistas would probably win a free election.

12. Some observers think that if one coalition could be organized early enough in the campaign, Arnulfo could be defeated. There are several alignments that could emerge as the election approaches. One possibility is a right-wing oligarchical grouping with National Guard commandant Vallarino or Minister of the Presidency and PLN leader Ramirez as candidate. Since such a clique could be expected to use every means possible to defeat Arnulfo, this would enhance the likelihood that he would call his followers into the streets. A coalition headed by Velasquez or Samudio, with a strong reform platform, is another possibility. Although such a coalition would be unlikely to arouse enthusiasm among the elite, as an alternative to the risk of a Panamenista victory, it would probably gain their reluctant support.

13. One of the real imponderables in the prospective electoral contest is the status of the canal negotiations. If a treaty were successfully concluded by the Robles' government prior to the election, the candidate backed by the oligarchical

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parties would probably make a fairly good showing. On the other hand, the announcement of a canal settlement could precipitate a move by Arias to bring down the government.

14. Pre-electoral campaigning will begin in earnest in early 1967. If there is no evident progress on the treaty, negotiations will become enmeshed in the campaign and Arnulfo will be in a position to exploit the government's failure to satisfy this long-standing national aspiration. The reconvening of the National Assembly in October will provide the Panamenistas and other opposition elements with a forum for a major offensive against Robles' conduct of the canal negotiations. These potentialities, compounded by the government's failure to bring about fundamental reforms by evolutionary means and the increasing vulnerability of the oligarchic system, heighten the chances that Arnulfo's Panamenistas will move into the vacuum.

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IV. ARNULFO ARIAS AND THE PANAMENISTAS

1. Arnulfo Arias, leader of the country's largest political party, the Panamenistas (PP), continues to be the most immediate threat to the Robles government. Espousing an end to oligarchic rule and a socio-economic revolution, Arias has been a controversial figure in Panamanian politics since 1940. He assumed the presidency on two occasions, 1940-41 and 1949-51, only to be deposed each time before completing his term. His maladministration and arbitrary actions contributed to his overthrow in both cases. [REDACTED]

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[REDACTED] Arias practiced a fascist ideology and eliminated representative government in Panama. The pattern he followed was not unlike that of Peron in Argentina. Arias set aside the constitution, dissolved the National Assembly, suspended the Supreme Court, and suppressed all opposition to his regime. Both of his short stays in power were marked by considerable political turbulence, and there was little to indicate that he was responsive to the needs of the country.

2. At 65, Arias retains an almost mystical belief that he is foreordained to become president again--that he will be summoned by the "people" when the time is ripe. Narrowly defeated in the 1964 election, he has labeled the present regime as "illegitimate," charging that it fraudulently deprived him of office. Arias has missed no chance to condemn the government's inability to resolve Panama's basic problems. His Panamenistas have been joined in their attacks by a host of other dissidents--including Communists, ultra-nationalists, and Christian Democrats--whose short-term interests coincide. Panamenista propaganda outlets, particularly the virulent Radio Aeropuerto, have constantly criticized the government and tried to blunt the thrust of Robles' reform program. Panamenista deputies form the largest single bloc in the National Assembly, where they have made no attempt to initiate reforms, favoring instead a strategy of blocking legislation to extract concessions from the government.

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3. Popular trust in Arias is only enhanced by the oligarchy's fear and denunciation of him. For the urban lower classes, who represent Arias' main strength, the antagonism and outcry by the entrenched power structure are evidence of Arias' effectiveness. Arias' demagogic appeal has proved effective enough to sustain loyal support through his several political reversals. As each new administration fails to relieve widespread misery, there is growing popular responsiveness to his demands for structural upheaval and socio-economic change, and increasing belief that an improved, revolutionary future lies with him. Arias exploits a popular feeling that government failures are really an intentional plot inspired by the oligarchy to keep its power from being diluted by sharing it with the populace. Further evidence of his great popular appeal is the fact that his party has significant support in most sectors of society.

