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## Panama: Political Prospects

Special National Intelligence Estimate

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SNIE 84-86  
July 1986

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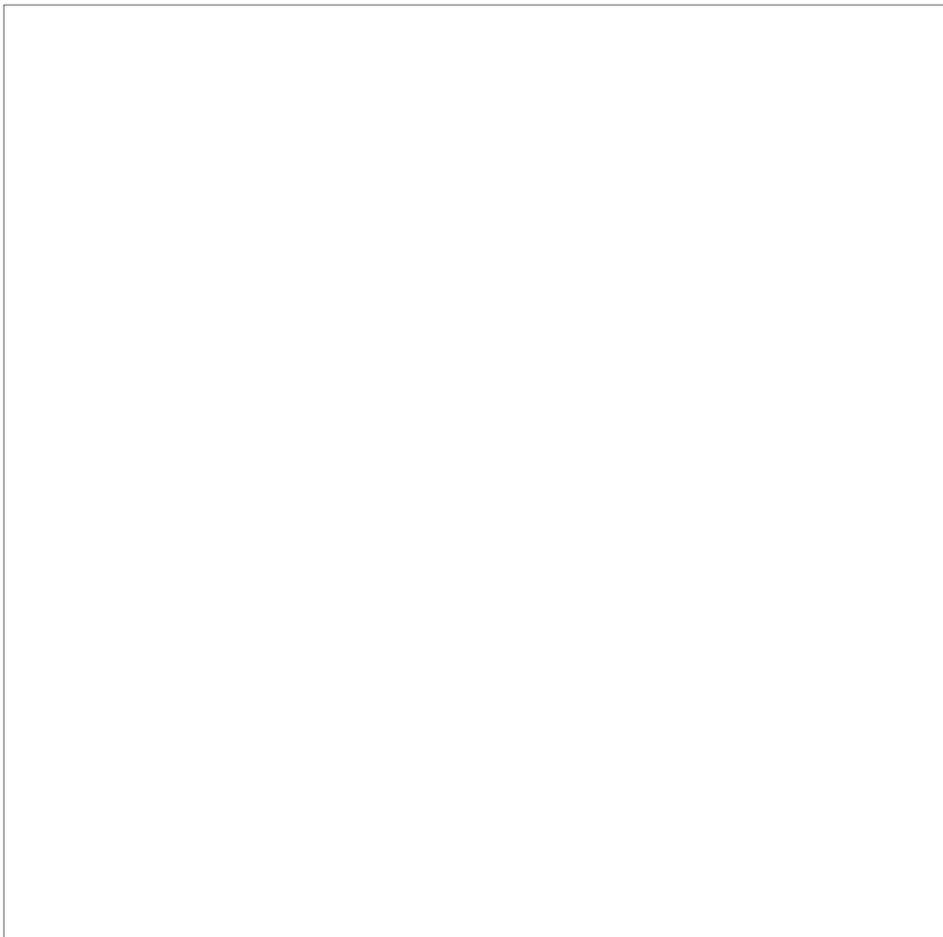
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SNIE 84-86

## PANAMA: POLITICAL PROSPECTS

Information available as of 10 July 1986 was used in the preparation of this Estimate, which was approved by the National Foreign Intelligence Board on 10 July 1986.

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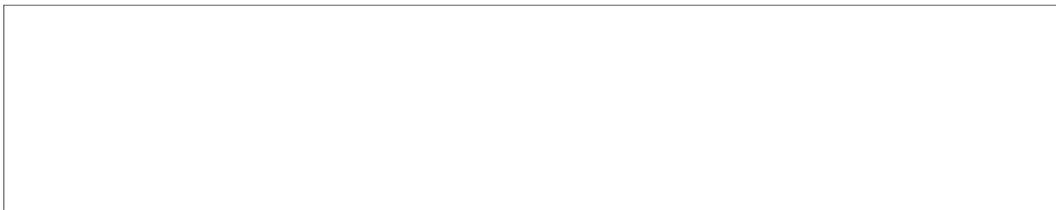
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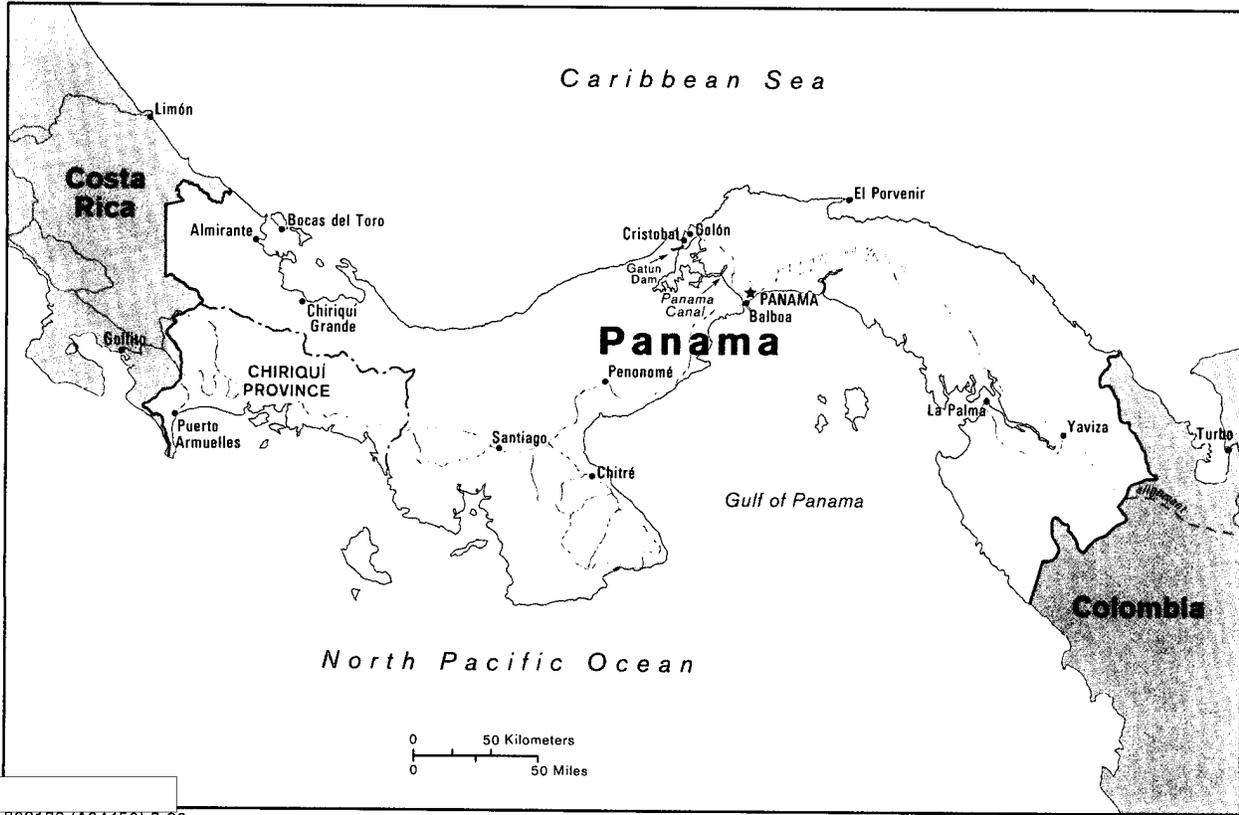
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### SCOPE NOTE

