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DCI'S BRIEFING BOOK  
FOR NSPG MEETING ON PANAMA

~~31 July~~ 1987

*4 Aug.*

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## PANAMA NSPG TALKING POINTS

## I. The Background to the Crisis

- The current crisis was sparked by the forced resignation of Chief of Staff Diaz in early June. *why?*
- Defense Chief Noriega had been wanting to get rid of Daiz for over a year but had been unable to do so because of Diaz's political support from the Left.
- Diaz subsequently accused Noriega of electoral fraud and the murder of opposition figure Spadafora.
- These accusations sparked demonstrations by students and opposition groups.
- The government then imposed a state of emergency in response to escalating violence and the call for a general strike. In late June the government lifted the emergency and a pro-government demonstration at the US Embassy turned violent.
- Unrest continued through July and on 27 July the military raided the home of Diaz, arrested him, and shut down opposition newspapers. At the same time the opposition began a 2-day successful strike closing down business in the capital.

## II. The Opposition

- The force behind the opposition is the Civil Crusade--a loose network of a hundred business, professional, and civil groups. Its expressed goal is:
  - To force Noriega from power.
  - Get a commitment by the military to withdraw from politics.
  - Guarantee free and fair elections in 1989.
- The Civil Crusade was more successful than expected in its 2-day strike last week but it has some serious weaknesses.
  - It lacks a dynamic leadership and does not have a leader of national stature.
  - It may not be able to sustain its call for strikes.
  - It lacks a broad base of popular support.
- The two major opposition parties have been loosely aligned with the Crusade but they have a narrow base of support--limited to the middle and upper classes.
- Left wing university and high school students also have come into the streets but are operating independent of the opposition and the regime.

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## III. The Government

Noriega's support in the military and the ruling coalition seems to be holding.

- The military has support in local populace through political action and aggressive civic action programs.
- Opposition demands directly threaten the interests of the military leadership and institution.
- Noriega has placed supporters in key positions in the military and the junior officer corps is loyal to the military if not to him personally.
- Nevertheless, the crisis has undercut Noriega's position; officers are talking about alternatives.

## IV. Economic Situation

- Increased capital flight is putting Panamanian banks under severe strain.
- There are reports that several may be forced to close within the next few weeks.
- The pullout of the First National Bank of Chicago--the largest commercial bank in Panama (\$3.8 billion in assets) may accelerate capital flight.

V. Possible Outcomes 

- The government probably will be able to sustain its position by keeping the pressure on until the opposition falters. In this situation Noriega probably will remain until at least 1989, when he claims he will step down.

- if government measures to suppress the opposition are not effective, the regime probably will impose a state of emergency and arrest opposition leaders.

- If there is a further erosion in the military's popular support and a significant deterioration in the situation, the general staff could move against Noriega asking him to step down.

## VI. Successors

We are uncertain how the military would perform under a new leader. It may be willing to let civilians take a stronger role. But an insecure military pressed by an aggressive opposition may find the easiest course is repression.

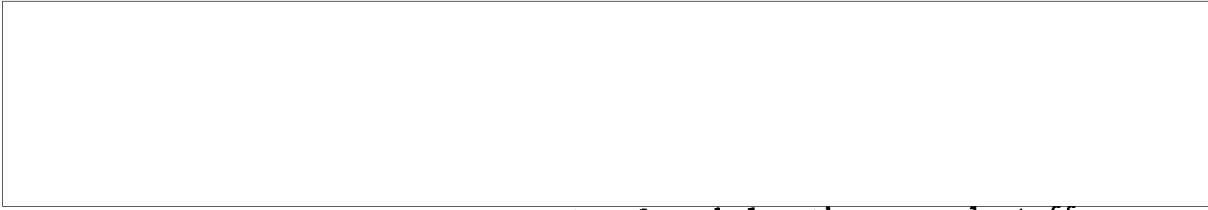
- If Noriega were forced from power, the military probably would name one of the two deputy chiefs to fill his shoes.