4. As a presidential candidate in the 1964 election, Arias won the three most urban provinces--Panama, Colon, and Chiriqui--containing 62 percent of the voters and 60 percent of the total population of the country. In addition, the Panamenistas were the strongest party in four of the remaining six provinces. Countrywide, they obtained 38 percent of all votes cast for president and 27 percent of all votes cast for deputies.

5. Most observers believe that Arias and the Panamenistas have the strength to transform the current long-standing unrest into an insurrection. Arias is shrewd enough, however, to hold back from using mob action as a political tactic. He would doubtless make an attempt against the government only if he felt assured of success. His restraint to date, in spite of growing popular disenchantment with Robles, probably indicates that Arias expects popular pressures to mount significantly in the future, and that he is awaiting the right psychological moment.

6. Arias sees recent student agitation as only the beginning of Robles' troubles.

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While Arias has generally been antipathetic toward the Communists, he has not hesitated to use them whenever possible to stir up trouble against the regime. Communist leaders who have sought to cooperate with Arias in the past have learned to distrust him. Under Arias' current strategy, his followers are not to participate openly in anti-government demonstrations but are to encourage others to do so, thereby saving Panamenista strength and impact for the announcement of a canal settlement.

7. Indeed, Arias regards the canal negotiations as Robles' most vulnerable point. Building his case by repeatedly charging betrayal by oligarchic interests, Arias is determined to block assembly approval for any treaty negotiated by the present government. He has said that time is on his side and that public disclosure of a new treaty will precipitate such a storm of opposition that "all hell will break loose." Arias reportedly finds it difficult to believe that the US is naive enough to assume that a new treaty can be concluded successfully with the Robles regime.

8. Despite his past utterances of anti-US and ultranationalistic sentiment, Arias has been careful in recent years to avoid direct criticism of the US, presumably feeling that at least US tolerance is necessary for his accession to power. Recognizing the large US political and economic role in Latin America, he has probably decided that some cooperation with the US is in his own interest.

9. Most observers conclude that Arias has his eye on the presidential succession in 1968. Unless a strong coalition against him is put together soon, it will be difficult for his political enemies to defeat him in a genuinely free election. President Robles controls the electoral tribunal and the government would be in a position to water down Panamenista returns to some extent. However, given the current state of disarray of the parties making up the governing coalition, this could prove

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to be an awkward undertaking. Moreover, it seems unlikely that the egocentric Arias would sit still for another narrow and controversial defeat at the polls, such as he suffered in 1964.

10. Although there is no general agreement among observers as to the policies Arias would follow if he did become president for a third time, his government would undoubtedly be authoritarian.

[redacted] the Panamenista leader still harbors a desire to put some of his earlier schemes into practice. For instance, the abrogation of the constitution would be followed by abolition of political parties and establishment of a one-party system. Arias, although an oligarch himself, is an avowed enemy of many elite families and would do all he could to reduce their power. He is supremely confident that he knows what Panamanians need and want most--the strong hand of a paternalistic leader.

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V. COMMUNISM AND THE STUDENT MOVEMENT

1. Panama's Communist movement is small and badly splintered. The illegal orthodox party, Party of the People (PdP), leans toward Moscow and has perhaps 500 members including 250 full-time party activists. There is also a pro-Peking movement with 60 to 100 members, most of them students. The conflict between the two groups centers on the question of Moscow-oriented or Chinese-oriented tactics, but within each there is also some internal disagreement on the matter. Neither has been able to win a significant following among the general populace or to organize a disciplined subversive movement, although nearly 150 members have received training in party leadership or guerrilla warfare in the USSR, Cuba, or Communist China.

2. The Communists are too weak to create unrest on their own, but are always ready and able to heat up exploitable issues. This was apparent in January 1964 when flag-raising demonstrations in the Canal Zone deteriorated into clashes with zone police and rioting at the border. Although Communist secondary-student leaders were involved in planning the initial demonstrations, there is no evidence that party leaders planned the violence that followed. Party leaders did, however, ably exploit the incident

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3. In their own subsequent review of the affair, PdP leaders claimed that the Communist movement in Panama had been advanced 50 years, in the sense that popular aspirations concerning the canal are now voiced in immediate rather than distant terms. The major objective of present Communist planning is to prevent settlement of the canal issue.