The United States has an important interest in the stability of Panama and the prospects for a successful and complete democratic transition. President Eric Arturo Delvalle is scheduled to be replaced in new elections in 1989. He serves primarily at the sufferance of powerful Defense Forces Commander General Noriega, and the civilian political process remains vulnerable to military pressure and manipulation. This Estimate examines the political prospects for Panama over the next three years, including civil-military relations and the main contenders for future rule.

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## KEY JUDGMENTS

The Panamanian military, in alliance with the ruling Democratic Revolutionary Party, is almost certain to retain political control of Panama through the scheduled 1989 elections. We believe US strategic interests in Panama during the period—including access to the Canal, use of defense facilities, and support for US activities in Central America—would be little affected by such a scenario. US interests would probably suffer, however, if the internal system of control were to become increasingly repressive and authoritarian. This probably would cause somewhat greater instability and provoke increased anti-American sentiments. [redacted]

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We believe that Defense Forces Commander, Gen. Manuel Noriega, will be able to hold on to his command until 1989, but, even should he depart, there is not likely to be a substantial reduction in the political influence of the military. A commander less capable than Noriega might be forced to leave somewhat greater political space for civilians, but the military will remain Panama's political arbiter:

- We believe the involvement of members of the military in various corrupt activities, including assistance for illegal arms shipments, protection of drug dealers, and association with Cuban front companies circumventing the US embargo, is likely to continue. General Noriega may be making some effort to halt arms trafficking and narcotics dealings in response to outside pressure, but it remains to be seen if these moves prove more cosmetic than real over the longer term.
- The populist image of the military and the ruling party could fade considerably if they are viewed as becoming too corrupt and unresponsive to popular needs, setting off a spiral of resistance and repression to maintain the system.
- Nevertheless, the general population is largely apathetic about politics, and we believe that Noriega is sufficiently astute to keep corruption within bounds and to coerce and co-opt any significant opposition to his and the military's dominance without provoking massive popular unrest. [redacted]

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There is a substantially less than even chance that the military's political role will diminish sharply, clearing the way for a full transition to

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democratic civilian rule in the 1989 elections. Such a scenario would be most conducive to the protection and furtherance of US interests in Panama, given the relatively moderate political orientation of any party likely to win in 1989. Nevertheless, even a democratic, pro-US government is unlikely to be able to eliminate the extensive system of corruption in Panama. [redacted]

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A military coup is even less likely between now and 1989. Such a coup would seriously complicate US policy interests toward Panama by undermining US efforts to encourage democracy in the region, and by making US bilateral cooperation politically difficult. [redacted]

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A sharp turn to the left in Panama appears to be the most unlikely scenario, because a leftist officer such as Chief of Staff Diaz Herrera has little chance of becoming commander of the military. The military has become more conservative in recent years, and it has co-opted most of the radical left. The military also wants to ensure that it can peacefully take over the Panama Canal by 2000. Although such a shift is unlikely, it nevertheless would represent the greatest threat to key US interests in Panama. [redacted]

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President Eric Arturo Delvalle serves at the sufferance of General Noriega and the military, and they would like him to serve out his term, which runs until 1989. His continuance in office helps preserve what remains of the image of democratic, civilian rule, and Delvalle wants to avoid a move by the military to replace him:

- The military does not trust Vice President Roderick Esquivel and is opposed to allowing him to assume the presidency should Delvalle have to step down for health or other reasons.
- If Delvalle had to resign, the military would probably block Vice President Esquivel's succession and either call for new elections or install a caretaker government until 1989. [redacted]

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The military would prefer not to have new elections, however, as long as key opposition leader Arnulfo Arias is capable of running:

- The aging Arias was cheated out of an election victory in 1984 by Noriega and the ruling party, and he could probably win an honest contest if one were held.
- In the absence of Arias, the opposition coalition might well crumble and, in any event, probably would do poorly in a clean election.
- It is difficult to predict who would be the government's candidate. The military would have the final say, and Noriega will probably keep his own options open. [redacted]

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[REDACTED]

Delvalle has been successful in pushing through economic reforms and securing new international funding, but he is unlikely to be able to greatly stimulate the stagnant economy, and unemployment may become a political problem. Panama also has a large foreign debt—some \$3.7 billion. Debt servicing, even under reschedules, remains a problem, given the tight fiscal situation and conditions required to obtain external financing. Thus, the benefits of the substantial US presence and the need for continued US financial assistance provide a strong incentive for continued cooperation and good relations on the part of Panama at least through 1989. [REDACTED]

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If Noriega perceives US pressure to end corruption and move the military out of politics as being excessive he could retaliate by hampering US military [REDACTED] activities in Panama and by manipulating his relationship with the domestic left and the Soviet Union and Cuba to his own advantage. The government would also be likely to appeal to Panamanian nationalism, claiming that the United States was attempting to renege on the Panama Canal Treaties. [REDACTED]

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The Soviet Union has a commercial presence in Panama but no formal diplomatic relations, and so far has been denied Aeroflot landing rights and port basing rights for its Pacific fishing fleet:

- Cuba has diplomatic relations with Panama and maintains a large commercial presence through numerous front companies designed to circumvent the US embargo. Havana is also behind many illegal arms shipments through Panama destined for regional insurgents, and the Panamanian Defense Forces (PDF) reportedly cooperate in return for a price and assurances that Cuba will not support internal subversives.
- Libya has diplomatic relations with Panama, but Noriega keeps a close watch on Libyan activities in order to guard against potential terrorist incidents. [REDACTED]

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## DISCUSSION

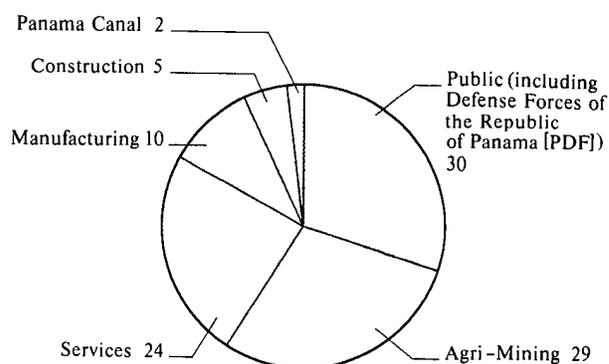
## The Delvalle Government

1. Eric Arturo Delvalle became President of Panama following the forced resignation of President Nicolas Ardito Barletta in late September 1985. A former World Bank official, Barletta had been the candidate of the ruling Democratic Revolutionary Party (PRD) and the Panamanian Defense Forces (PDF) in the election of May 1984. This election, the first in 16 years, was tainted by evidence of fraud to prevent victory by principal opposition candidate Arnulfo Arias, a longtime foe of the military. Despite Barletta's selection by PDF Commander General Noriega as his personal choice, his political ineptitude and economic policies gradually alienated his military backers and the six parties of his government coalition, as well as the labor and business sectors. The catalyst for his removal, however, was the murder, probably by members of the PDF, of Dr. Hugo Spadafora, a professional revolutionary and longtime critic of General Noriega. The incident precipitated a brief, unsuccessful barracks move against Noriega, as well as calls for an independent inquiry into the crime. Barletta rejected an independent commission, but may have angered the PDF by insufficient zeal in stonewalling on the investigation. In any case, the incident brought to a head widespread dissatisfaction with Barletta among the PRD and PDF, and on 28 September 1985 Barletta resigned under intense pressure from party, Cabinet, and military leaders led by Noriega. Vice President Delvalle succeeded him. [redacted]

2. Delvalle's primary task on taking office was to restore Panama's economic health and enact controversial structural economic reforms required by international lenders. Barletta, a well-known international economist, had failed in this task when he was unable to secure the cooperation of the government-controlled legislature or the major labor unions for his program. With the complete support of the government coalition and the military, the Delvalle administration was able to pass, in March 1986, a revised economic reform program required by the World Bank as a condition for agreement on a structural adjustment loan. The government was able, with military assistance, to end the resultant labor strife.