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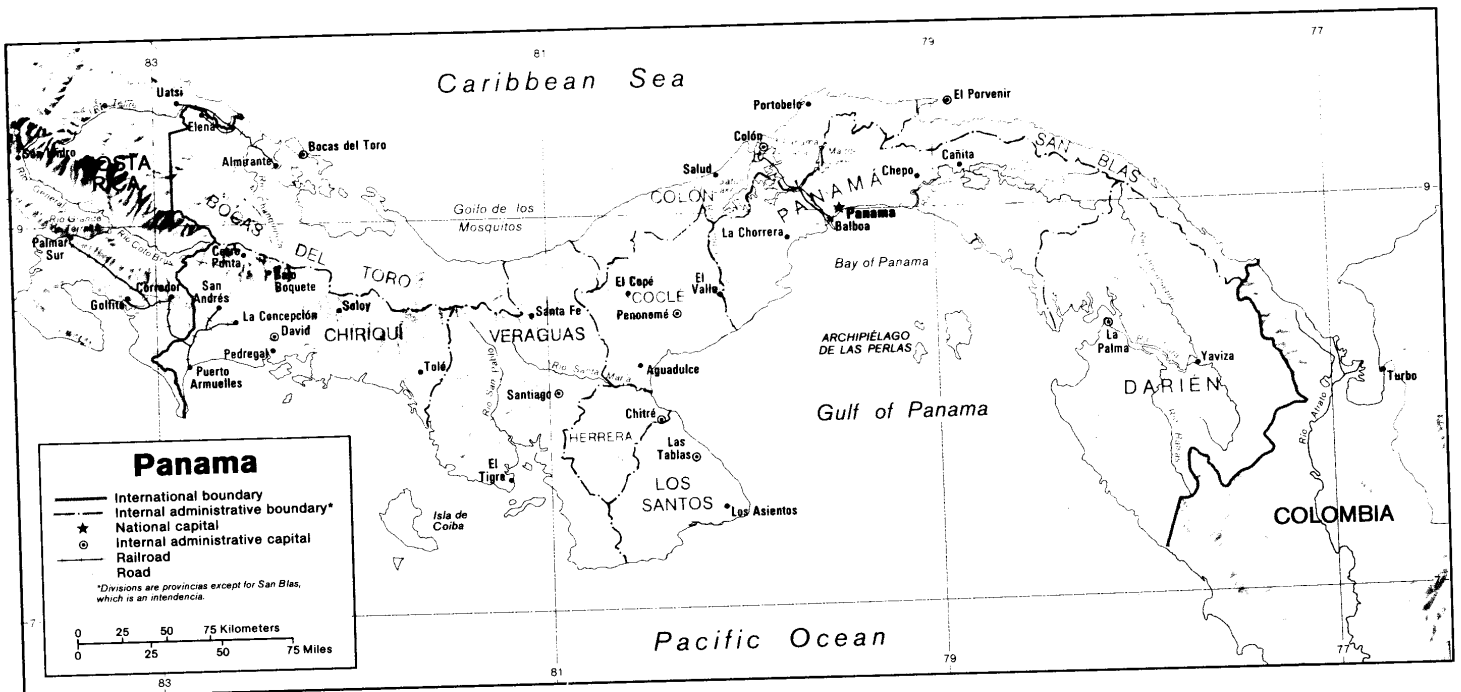
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- Prospects for a successor coming from below the general staff are remote.

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Commercial Importance of the Panama Canal

Although the Panama Canal carries only about 5 percent of the world's seaborne commercial traffic, a recent study of price sensitivities shows that prolonged disruptions to Canal operations would cause serious economic dislocations and supply bottlenecks in some countries. The effect would be the most severe in Pacific Coast countries of South and Central America that lack Atlantic ports. In particular, steep alternative transportation costs would reduce export sales and raise import bills in El Salvador, Nicaragua, Ecuador, Peru, and Chile.

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US allies and trade competitors would be hurt if traffic in the Canal were halted for any length of time.

- Japan and other Asian countries would face higher costs for shipping cars and other goods to the eastern United States.
- Canadian sales of grain, coal, and lumber to Europe and the USSR likely would fall as transit costs favored other suppliers. Approximately 10 percent of Ottawa's grain sales to Moscow could shift to US suppliers.
- The United States, although the largest individual user of the Canal, generally could shift to transcontinental rail shipments with little if any increase in costs.

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While the Soviets would welcome the economic dislocations to US allies, Moscow's allies and interests in the hemisphere also would be adversely affected. All Nicaraguan oil deliveries-- which currently come almost totally from the USSR via the Canal-- would be affected. In addition, most of Nicaragua's Soviet-supplied military equipment--except for major weapons systems--transit the Canal. Cuban sugar sales to Asia rely on the Canal and probably would be replaced by Philippine and Australian supplies if it were closed. Finally, the USSR itself would no longer be able to use Cuba as a convenient base of operations for the Soviet fishing fleet in operation off the west coast of South America.

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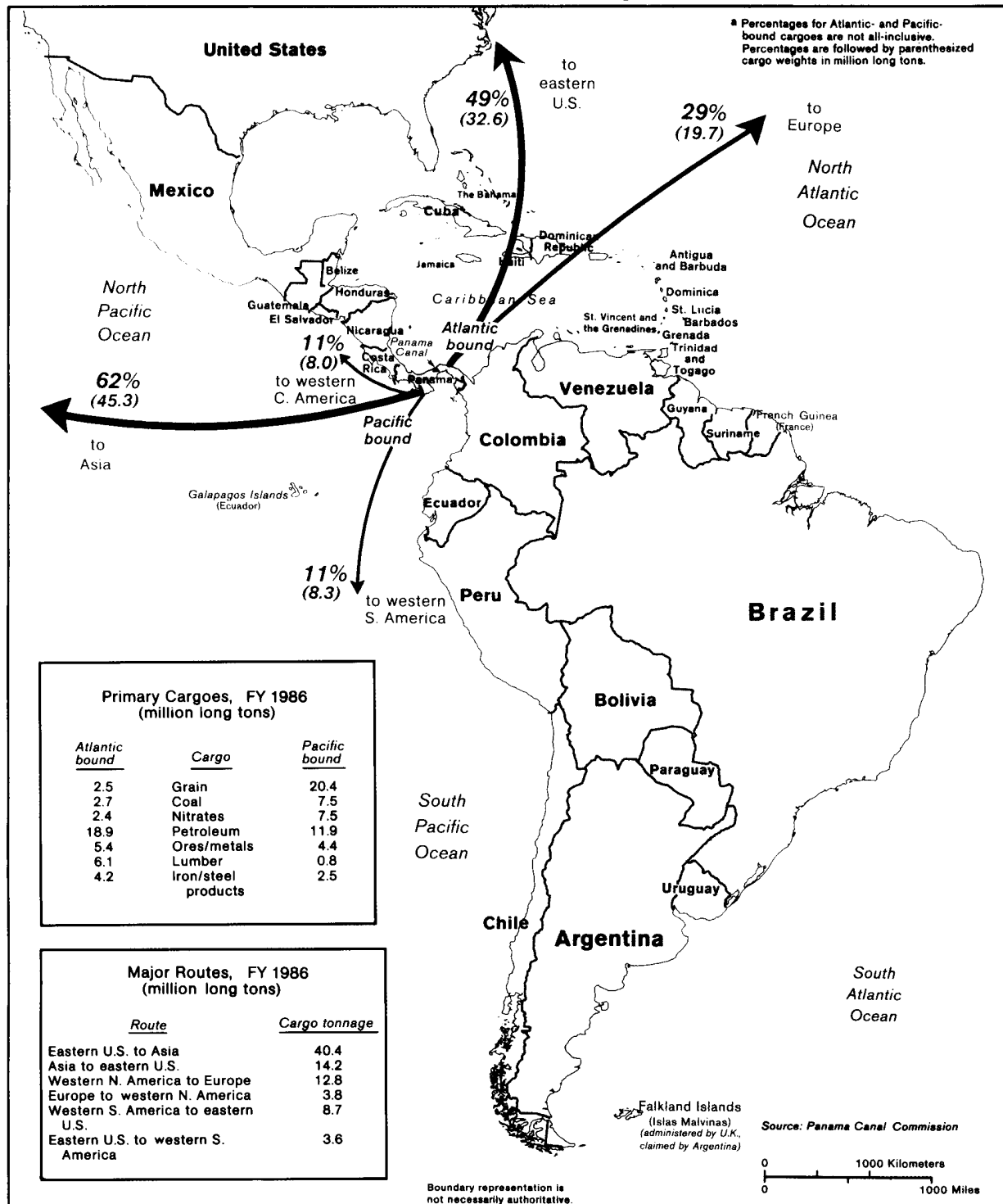
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Executive Registry