4. [redacted] party leaders are convinced serious repercussions will occur if Robles attempts to ratify a canal settlement. They hope that opposition to the treaty--especially if it includes a base-rights agreement--will touch off massive street demonstrations for them to exploit. To this end, their functionaries are stepping up activities among peasants, labor, and youth groups and in the tenement districts bordering the Canal Zone.

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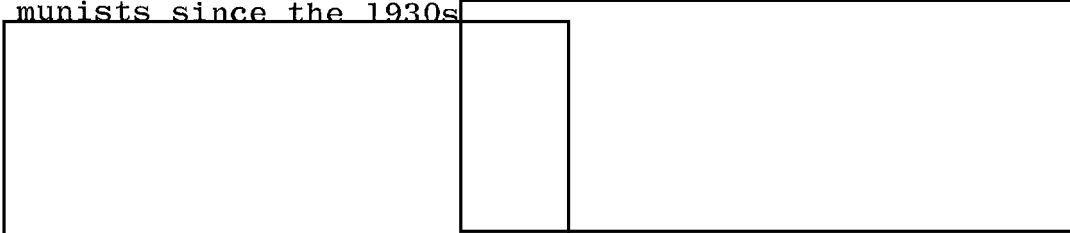
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5. Students will probably be in the forefront of any agitation against a canal settlement. The student movement has been a prime target of the Communists since the 1930s

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6. A number of factors account for the vulnerability of university and secondary-school students. For one, they are mainly from discontented social groups, since those who can afford it generally attend private institutions or schools abroad. Moreover, the increased number of Panamanians with higher education has not been matched by a corresponding increase in professional opportunities. This creates an element of frustration for those seeking to improve their lot by learning.

7. The inadequacy of the plant at the University of Panama has generated legitimate complaint and serious student unrest; some 7,500 students are enrolled on a campus designed to accommodate 3,000, and 2,500 more are taking extension courses. Another frequently voiced complaint is the academic deficiency of many professors.

8. Certain other aspects also favor Communist exploitation. The university's privileged legal position and the tradition of university autonomy have kept the government from direct intervention in its management and have hamstrung police investigations of student violence. The university serves as an arrest-free sanctuary for all students, and an untouchable haven for Communist agitators.

9. Possibly of even greater importance is the tradition that grants the students a large voice in the university's administration. This has made it possible for the Communists, by dominating student organizations, to gain significant influence in the management of the university itself.

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10. The Communists work through the Federation of Panamanian Students, the Union of University Students, and the Union of Secondary Students. The federation is the parent organization encompassing the other two, which have been Communist-controlled since 1962. The Communists have gained control of these organizations through their pursuit of leadership posts, unity of action, timely exploitation of political opportunities, and lack of effective competition.

11. At the University of Panama, through their alert opportunism, Communist-oriented forces have established themselves as spearheads of reform. Here the student union is dominated by the Moscow-oriented University Reform Front, which in 1962 as a newly organized group swept student elections throughout the university and recaptured the student union for the leftists after a two-year loss. The front's margin of victory in student elections has declined in the past two years, thanks to increasing determination on the part of non-Communist groups and to the splintering of the Communists into Moscow- and Peking-line elements. The rate of gain by democratic groups, however, may not be rapid enough to prevent Communist exploitation of an increasingly unstable situation at the university.

12. The division among Communists at the university mirrors that in national Communist ranks. A split in the leadership emerged in 1964 as the result of both personal and tactical differences between advocates of the "hard" and "soft" approach to achieving power. Advocates of the soft line remain in the larger and stronger University Reform Front. The hard line was advocated by a small but well-trained group of revolutionaries, but recently this group in turn split into pro-Chinese and pro-Cuban factions, and since early this year has carried little weight. Despite their differences, the Communist groups have often separately exploited the same issue--as in the June disorders--and will do the same in the future.