## Employment by Sector-1985

Percent



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World Bank approval of these measures will entitle Panama to new money, allow implementation of its commercial bank debt rescheduling, and help reorient its state-dominated economy (see inset). [redacted]

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3. Delvalle, a member of the small, conservative Republican Party in the ruling coalition, has cooperated closely with the PDF, Panama's ultimate political broker, and with the major government coalition parties. Passage of the crucial economic reforms has strengthened his political position. Moreover, Delvalle's actions, unlike Barletta's, have not galvanized widespread opposition to the government or alienated supporters. PDF and PRD leaders have been pleased

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### The Economy

Panama's economy in recent years has been characterized by slow growth and stagnant employment. Annual growth over the past five years has averaged less than 2 percent, and will probably be slow for the next several years. New jobs have been created at an annual rate of 4.5 percent, but the labor force is growing by 5.4 percent, or about 25,000 persons each year. Until very recently the government has been the employer of last resort, and now provides 30 percent of all employment. Despite government efforts, unemployment—concentrated in urban areas around the Canal—may now be as high as 20 percent. [ ]

Unemployment is endemic to Panama's high-wage, service-oriented economy, but it has not yet become a major political problem for the government. If the government follows through on recent commitments made to the World Bank to eliminate 3,000 government jobs this year and to divest or close five state enterprises, unemployment may become more of a political problem. Economic activity in the former Canal Zone and the Colon Free Zone is not likely to pick up the slack, and the reform measures are unlikely to stimulate significant increases in private-sector growth or in the export of goods over the short term. To avoid being squeezed between loyalty to public-sector employees and commitments to the World Bank, the government may try to delay reducing its work force until private-sector economic activity picks up. [ ]

The government's incipient compromise with the World Bank has greatly enhanced its opportunities to secure the foreign financing it needs. Panama's loans are interlocking. The delay in negotiating a second World Bank Structural Adjustment Loan (SAL) held up disbursements from a \$60 million commercial bank loan and ensured that Panama would miss its IMF program targets. If the SAL is completed and disbursements resume from the commercial banks later this

year, Panama should be able to avoid the fiscal problem it has experienced over the last few years. The prospect of continued slow growth and the likely need for additional credit over the next few years will be an incentive for improved relations with the United States and with international creditors. [ ]

Because Panama's financial system uses the dollar as legal tender, the government cannot print money to cover its budget deficits. If external financing is unavailable, the government must cut expenditures or raise revenue. Limited financing thus restricts the government's ability to be an employer of last resort and forces it to trim government waste, to reduce corruption, and to diminish its social welfare role. Panama's foreign debt is high—\$3.7 billion, 78 percent of GDP. Panama's commercial bank rescheduling in October 1985 reduced projected debt service for 1986 to around \$570 million, which would be only about 33 percent of exports of goods and services. Nevertheless, without rescheduling in 1987 and 1988, debt servicing will be about \$1 billion per year. [ ]

Panama's economic situation is aided by the decline in both world oil prices and the strength of the dollar. An average oil price of \$15 per barrel for 1986 would mean net current account savings of at least \$115 million over earlier estimates, but could adversely affect operations of the transisthmian oil pipeline. The pipeline is Panama's largest capital investment outside the Canal. Continued low prices may cause the US oil companies to request another cut in pipeline charges, thus lowering the government's revenue, but low prices do not threaten the viability of the pipeline. As the dollar declines, Panama's efforts to develop nontraditional exports will be helped, but Panama's high labor costs—exacerbated by the wage structure of the former Canal Zone—will continue to impede development of labor-intensive exports. [ ]

with his performance thus far, and now believe that Delvalle will complete his term. Successes aside, however, Delvalle ultimately enjoys no more protection than did Barletta from dismissal by the PDF. This limits Delvalle's freedom of action and encourages a degree of sensitivity to PDF preferences that undermines Panama's pretensions of democracy. [ ]

4. Delvalle is frustrated by Noriega's dominant influence, but he and the military both benefit from their partnership. From the PDF's perspective, Delvalle preserves the appearance of democratic, civilian rule while insulating the PDF from direct responsibility

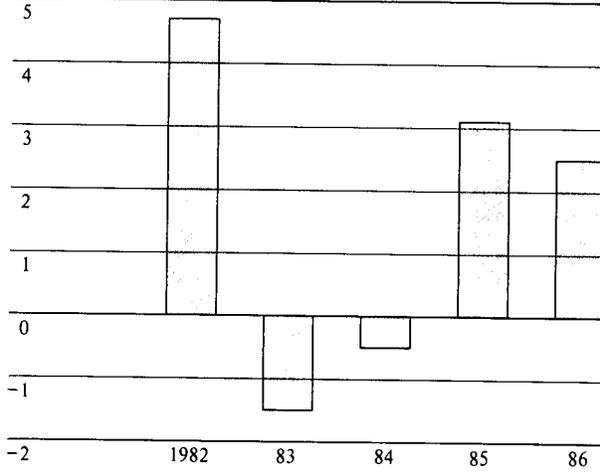
and public criticism for controversial government measures. In addition, Delvalle, a conservative businessman, projects a positive image of Panama internationally. Finally, Delvalle's constitutional successor, Vice President Roderick Esquivel, reportedly is so unacceptable to the PDF that he would probably not be allowed to serve. Noriega would be likely to opt for an interim government, which would probably either call for new elections or act as a caretaker government until 1989. Thus the PDF and the PRD would like Delvalle to serve the remainder of Barletta's five-year term. For his part, Delvalle is trying to strengthen