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### Panama Canal: Atlantic- and Pacific-Bound Cargoes, 1986\*



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[REDACTED]

### Pressure Points on Panama and How Noriega Would React

Noriega's regime may be most vulnerable to domestic economic difficulties, particularly declining confidence in Panama's important international banking center. Despite the importance of 30,000 Americans to the Panamanian economy, direct bilateral aid, and Washington's influence with international lending institutions, US economic leverage against Panama probably is limited. Noriega probably would view any US pressure as a direct challenge and would be tempted to retaliate against US interests. His strongest action would be to restrict US military and intelligence activities in Panama. [REDACTED]

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### Threat to Economic Stability

Businessmen are the cornerstone of the Civil Crusade, and plunging business confidence has been a serious blow to the regime. It also is undermining investment and dimming prospects for growth. Businessmen have become increasingly critical of rampant corruption and the regime's inefficient management of the economy, according to US Embassy reporting. [REDACTED]

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Panama's international banking center, which ranks among the top 20 in the world with more than 130 licensed banks and close to \$40 billion in total assets, is being especially hard hit by the current crisis. While unrelated to the current unrest, the decision by the First National Bank of Chicago--the largest commercial bank with \$3.8 billion in assets in Panama--to pull out of Panama will accelerate capital flight, particularly among Panamanian banks. Increasing capital flight already is putting Panamanian-owned banks under severe financial strain, according to the Embassy, and several may be forced to close in the next few weeks. Moreover, the failure of major local banks could leave the regime unable to meet its payroll. [REDACTED]

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The pullout of additional US banks would be a major psychological blow to the regime and complicate its financial difficulties, but would not cripple the economy. Major European and Japanese banks in Panama are concerned about the impact of US withdrawals and some probably are reconsidering their own position in light of First Chicago's action. Nevertheless, international banking represents only one component of Panama's service economy, and the banking sector has been contracting slowly since 1980. Further cutbacks would directly affect the economy primarily by increasing unemployment; the sector provides 9,000 local jobs and accounts for 7 percent of GDP. While the regime, in our judgment, could withstand a major drawdown in banking operations, such an action would give the opposition movement additional ammunition to undermine confidence in the regime and probably reduce Panama's chances for attracting new foreign loans and investment. [REDACTED]

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### Areas of US Leverage

US leverage over Panama has decreased over the past decade largely because the Panama Canal treaties removed the largest bargaining chip held by Washington. Official Panamanian concern that the United States might renege on the treaties before they are fully implemented may give the United States some residual leverage. Nevertheless, any US move affecting treaty implementation most likely would spark a nationalistic reaction that would force the opposition to side with the government and lead to protests throughout Latin America. [REDACTED]

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Panama derives economic benefits from the presence of over 30,000 Americans--including 10,000 military personnel--totaling as much as \$500 million per year. The regime probably calculates the United States would not significantly reduce its personnel in Panama because of the importance of US interests there. If relations deteriorated seriously, Noriega probably would be willing to absorb the costs of a phased US drawdown. Moreover, the regime probably anticipates this as the eventual outcome of implementing the Canal Treaties. [REDACTED]

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Direct economic and military assistance to Panama provides the United States with little leverage because it amounts to less than \$40 million per year. Moreover, Panama has alternative sources. Panama's use of the US dollar and access to international financing diminish the importance of US economic aid. Although Noriega recognizes the valuable role the United States can play in modernizing the Panamanian Defense Forces, the military has purchased equipment from other countries--Taiwan, France, Israel, and Brazil--and probably would expand these links if US assistance were cut off. [REDACTED]

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International lending institutions such as the World Bank and the IMF pumped some \$100 million into the Panamanian economy last year. Although Washington would have some influence over future disbursements, they already are reluctant to provide more money until Panama implements fiscal reforms. In the absence of new capital inflows, the government probably will be forced to cut its spending, and the economy could fall into recession, which would increase political pressure on the regime. Budget decisions would become increasingly difficult as the regime was forced to balance the need to conserve funds with the desire to increase spending on programs to benefit its traditional lower-income supporters. [REDACTED]

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### How Noriega Would React to US Pressure

We believe Noriega will do whatever is necessary to stay in power. Noriega is highly opportunistic and tends to look at issues in terms of what is in it for him first and Panama second. Moreover, we believe he will reverse a commitment if he later concludes it is in his interest to do so. While Noriega likes to be flattered, he is confident of his ability to read his

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[Redacted]

opposition and prides himself on being able to manipulate others without himself being manipulated. Noriega can be impulsive-- especially when drinking and/or angered--and may act provocatively or violently at such times.