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[Redacted]

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In spite of Arias' personal

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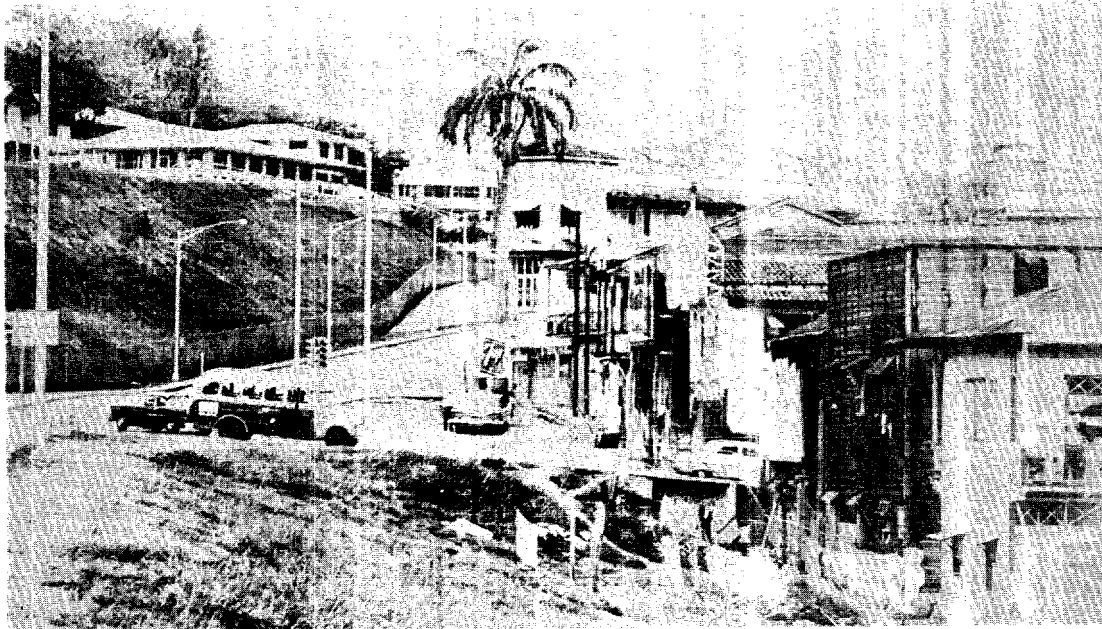
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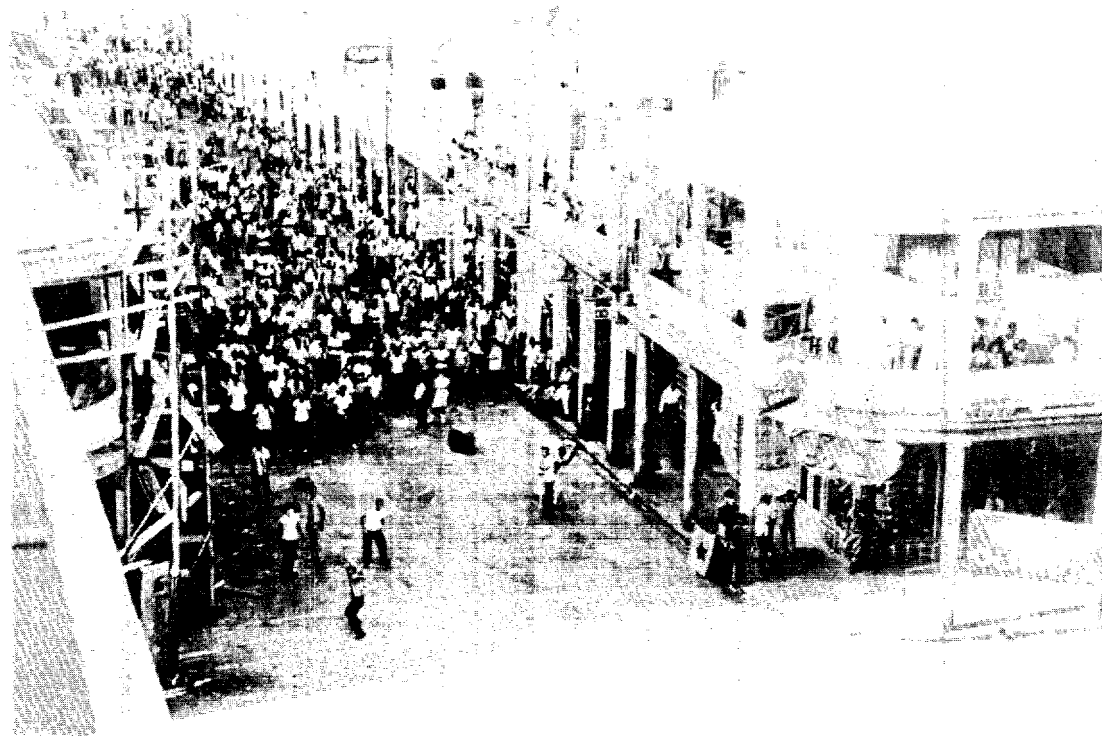
dislike for the Communists, his political pragmatism has on occasion led him to accept help from them, and he maintains indirect contacts with even the hard-line groups. Should Arias grant full backing to an issue espoused by the students, there is little doubt that the Robles government would be in trouble.