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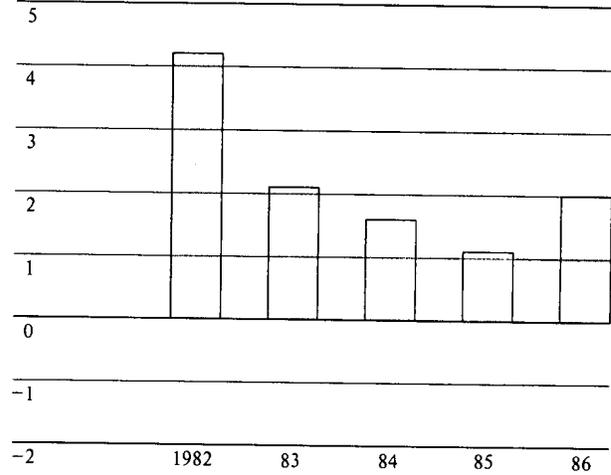
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**Panamanian Economic Trends<sup>a</sup>**

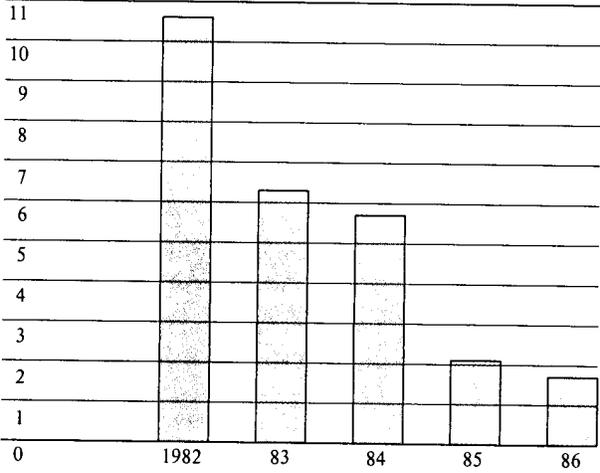
**Panama - Gross Domestic Product (GDP) Growth**  
Percentage Change



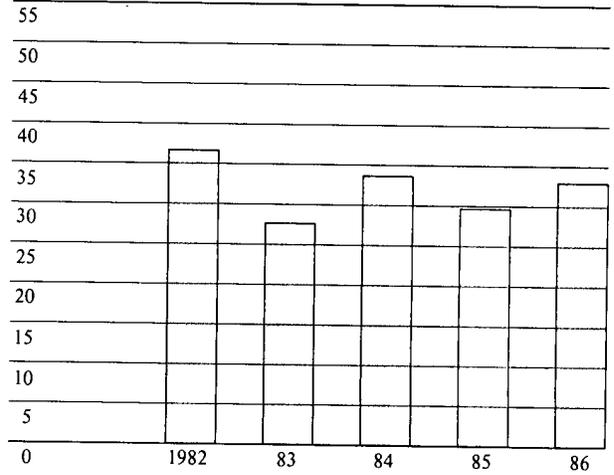
**Consumer Price Inflation**  
Percentage Change



**Consolidated Public-Sector Deficit**  
Percentage Share of GDP



**Foreign Debt Service Obligations**  
Percentage of Exports



<sup>a</sup> 1985 estimated.  
1986 projected.

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civilian government and avoid a move by the military to replace him. At the same time, Delvalle is maneuvering to expand the political base of his party and to improve the prospect for another Republican Party president in 1989.

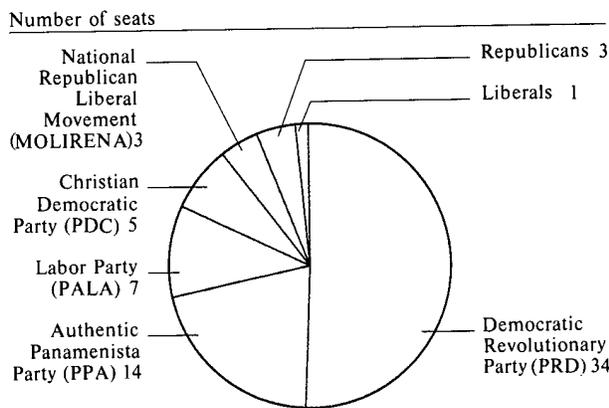
**Military-Party System of Control**

5. The PDF is Panama's dominant political force. Although constitutionally subordinate to the president, General Noriega has been and remains Panama's chief political arbiter. The PDF has little desire to assume direct responsibility for governing Panama, but it distrusts civilians and wants to retain a strong influence on decisionmaking to protect its institutional interests. The military's predominant role in politics was defined and institutionalized under former strongman and National Guard Commander Omar Torrijos. The Torrijista military ruled Panama without elections for 16 years, from 1968 until 1984, although Torrijos himself died in 1981. Torrijos pushed the PDF's predecessor, the National Guard, into a populist, moderate-leftist embodiment of Panamanian nationalism and a force for civic action and state-led economic development. The military has become more conservative in recent years, particularly under Noriega (see annex A).

6. The military now prefers to govern indirectly in close cooperation with its civilian allies. Officers assigned to provincial posts are encouraged to learn to work with civilian officials, while general staff members are strongly encouraged to be aware of national political, social, and economic problems. Military zone commanders, who are supposed to work closely with local officials, usually have more authority and responsibility than provincial governors. The military also fills some of the government's advisory and ambassadorial positions, and retains civilian advisers from Panama's left-of-center political parties.