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We believe Noriega will respond best to direct, honest, private communications that suggest his taking a particular course of action that is in his personal interest. Nevertheless, we believe there is only a slight probability that bringing pressure on Noriega will have any success given his psychological need for power and his past resistance to perceived external interference in his and Panama's business. A public challenge or confrontation, in our view, will be seen by him as attempted manipulation and would play to the more impulsive and unpredictable side of his personality. While a public confrontation might galvanize public opposition to Noriega, we do not believe it would effect a positive change in his behavior.

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[Redacted]

Noriega's Options

Noriega has a range of options for retaliating if he believes Washington is trying to force him out. At a minimum, the regime probably would expel some US diplomats--including the Ambassador and DCM--and might move to break relations, as Panama did following the Canal riots in 1964. Panama already has gained backing in the OAS against US intervention and would seek a stronger diplomatic rebuke of the US.

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[Redacted]

In an escalating crisis in relations with the United States, Noriega would be tempted to act directly against US interests in Panama.

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[Redacted]

He

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also might move to improve relations with the USSR or enhance Panamanian ties with other Communist countries. Such actions could include granting landing rights to Aeroflot, allowing Moscow to base its fishing fleet in Panama, or taking a pro-Sandinista stance in regional peace talks.

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[REDACTED]

### Noriega's Opponents and Supporters

The opposition--composed of political parties, business groups, and to some extent the Catholic Church--has gained strength in the recent crisis, but lacks dynamic leadership, a unified strategy, and a broad base of popular support. Nonetheless, it has focused criticism on Noriega which could lead to a more open political system. [REDACTED]

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Noriega's support in the military and the ruling coalition is firm for now because opposition demands directly threaten their interests--including sharing the spoils of power. Sustained protests with escalating violence, an economic downturn, and significant international pressure could cause the General Staff to force Noriega's removal. [REDACTED]

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#### The Opposition

The two main opposition political parties, the Authentic Panamanists and the Christian Democrats, have coordinated their strategies and even worked out an agreement to share power in a new government. The parties insist that both Noriega and President Delvalle step down to pave the way for an opposition-dominated junta and new elections, and they have refused the regime's offer of dialogue. Their calls for democracy and an end to corruption have broad appeal, but a key weakness is that they have narrow support bases limited to the middle and upper classes and the white minority. [REDACTED]

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The Civil Crusade--a loose network of over 100 business, professional, civic, and a few labor groups--has played a stronger role than the parties by calling for civil disobedience and organizing three business strikes. The success of last week's strike that shut down 90 percent of Panama City's stores, transportation, and factories for two days has emboldened Civil Crusade leaders to believe they can force Noriega to resign. The Crusade's position has hardened; they now say President Delvalle also must go. Crusade leaders, however, remain uncertain about their next steps to achieve this goal, particularly since the regime has restricted their access to the media. The Crusade may soon formally align with the opposition parties as a means of broadening its base of support. The coalition, however, is fragmented, subject to the regime's economic harassment, and unable to attract many labor unions, which are firmly in the government's camp. [REDACTED]

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The opposition lacks leaders of national stature capable of uniting and appealing to current supporters of the government. The charismatic 86-year-old head of the Authentic Panamanistas, Arnulfo Arias, was defrauded in the 1984 election and has caused divisions in his party because of his failure to assert any leadership role in the protests. Ricardo Arias Calderon, who leads the Christian Democrats, has emerged as the most visible opposition politician since the crisis began. His party is

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ideologically cohesive, but it is small and presently unable to appeal to either Arnulfo's supporters or rural peasants. Aurelio Barria, a leader of the Civil Crusade, is president of the Chamber of Commerce and a well-known civic leader, but has no popular following. [Redacted]

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Leftwing university and high school students have clashed violently with police, but they are operating independently of both the opposition and the regime. The students' main concern prior to recent events was opposition to the government's proposed education reforms. [Redacted]

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The Church, under Archbishop Marcos McGrath, contributed significantly to the opposition's efforts by criticizing corruption and human rights abuses and by calling for Noriega's departure following the imposition of the state of emergency. Despite its sympathy for the opposition, however, the Church--generally conservative and lacking a strong populist element--is unlikely to assume a leadership role. The Church's more moderate rhetoric recently indicates it hopes to act as mediator between the government and opposition. [Redacted]

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Escalating opposition protests and government miscalculation could compel the General Staff to force Noriega's resignation, a circumstance which might give the opposition more political space to operate with greater unity in undertaking a dialogue with the government. Despite the opposition's limitations, it appears capable of sustaining the current protests in the hope that internal and international developments eventually will tip the balance in their favor. [Redacted]

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Noriega's Military Support

Noriega has retained support of the military because his allies occupy key positions, the officer corps is loyal to its commander, and the institution itself has been under attack. By forcing Chief of Staff Diaz to retire, Noriega eliminated his principal rival and has been able to consolidate his control of the military. Noriega's support extends below the General Staff to middle-level officers. [Redacted] some of his most ardent followers are majors who have vied to display their personal loyalty. [Redacted] that junior officers--captains and below--are less personally committed to Noriega but are loyal to him because of his position as Defense Forces Commander. [Redacted]

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There is concern within the officer corps about damage to the military's image resulting from the crisis, but we have no evidence to suggest that any segment of the military is ready to oppose Noriega. [Redacted] the General Staff has considered asking Noriega to step down if violence escalates and more deaths occur. In addition, we believe there would have to be a serious erosion in the military's popular support and significant international pressure

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brought to bear before the General Staff would move against Noriega. Lt. Col. Herrera Hassan, the Panamanian Ambassador to Israel and an officer who reportedly would like to see the military withdraw from politics, would be among the most likely officers to lead a move against Noriega. Like most officers, however, he would feel constrained by the strong institutional bias against an internal putsch; while displeased with being placed in charge of putting down the opposition protest in mid-July, he dutifully carried out his orders.