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Fourth of July Avenue separating US homes in Canal Zone from Panama City slums.



Mob in Colon during anti-US riots in January 1964.

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## VI. ECONOMIC FACTORS

### General Conditions

1. The Panamanian economy, as measured by gross national product (GNP), has been expanding at rates averaging seven percent a year since the beginning of the 1960s. In 1965, the GNP was estimated at \$617 million as compared with \$572 million in 1964 and \$545 million in 1963. This expanding economy, however, is based on agriculture and commerce and is thus subject to sudden fluctuations. Moreover, its benefits are enjoyed largely by small upper and middle classes. Although per capita GNP was \$497 in 1965--an increase of eight percent over 1964, and one of the highest in Latin America--the majority of the population probably have average incomes of less than \$100 per year.

2. Although agricultural production in the decade from 1950 to 1960 increased in absolute terms, it remained almost static in relation to population growth. This relative stagnation of agriculture as compared with other sectors of the economy is a matter of increasing concern for the government, which is pushing for self-sufficiency in food production. In 1965, food constituted about 13 percent of total imports. About half of the population depends on agriculture for a livelihood, but agriculture contributes only about 20 percent of the gross domestic product (GDP). In 1965, production improved substantially as a result of increased government credit and technical assistance, internal demands for foodstuffs, and high exports of bananas and other commodities. This increased production raised the growth rate average over the 1960-65 period to 5.8 percent and improved prospects that the farm sector would contribute an increasing percentage to the country's GNP.

3. The traditional balance-of-trade deficit is a major characteristic of the economy. Moreover, this trade gap has widened in recent years with the constant rise of imports. In 1965, the negative gap between exports and imports was about

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\$103 million, the increased deficit due largely to an 11-percent jump in imports and only a two-percent rise in exports. The trade deficit is to a considerable extent offset by sales of goods and services to the Canal Zone; nonetheless, the current account deficit in recent years has remained at about \$30 million.

4. The canal is an essential part of the present Panamanian economy. The proportion of the total GDP of \$595 million that depends directly or indirectly on the canal and on US military activities is estimated in 1964 at approximately \$223 million, or 39 percent. In addition, Panamanians working in the Canal Zone in recent years have numbered 20,000, about six percent of total employment in the country. Their relatively high wages make their income of much greater importance to the rest of the economy than is apparent from their numbers. Moreover, many other jobs in Panama are supported by income from activities that depend on the canal.

#### Economic Effects of Sea-Level Canal

5. If a sea-level canal were built in Panama, there would be large expenditures and substantial new employment during the construction period. One study by a private US foundation estimated that if conventional means were used to convert the present canal to a sea-level one, 46,000 Panamanians would be employed in the peak year. The construction would also generate about 70,000 additional jobs elsewhere in the economy. Construction by nuclear means on the Sasaki-Morti route (see map facing page 4) would create much less employment--about 9,000 jobs in construction and 22,000 elsewhere in the economy in the peak year.

6. The existence of large numbers of unemployed and underemployed suggests that ample manpower is available for construction of a sea-level canal and that other employment generated by construction would not create an over-all labor shortage. However, considerable training of workers would be required for these jobs.