7. Chief among the PDF's civilian allies is the PRD. Created by Torrijos in 1978 on the model of Mexico's ruling political party, the PRD is a populist party that spans a broad political spectrum from conservative businessmen to leftist students. United initially by Torrijos's charisma and his populist-nationalist "revolution," the PRD is increasingly held together by a strong desire to remain in power. Its dominant element is center left, but ideology counts for little and economic constraints are moving it increasingly toward the center. The party's main bases of support are rural workers, urban labor, and middle-class government employees. Its modus operandi is to co-opt those sectors of society willing to accept party direction in

**Panamanian Legislature by Party**



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return for a share of the spoils. The PRD is the dominant party in the six-party government coalition, holding 34 of 67 seats in the legislative assembly and six of the 11 Cabinet ministries (see chart).

8. The PRD coordinates closely with the PDF on all policy matters, and accepts the military's predominant role in key political issues. Party leaders are in regular contact with Noriega and the PDF high command. The party has some latitude in internal decisionmaking, but the PDF high command has the final say on all important issues such as choosing the party's national directorate or presidential candidate. The PDF also mediates internal party disputes and balances the competing demands of the party's disparate elements. PDF control of the purse strings is an important means of influence on the PRD. PRD moderates believe the party can eventually decrease its dependence on the PDF by developing independent fund-raising mechanisms.

9. The PRD-PDF's long-term goal is to retain control of the government when the Canal is turned over to Panama in 1999. To achieve this, the PRD plans to

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institutionalize its dominant position, beginning preferably with a victory over a disunited opposition in an honest presidential election in 1989. The PRD-PDF's perceived need to project a democratic image and its sensitivity to US criticism over political corruption will encourage the fielding of a respectable candidate such as the PRD's Tomas Gabriel "Fito" Altamirano Duque or Republican Party stalwart Dominador "Kaiser" Bazan. [redacted]

**The PDF as an Institution**

10. The PDF considers itself Panama's most efficient, concerned, and nationalistic government institution. Its members are intensely loyal to the institution and, to a lesser degree, its commander. In the middle and upper levels of the officer corps, a "Mafia" style of management prevails where loyalty is rewarded and a code of silence honored. Because the PDF values loyalty to the institution over personal integrity or honesty, it protects and privately disciplines its own—usually mildly. When threatened or during times of crisis, the PDF closes ranks to protect the institution and its members from civilian pressure, as occurred after the murder of Spadafora. The PDF would be highly unlikely, for example, to permit civilian prosecution of members accused of abuses committed over the last 17 years of military rule. In this regard, it watches with great interest the fate of the armed forces in other Latin American countries that have been returned to civilian rule. [redacted]

11. Highly image conscious, the PDF wants to be perceived at home as a force that maintains order while promoting economic development and social justice, and abroad as a professional institution capable of both defending the Canal and fostering democratization. The PDF does not want to be isolated in a hemisphere where the trend is from military to civilian government. The PDF's attempts to hold on to some of its populist image at home and its efforts to gain credibility internationally have been badly damaged by widespread allegations of corruption, involvement in arms and drug trafficking, ties to regional insurgents, and responsibility for the Spadafora murder [redacted]

[redacted] The PDF is very sensitive to the fact that these allegations have invited intense and unwelcome US scrutiny that could put in jeopardy US treaty commitments to modernize its forces. [redacted]

12. Beyond question, Panama has become a major transshipment and money-laundering site for drug dealers. Individual PDF officers have been involved, although we do not have solid evidence that the PDF as an institution engages in or protects the narcotics traffic. There have been numerous reports of Noriega's personal involvement in narcotics trafficking, but the evidence is circumstantial. Noriega has ordered a halt to arms trafficking and may be more cooperative with the United States on narcotics and money-laundering matters. Unless reinforced by continued US and Colombian pressure, however, these changes in behavior could prove more cosmetic than substantive. [redacted]

**Gen. Manuel Antonio NORIEGA Moreno**

13. Commanding General Noriega currently enjoys the dominant position historically assigned to the commander of the Panamanian military. As PDF Commander, Noriega automatically has the institutional loyalty of most of the military and the majority of the PRD, but he does not command the same wide personal following that Torrijos had. Noriega recognizes that he lacks Torrijos's charisma, but appreciates the continued effectiveness of his predecessor's tactics and rhetoric in balancing competing political interests within both the military and the PRD. Noriega's brand of "Torrijismo" has been cynically pragmatic, retaining the populist leftist-nationalist rhetoric, while moving the PDF and the PRD increasingly toward the center right, particularly in economic policy (see annex A). [redacted]

14. Noriega's chief competitor within the PDF remains Col. Roberto Diaz Herrera, currently Chief of Staff. A protege and first cousin of Torrijos, Diaz has his own personal and family network of support, making him a powerful political figure in his own right. Diaz is close to Havana, an admirer of Castro, and more ideologically leftist than most PDF officers. Nevertheless, Diaz has served past his mandatory retirement date, and Noriega may force him to resign within the next several months. He may then become a high PRD official, despite the considerable influence the Torrijos and Herrera families lost to Noriega loyalists during the reorganization of the PRD's national directorate in December 1985. [redacted]

15. Noriega's desire to exercise power may lead him to run for office once his military career ends. We believe he had previously planned to run for president in 1989 after Barletta completed his term, and may still entertain presidential ambitions. In the meantime, with mandatory retirement facing him in January

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1987, Noriega is expected to remain as PDF commander by engineering a waiver from the Legislative Assembly. An alternative option would be for him to create and head a ministry of defense, which we believe is less likely. [redacted]