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### The Ruling Coalition

Despite some wavering of support for Noriega within the ruling coalition, no party is likely to desert him unless the situation deteriorates sharply or he loses his military backing. Although all elements of the coalition probably would like to see the military gradually withdraw from the political arena, most are willing to remain allied with the Defense Forces. They accept its dominance and want to share in the spoils of ruling. In the unlikely development that the ruling coalition began to disintegrate, the Liberal and Republican parties would have the least to lose, and would be the first to go.

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The leftist Tendencia faction of the ruling coalition is using the current crisis to ingratiate itself further with Noriega but could abandon him if its leaders felt he had lost control of the situation and the military's support. Tendencia initially wavered in its support due to party infighting during the present crisis but apparently has salvaged its influence with Noriega by mounting protests against the US Embassy and opposition businesses, reportedly with the military's blessing. Tendencia hopes to capitalize on the unrest as the regime relies more heavily on its allegiance. The faction also recognizes that a gross deterioration of the situation might present opportunities to seize power directly.

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President Delvalle appears unwilling to reduce his support for Noriega unless the Defense Chief's military support erodes. Delvalle undoubtedly hopes that the crisis will eventually remove Noriega from the scene but allow him to remain as President. Noriega, for his part, is committed for the time being to keeping a compliant Delvalle in office and recently has allowed him greater policy latitude. senior officers of the General Staff have expressed concern that Delvalle is enhancing his own image at the expense of the military. Nonetheless, they recognize that they need the President's support, at least until October, after which they can replace him without having to call early elections. Vice President Esquivel, leader of the Liberal Party, has already criticized his own government's handling of the crisis and is the most likely senior politician to withdraw from the ruling coalition.

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The Military's Role in Panama

The Panamanian military is unlike any other Latin American military because it has carefully cultivated broad grassroots support. It also created the present political system and has coopted interest groups across the entire political spectrum. The military's dominant hand in government has reinforced popular perceptions that it is the only institution capable of running Panama. [Redacted]

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Role in Society

The Panamanian Defense Forces draw on the populist legacy of the late General Omar Torrijos, who emerged as the strongman soon after the military forced newly elected Arnulfo Arias to step down from the presidency in late 1968. Torrijos successfully united key sectors of society behind military rule, largely by increasing public services for the poor and enhancing the regime's role in the economy. Military-run civic action programs, such as road-building and public service projects, have brought tangible benefits to the rural populace while enhancing the military's power base. The funneling of limited government resources for rural development through the military and the public's traditional view of civilian government as ineffectual have reinforced popular support for military rule. [Redacted]

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In addition, the Panamanian military is less repressive than those of other Latin American countries and has studiously cultivated a positive public image. It has avoided an elitist image because the officer corps reflects Panama's ethnic and socio-economic makeup. Until recently, military personnel could move unarmed and uniformed virtually anywhere in the country without danger. The military has hired public relations firms to improve Noriega's public stature, according to US Embassy reporting. [Redacted]

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Role in Politics

Exploiting the weakness of political institutions, the military has dominated and manipulated a political system that Torrijos created in 1977-78 in order to assure ratification by the US Senate of the Panama Canal Treaties and to relieve domestic pressure for change. Panama's dominant political party --the Democratic Revolutionary Party--harnesses diverse groups that the military has coopted. It heads a ruling coalition that does not challenge the military's political initiatives and usually seeks the Defense Forces' support before undertaking any of its own programs. The military has not hesitated to ensure an outcome favorable to its interests, such as in 1984 when it altered votes to prevent the victory of regime opponent Arnulfo Arias. In addition, three civilian presidents have been removed by the military in the last five years. Current President Delvalle is openly deferential to Defense Chief Noriega.

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The predominant power of the military in the political scene for nearly two decades has indebted many to the current system and has perpetuated weak civilian institutions. The military retains links to key members of the executive, legislative, and judicial branches and directly controls certain nonmilitary agencies as well as most of the domestic media. Moreover, the military virtually controls the government budget and has its own moneymaking ventures.

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#### Potential for Weakening Popular Support

The military's grassroots support shows signs of erosion that could worsen if the current crisis does not end soon. A sharp downturn in the economy that increased unemployment, growing middle-class disaffection, and strong opposition from organized labor could lead to greater urban unrest. More evidence of widespread corruption coupled with a failure or inability to continue providing adequate public services could also trigger dissent, especially in key rural areas.

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Nonetheless, the military's traditional role as the dominant political institution in Panama gives it a solid foundation from which to arrest any further erosion of its popular support. Antiregime protests in rural areas have generally been more muted, and the military has paid increased attention to maintaining its urban support base. For example, the regime has taken steps to address local grievances in the city of Colon, one area of antiregime violence.