7. When completed and in operation, a sea-level canal would require only a fraction of the labor

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force now employed at the existing canal. About 14,000 jobs directly associated with canal operations would be eliminated. If US military activities were cut back, additional jobs held by Panamanians would be eliminated. The prospect of this reduction in jobs, combined with the drop in employment that would follow the termination of construction, would call for long-term government planning to diversify the economy and help soften the economic dislocations that would inevitably result.

#### Unemployment and Housing

8. Rising unemployment and inadequate housing are the most serious socio-economic problems facing Panama today. Coupled with a high cost of living, they have led to growing unrest in the urban areas of Panama City and Colon. Nevertheless, President Robles, like his predecessors, has devoted little attention to these urban pressures. To remain at the head of his coalition of oligarchical parties, he must constantly perform a balancing act to allocate very scarce resources as graft and patronage.

9. During the first years of his term, Robles centered his reform measures largely on a rural development program--the Robles Plan--which is focused primarily on the central provinces. The President grew up in this area and was strongest there electorally. In a sense, therefore, these reforms can be visualized as pay-offs to those who supported him in 1964. The more that the urban poor of Panama City and Colon hear about the Robles Plan, the more antipathetic they become toward the regime and the more they are convinced that Robles is the tool of the elite. The poor have, to a large extent, lost faith in government institutions as a means of solving their social and economic problems.

10. The combined population of Panama City and Colon has increased since 1904 from 24,000 to nearly half a million and comprises more than one third of the total population of the country. About 90 percent of Panama's industrial and commercial enterprises are concentrated in the two

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cities. This factor, coupled with their proximity to the Canal Zone, attracts a constant stream of rural migrants seeking a better life in the city and an escape from the near-subsistence level of most agricultural workers. Most of these migrants are young people, and even those who fail to find jobs remain in the city.

11. Despite generally good business conditions in recent years, employment opportunities are not keeping pace with the annual population increase of three percent. With approximately 8,000 entering the work force yearly and an urban growth rate of five percent a year, unemployment in the Panama City - Colon area is estimated to be between 20 and 30 percent. In March 1965, the Robles government reported that there were 35,000 unemployed in Panama City and Colon alone, and the number is probably higher now. Underemployment is characteristic of both urban and rural areas. A government labor survey in 1964 showed 46,000 underemployed in the two major cities.

12. The rapidly expanding population and the high unemployment and underemployment rates are reflected in the housing situation. It is estimated that two thirds of all Panamanians are inadequately housed, and the poor of the urban centers live in some of the worst slums in the hemisphere. According to official figures, almost 40 percent of capital residents live in deficient housing. Over 34,000 Panama City residents are in makeshift shanties made of scrap lumber and tin. An additional 100,000 live in wooden tenements built in the early 1900s to house workers constructing the canal. The situation is as serious in Colon, with about 60,000 inhabitants crowded into a one-square-mile enclave in the Canal Zone. Over half of the dying port city is a slum and little has been done to halt its slow moral and physical deterioration.

13. Some of the most squalid tenement districts in Panama City border the Canal Zone, and the sharp contrast that slum-dwellers see between their living

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conditions and those prevailing in the zone is an important source of constant resentment.

14. The government's Housing and Urbanization Institute (IVU), organized to provide services in all phases of public housing, is plagued by graft and a lack of administrative organization and finances. The recent appointment of a new, young director provides hope for some improvement in the institute's performance. IVU has not been able to build urban housing at a rate that approximates the number of new families flowing into the cities each year. Although it estimates that 10,000 new units would be required annually until 1980 to meet the country's needs, since 1958 IVU has built only 5,000 units, including 1,489 in 1965, and plans but another 6,000 by 1969.

15. The June disorders have prompted the government to undertake, with US assistance, urban impact programs to alleviate some of the worst ills. These short- and long-term urban development programs are designed to create employment for slum-dwellers and relocate residents of high-density slum areas away from the centers of Panama City and Colon. Barring some radical change, however, Panamanian masses can expect little change in their housing and unemployment situation.

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