16. If he aspires to the presidency or ministry of defense, Noriega needs to influence the PDF after he retires. Unlike the charismatic Torrijos, Noriega's power derives chiefly from his position as PDF Commander, and traditionally PDF commanders have lost all authority when they retire. This was the case, for example, with former Commander General Paredes. Noriega has probably not made up his mind about the presidency, but will want to keep his options open. [redacted]

17. Noriega's departure as PDF Commander would not substantially reduce the military's continued political influence. PDF officers adapt quickly to changes of command, transferring their loyalties to the new leadership. Although Noriega has not yet designated a successor, the main contenders are Col. Alberto Purcell, G-5, and Col. Elias Castillo, G-3. Castillo reportedly is the most professional of the senior officers. Purcell, a strong Noriega loyalist, distrusts the United States and believes the military is the chief instrument of national reform. Lt. Col. Eduardo Herrera Hassan, currently Ambassador to Israel, is a wild card. He is reputedly an independent and the most talented of the PDF officers, and Noriega has kept him away from the general staff, perhaps for just those reasons. [redacted]

18. With or without a change of command, the PDF will almost certainly remain Panama's primary political decisionmaker for at least the next several years. It does not trust the country's civilian politicians to solve key national problems or to protect what the PDF sees as its own institutional interests. A commander less capable than Noriega might leave slightly greater political space for civilians, but there is no indication the PDF will withdraw voluntarily from its political role or that a coalition of nonmilitary forces is forming that is capable of removing the PDF from its self-appointed role as political arbiter. [redacted]

#### The Government Coalition

19. The National Democratic Union (UNADE), the six-party governing coalition, is a fractious group of disparate parties that cooperate with the PDF and the PRD (see inset). Access to political spoils holds together the coalition, with the minor parties competing for those Cabinet posts with the greatest patronage, that is, housing, social security, and public welfare. Rivalries within UNADE have resulted in periodic Cabinet

reshufflings that redistribute access to political spoils and realign party influence in the government. Continual readjustment of access to the spoils helps accommodate competing interests and thereby contributes to the stability of the government. [redacted]

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#### The Opposition

20. The opposition is a fragmented collection of political parties, splinter groups, civic organizations, and unaffiliated individuals. The chief weakness of Panama's political system is the immaturity of its institutions and the general political apathy of much of the population. Most parties, including those of UNADE, do not have a clearly recognizable ideology or program. They serve principally as vehicles for the personal aspirations of their leaders or as economic interest groups. With the exception of the Christian Democrats, all the opposition parties fit into this category. Generally, the opposition parties cooperate in antigovernment efforts such as attacks on alleged PDF corruption and human rights violations, but they do not share strong ideological or programmatic positions. [redacted]

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21. The chief opposition parties—the Authentic Panamenistas (PPA), the Christian Democrats (PDC), and the Nationalist Republican Movement (MOLIRENA)—united to form the Opposition Democratic Alliance (ADO) for the elections in May 1984. The ADO presidential candidate, rightwing populist Arnulfo Arias, would have won a narrow victory had it not been for fraud, and ADO's three member parties won 22 of 67 seats in the Legislative Assembly. Since the elections, the three ADO parties have not acted jointly to challenge the government or to organize for the next election. Nonetheless, Arias's popularity is such that he would be able to mobilize a considerable following if he became more politically active. [redacted]

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#### Labor, Business, and the Church

22. Panama's small, primarily urban, labor movement is divided along ideological and personalistic lines. Only 17 percent of the work force is unionized. Labor's interests are ineffectively represented by the National Council of Organized Workers (CONATO), a loose confederation, to which 85 percent of private-sector trade unions belong. CONATO's largest member organization is the Confederation of the Workers of the Republic (CTRP), a moderate democratic organization with links to the AFL-CIO, but CONATO spans the political spectrum from democratic to Communist. Typical of CONATO's ineffectiveness was a 10-day strike in March 1986 to protest a government-proposed reform of Panama's liberal labor code. Union

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## Major Political Parties

The PRD dominates UNADE, controlling 34 of 67 Legislative Assembly seats and six of 11 ministries. The PRD's junior partner is the Labor Party (PALA), which holds seven assembly seats and controls key patronage Ministries such as Public Works and Labor. The PALA received 7.1 percent of the 1984 vote in contrast to the PRD's 27.4 percent. Unlike the PRD, which favors a strong role for the state in the economy and social welfare, PALA is primarily a conservative businessman's party. PRD moderates consider PALA their conservative wing, and would consider bolting to PALA if the PRD's left wing were to become too powerful or too unwilling to compromise. The PALA is split between a pro-Noriega faction, led by Noriega's brother-in-law, Ramon Sieiro, who is secretary general, and a somewhat independent faction led by businessman Carlos Eleta. Although Noriega reportedly has less control over PALA than over the PRD, he could conceivably use a restructured PALA as his political vehicle if he were to run for president.

President Delvalle and Vice President Esquivel come from two of the smallest, least influential parties in the UNADE coalition, a fact that severely limits their maneuvering room. Delvalle's conservative, pro-US Republican Party has only one Ministry—Commerce—and received only 5.4 percent of the 1984 vote. Esquivel's centrist Liberal Party has two Ministries—Justice and Economic Planning—and garnered 4.4 percent of the vote in 1984. To the extent Delvalle proves to the PRD that the Republicans are a valuable asset, the prospects that party colleagues, such as Kaiser Bazan, Ambassador to the United States, will be chosen for the government's next presidential ticket could be enhanced.