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Possible Outcomes if Noriega Departs

We see the potential for five possible outcomes if Panamanian strongman General Noriega is forced from power because of the current political unrest. We believe there is a better than even chance that a new military strongman or a military-condoned civilian government would emerge after Noriega's fall. It is less likely that a military dictatorship without civilian participation in the government will be installed or that a civilian-military transitional junta will emerge. The least likely outcome, in our opinion, is an outright opposition victory. [REDACTED]

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A New Military Strongman

If the General Staff united to force Noriega from power, it would name one of his deputies as the new Defense Forces Commander. The military, which has become increasingly conservative since Torrijos's death in 1981, probably would feel compelled to follow the recognized chain of command in replacing Noriega. Technically, Chief of Staff Colonel Marcos Justines is next in line, but he is several years past the traditional retirement age and reportedly has stated he would retire if Noriega goes. Of the two Deputy Chiefs of Staff, Colonel Alberto Purcell, who is extremely corrupt and a longtime Noriega ally, is more senior than Colonel Elias Castillo, who is regarded a more apolitical. Castillo's reputation has been rising, however, and he commands the military's ground forces. Castillo would be more likely to be named military chief if Justine retires because Purcell is considered too closely tied to Noriega. [REDACTED]

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Prospects for a successor to Noriega emerging from below the General Staff are remote. In fact, some of Noriega's most ardent followers are among the majors and captains. They also are more receptive to leftist influence and more anti-US. [REDACTED]

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Any new military strongman would be less powerful than Noriega. With the regime on the defensive, the new military commander would be less confident of his position than Noriega and probably more willing to rely on repressive measures to dampen the opposition. Indeed, several members of the General Staff, including Castillo, reportedly have wanted to deal more forcefully with opposition demonstrators than Noriega. [REDACTED]

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The opposition, having successfully forced the departure of one military strongman and seeing no change in the existing power structure, is unlikely to accept another without further protests. Leftist political groups, free of Noriega's strong grip, would be emboldened to press the regime for increased social programs. In such a continuing unstable political climate, economic strains on the regime probably would increase.

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Such a scenario, however, could pose problems for the opposition as well as the regime since social tensions are likely to be exacerbated between the relatively well-to-do conservative opposition and the lower-income and working classes that are the backbone of the regime's support. 

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The Defense Forces without Noriega probably would leave relations with the United States essentially unchanged, although continued pressure for the military's withdrawal from politics could prompt it to push for a more anti-US program. Colonel Purcell would be more likely to pursue such a policy, while Colonel Castillo would at least try to maintain working relations with the US military. 

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### Military-Condoned Civilian Rule

In the likely event Noriega's removal does not calm the crisis, the military probably would try to defuse the opposition by allowing its allies in the ruling coalition to exercise their constitutional authority more fully. The military, however, probably would insist on keeping involved in civic action programs in order to maintain its base of support in rural areas. Although the Defense Forces would play a less significant role in the selection of civilian officials and public policymaking, government authorities and ruling coalition party leaders undoubtedly would ensure their decisions had the General Staff's blessing. The Defense Forces probably would not tolerate the eventual election of anyone viewed as inimical to its interests. 

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With Noriega gone the military's public profile visibly reduced, short-term stability would be possible under this scenario. The ruling coalition would be pleased with its increased latitude in decisionmaking, and the military would concentrate on developing its capability to assume primary responsibility for defending the Canal in the year 2000. Although the opposition has been demanding the removal of President Delvalle and the installation of an opposition-based government, military-condoned civilian rule probably would arrest the opposition's momentum and cause some supporters to retreat to the sidelines until the extent of the changes became clearer. Unless Delvalle could demonstrate independence from the military and genuinely free elections seemed likely in 1989, the opposition probably would start agitating for the military to withdraw completely to the barracks. 

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### Military Assumes Direct Control

The military might decide to seize direct control of the government if increasing numbers of its civilian allies joined forces with the opposition and the ruling coalition sought to end the crisis by replacing several senior military officials. A military coup probably would lead to increasingly repressive measures to maintain control--including martial law, the arrest


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or exile of opposition leaders, and possibly indiscriminate use of force to put down demonstrations. It would also place the 1989 elections in doubt. 

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A direct military takeover would entail serious political costs for the regime. Many of the military's civilian allies, probably including President Delvalle, would desert the regime and join forces with the opposition. Such a weakening of the military's political backing would make its leftist allies in the dominant Democratic Revolutionary Party an increasingly important source of support. The military, in recognition of their support, probably would implement public policies amenable to the left. More repressive regime measures probably would cow the opposition and prevent major antigovernment demonstrations but might not preclude some civil disobedience. 

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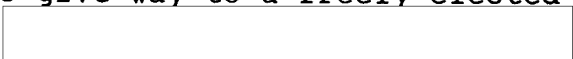
Resorting to martial law probably would have substantial costs internationally. The unstable political situation would further erode business confidence and make it more difficult for Panama to secure more foreign aid and investment. Western nations might introduce sanctions or curtail trade and investment in Panama. Under pressure at home and abroad, a reversion to the populist, anti-US program of the Torrijos era would become increasingly attractive, and probably presage closer ties to Cuba, Nicaragua, and possibly the Soviet Union. 

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#### A Civilian-Military Transitional Junta

If the crisis continues to escalate, the military might try to appease the opposition by dismissing the present government and establishing a transitional junta including representatives of the government, military, and opposition. The General Staff would hope that placing an apolitical military officer like Castillo or Lieutenant Colonel Herrera Hassan on such a junta would enable the military to influence the transition until internationally supervised elections were held. 

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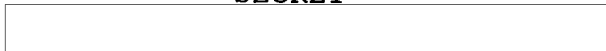
At least initially, the opposition probably would be satisfied with Noriega's departure, its role in the transition process, and the promise of an unfettered electoral process. Stability could be threatened over time, however, over questions of distribution of power or electoral procedures. In addition, unrest would resurface if the junta came to be viewed or declared itself unlikely to give way to a freely-elected government of any political stripe. 

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#### Opposition Comes to Power

We believe the opposition movement would come to power only if the current regime was totally repudiated publicly, economic ruin was imminent, and the military successor or successors to Noriega decided to give up the dominant role the military has played in Panamanian politics for the past 40 years. The opposition would have to unite behind a single and dynamic leader

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[REDACTED]

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and become more broadly representative of the population to have a chance at winning free and fair elections. Under no circumstances would the current regime--even though weakened by Noriega's departure--be willing to concede that electoral fraud took place in 1984 and turn over power to arch-foe Arnulfo Arias.

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Stability would be difficult to achieve under this scenario without the total cooperation of the military. The political left, unbridled by the military's weakened position, probably would coalesce, receive increased support from Cuba and Nicaragua, and pose a serious challenge to any conservative-based pro-Western government. Even with the current regime in ruin, the opposition probably would have to acknowledge that the Defense Forces have an integral role to play in Panamanian society, especially in national defense and probably police functions.

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Panama Chronology, 1976-1987

| <u>Date</u> | <u>Event</u>   |
|-------------|--|
| 7 Sep 77    | Panama Canal treaties signed in Washington by Carter and Torrijos.   |
| Oct 77      | Panama approves the Canal treaties by plebiscite.  |
| 30 Jul 81   | Torrijos killed in a plane crash.  |
| Aug 83      | Chief of Staff Noriega becomes head of the military as National Guard Commander.   |
| 6 May 84    | Panama holds first presidential election in 16 years; Nicolas Barletta is elected President.   |
| Nov 84      | Noriega reportedly orchestrates Barletta's establishment of a National Security and Defense Council; body gives the military a more formal role in the civilian government.  |
| Sep 85      | Regime opponent and Noriega critic Hugo Spadafora, apparently detained by military personnel, is discovered murdered across the border in Costa Rica. Spadafora reportedly intended to go public with evidence of Noriega's involvement in narcotics trafficking and money-laundering activities in Peru, Colombia, and Bolivia. |
| 27 Sep 85   | Noriega pressures Barletta to resign in favor of First Vice President Delvalle after Barletta indicate he would not protect the military from an independent investigation into the murder of Spadafora.   |
| Jan 86      | Noriega reinforces his control over the military through reassignments to the General Staff and other key commands.  |
| 28 Feb 86   | The military organizes a large rally to denounce opposition and alleged US interference following US Ambassador-designate Davis' testimony before Congress.  |
| 10 Mar 86   | 10-day general strike begins despite threat of retaliation against labor leaders by Noriega.   |

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- 12 Aug 86 Huge progovernment rally of more than 100,000 people celebrate the third anniversary of Noriega's rise to power.
- 1 June 87 Chief of Staff Diaz Herrera forced to resign, reportedly suffering from depression. Noriega had wanted to retire Diaz for more than a year but was unable to do so because of Diaz's substantial political support from the left.
- 8-10 June 87 Diaz accuses Noriega of electoral fraud and the Spadafora murder, sparking demonstrations by students and opposition groups. Military closes ranks behind Noriega by pledging loyalty to the Defense Forces and their Commander.
- 11 June 87 Government imposes state of emergency, suspending basic constitutional guarantees, in response to escalating violence and a call for a general strike.
- 24 June 87 Nicaraguan President Ortega visits Panama to discuss Central American peace negotiations following invitation from President Delvalle. Probably an effort by Panama to distract attention from the deteriorating domestic political situation.
- 30 June 87 Government lifts state of emergency. Progovernment demonstration in front of US Embassy turns violent.
- 8 Jul 87 After three days of peaceful but growing opposition demonstrations, President Delvalle announces a ban on protests scheduled for 9 and 10 July.
- 26 Jul 87 First confirmed death in the crisis when military shoots an anti-Noriega demonstrator in rural Panama.
- 27 Jul 87 Defense Forces raid home of Diaz Herrera and shut down opposition newspapers, while the opposition begins a two day general strike.

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## MEMORANDUM TO HOLDERS

**SNIE 84-86**

**PANAMA:  
POLITICAL PROSPECTS (s)**

Information available as of 8 July 1987 was used in the preparation of this Memorandum to Holders, which was approved by the National Foreign Intelligence Board on 9 July 1987.

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## KEY JUDGMENTS

We believe that, despite the continuing popular unrest and political instability in Panama, Gen. Manuel Noriega and the current regime are likely to remain in power at least through the 1989 election:

- The military appears to remain solidly behind Noriega, and the regime is determined to ride out the current crisis regardless of the impact further unrest might have on relations with the United States.
- The ruling Democratic Revolutionary Party (PRD) coalition also remains firmly behind Noriega and the military, primarily because of its desire to continue sharing in the spoils of power.
- While the opposition has been able to sustain protest activity, it currently remains too weak and fragmented to pose a serious threat to the regime, and it is vulnerable to further intimidation and repression. Additional government miscalculations or revelations by Col. Diaz Herrera, however, may reenergize opposition to the regime.

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Nonetheless, while the regime is unlikely to bow to international pressure for an early election, prospects for Noriega's potential presidential candidacy in 1989 appear to be increasingly doubtful:

- The military and the ruling coalition are now more likely than ever to attempt to put forward a respected civilian candidate in 1989. They may calculate that they can still win an honest election, although they would be prepared to resort to fraud, if necessary.
- Furthermore, General Noriega probably will make some gestures to reduce opposition and popular grievances with the government over issues such as widespread corruption and military control of the political system.
- Should sustained and violent opposition activities continue, however, the possibility that President Delvalle will resign voluntarily or be forced out as a scapegoat would increase.

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We believe there is a less-than-even chance that a serious escalation of violence or a continuing confrontation with the United States might cause the General Staff to remove Noriega:

- If Noriega resigns or is forced out by the General Staff, his successor probably would be less powerful and might allow

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more political space for civilians, but not to the point of weakening the military's institutional interests by significantly reducing its role in politics.

- There is a small chance that Noriega's enforced departure may have destabilizing consequences for Panama by setting off a political free-for-all within the ruling system. The opposition would also seek to take advantage of his departure to press for a complete removal of the military from politics.
- Nevertheless, the prospects for a significant increase in radical leftist influence in Panama are remote, except to the extent the regime allows the left a greater voice to challenge US interests. It has almost no chance of assuming power—even with substantial help from Cuba and Nicaragua. [redacted]

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On balance, there currently appears to be little chance that the military's political role will diminish sharply enough to permit a full transition to civilian democratic rule as a result of the 1989 election:

- There is a greater chance that, if the crisis worsens significantly, Noriega and the military will oust President Delvalle and Vice President Esquivel and install another figurehead. They could accomplish this constitutionally after September 1987. A direct military takeover is unlikely, but it would put the 1989 election in doubt.
- At present, the chances of an electoral victory by the moderate opposition in 1989 are poor. The opposition would have to coalesce around a charismatic leader by then in order to effectively challenge the ruling party coalition. Nevertheless, although its longtime leader Arnulfo Arias appears to have lost considerable stature during the recent unrest, a new leader may arise to fill the void. Furthermore, the opposition would benefit from increased regime repression and a sharp economic downturn. [redacted]

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The traditional political opposition to Noriega and the ruling PRD has attracted the support of a large segment of the business community as well as many middle- and upper-class Panamanians, but it still lacks a broad base of popular support:

- There have been some violent demonstrations in lower-class neighborhoods in Panama City and Colon, but these primarily represent popular grievances over lack of services, which the government is already taking steps to satisfy.

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- Radical leftist students responsible for much of the recent violence have little in common with the conservative political opposition, and they are unlikely to join forces to coordinate their efforts.
- The Catholic Church in Panama is generally cautious and conservative, and is unlikely to assume a leadership role in the effort to oust Noriega. Rather, the church has moderated its rhetoric and is attempting to mediate between the regime and the opposition.
- Finally, although Christian Democratic leader Ricardo Arias Calderon has emerged as a major opposition figure, his party lacks broad appeal to the working class and to the rural peasants, who are the backbone of support to the regime. (S NF)

The regime's greatest vulnerability may lie in a possible economic downturn, which most likely would be caused by a loss in investor confidence and reduced access to funds from international lenders:

- A severe shortage of financial reserves appears almost certain by early next year without relief from international lenders.
- The World Bank is withholding up a \$50 million structural adjustment loan until the government reforms Panama's nearly bankrupt social security system, and other international and commercial lenders are awaiting compliance with the World Bank requirements before going forward with their own loans.
- Nevertheless, Noriega may prefer to delay action on lending requirements by the World Bank and other foreign lenders rather than risk unpopular fiscal measures such as social security reform. [REDACTED]

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US leverage over Panama has decreased considerably since the ratification of the Panama Canal Treaties in 1977, and Noriega has not hesitated to rally Panamanian nationalism by claiming that the real intent behind US pressures for reform is to retain control of the Canal:

- Direct US economic and military aid to Panama now amounts to less than \$40 million per year, and although Noriega recognizes the importance of close military and economic ties to the United States, he probably calculates that the strategic importance of the Canal will dissuade Washington from exerting excessive pressure on his regime and risking a destabilization of the relationship.

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[Redacted]

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- Furthermore, the regime appears more than willing to accept a drawdown of the US military presence resulting from implementation of the Canal Treaties. [Redacted]

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US interests in Panama are best served by a stable, friendly, and more democratic government. Specific interests include:

- Unhindered access to the Canal for military and civilian purposes.
- Unimpeded access to and use of military and intelligence facilities.
- Cooperation against drug trafficking and money laundering.
- Economic stability and continued access for US trade and investment.
- Denial of Panama as a base for the support of regional subversion and as a site for Cuban and Soviet Bloc activities.
- Panamanian support for US policies and activities in Central America [Redacted]

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We believe that should the military and the PRD continue to dominate Panama—with or without Noriega—there would still be sufficient stability to protect US interests, assuming that they make enough concessions on corruption and other issues to undercut regime opponents:

- US interests would suffer, however, if Noriega became increasingly repressive in dealing with the opposition. Not only would the system become less stable, but also anti-American sentiment would likely increase.
- US ability to pressure Noriega for meaningful reforms is constrained by his ability to retaliate against the full range of US interests in Panama, particularly by demanding an interpretation of the Canal Treaties that precludes activities in support of our Central American policy and by improving relations with the Soviet Bloc, Cuba, and Nicaragua.
- US policy would be further complicated should Noriega and the military take over the government completely. In addition to increased instability and repression, the contrast between the regime and US policy emphasis on democratic government in Latin America would make cooperation extremely difficult.

[Redacted]

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In the unlikely event that the Panamanian military largely withdrew from politics or that the moderate political opposition did achieve power, the United States would probably still have to deal with a nationalistic government that demanded full adherence to the Canal Treaties as they interpreted them:

- A democratic civilian government would also remain susceptible to popular pressures against economic austerity measures and concessions to the United States on military basing rights and intelligence access.



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