Strongest among the opposition parties is the populist Authentic Panamenistas (PPA), led by charismatic octogenarian and three-time president Arnulfo Arias. The PPA occupies 14 of 67 seats in the Assembly and is arguably the most popular party in Panama, having received 35 percent of the disputed 1984 vote. Highly personalistic, the PPA coalesces only when Arias chooses to act or runs for office. Lacking a specific program or ideology, it is united only by Arias's personal charisma and his celebrated defiance of the military. When Arias's unifying presence disappears because of death or incapacitation, the PPA is likely to break up, with the majority of his followers—primarily rural lower- and middle-class workers—gravitating to the equally popu-

list PRD or PALA. Some may also move to the Christian Democrats or abstain from political activity altogether.

Tightly organized and strongly ideological, the Christian Democratic Party (PDC), led by Ricardo Arias Calderon, is a middle- and upper-middle-class reformist party that sees itself as an alternative to the current government. Anti-Communist and an advocate of expanding the democratic process in Panama, the PDC has been a relentless critic of the military and the government, which it considers illegitimate. PDC criticism has been intended to provoke a governmental crisis in the hope that the PDC will be called by the people to take power. For this reason, the PDF and the PRD see the PDC as a major long-term threat and worry about the PDC's attempts to develop ties to junior officers.

The PDC's chief liability lies in its limited mass appeal—only 7.3 percent of the vote in May 1984. This is partly because of its image as a center-right, upper-class, intellectual movement, as well as its ties to regional and international Christian Democratic groups considered "un-Panamanian." In addition, the PDC's emphasis on organization has made the party somewhat reluctant to develop a mass base. Aware of its weaknesses, the PDC will probably make adjustments to expand its appeal and its membership, because—as presently organized—it is unlikely to win a free election in 1989 or sooner. PDC leaders readily admit that they are presently incapable of winning the presidency on their own and would have to form a coalition with Arias's PPA to gain political power.

Another potential force is the National Liberal Republican Alliance (MOLIRENA), which is an amalgamation of some new political figures and smaller political parties active before the 1968 Torrijos revolution. The center-right party is business based and largely nonideological beyond a certain distaste for military interference in politics. With 4.8 percent of the 1984 vote, it has four seats in the Legislative Assembly and could contribute significantly to a coalition of parties.

The Popular Action Party (PAPO) is a small, left-of-center, adamantly antimilitary, nationalist party that received only 2.2 percent of the valid vote in 1984 and thereby lost its legal status. PAPO has strong ties to the chief opposition paper, *La Prensa*. Despite its size, PAPO's leadership was instrumental in spearheading the anti-PDF National Coordinating Board for Civilianization (COCINA). An umbrella group of professional organizations, COCINA staged massive protests that helped to undermine not only Barletta's October 1984 economic package but also his administration.

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indiscipline, strong PDF pressure on union leaders, and PDF control of the transport workers prevented the strike from gaining momentum. Although the PDF does not completely control the labor movement, it controls key unions and has plans to expand its labor influence, especially in areas considered vital to public order and national security, such as the petroleum industry. 

23. No single political party serves as the sole or dominant vehicle for expressing the economic and other interests of Panama's private business sector. MOLIRENA, Labor Party (PALA), and the small Republican and Liberal Parties are based largely in the business community, and a "businessmen's front" is influential in the PRD. Although generally apolitical—perhaps due to the broad consensus in Panama on the role and importance of the private sector—business groups lobby the government to protect their specific interests. Common private-sector interests vis-a-vis labor and government intervention in the economy are formally represented by the National Free Enterprise Council (CONEP)—a confederation of smaller groups representing a variety of business interests including the Chamber of Commerce. In October and November 1984, for example, CONEP joined the antimilitary National Coordinating Board for Civilianization (COCINA) to protest Barletta's proposed tax increases. 

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(FER-29), the Panamanian Student Federation (FEP), which has close ties to the PRD's far-left wing, and the Guaykuchos. Much of the student movement was co-opted by Torrijos, but military-student relations have deteriorated since the late 1970s. Noriega's PDF is now making a concerted effort to reassert control over the student movement by placing its hand-picked candidates in key posts in local student groups and by expanding contacts with the national organizations. 

26. The most influential leftwing group in Panama is the far-left wing of the ruling PRD known as Tendencia. Tendencia began as the youth wing of the Moscow-line Communist Party in the early 1970s and was co-opted by Torrijos in the mid-1970s. 

 Most of its funds come from front companies and the PDF-PRD, but there are reports of donations from Libya, Cuba, and Nicaragua. There are also reports of a rift between younger activists and their more conservative elders who favor continued cooperation with the PDF and PRD. Tendencia politicians run as PRD candidates and generally avoid Marxist rhetoric in domestic political debates. Tendencia inclines toward a Third World, anti-US, nonaligned foreign policy, and is pro-Cuban and pro-Sandinista. 

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24. The Catholic Church traditionally has not been involved in politics, and under the leadership of Archbishop Marcos Gregorio McGrath is unlikely to change. The church is more conservative than in many other Latin American countries, and lacks a strong radical wing. It has not remained silent, however, on issues of human rights and social justice. It criticized the fraudulent May 1984 election, joined with the Papal Nuncio to press for an effective inquiry into the September 1985 Spadafora murder, and will probably continue to speak out on human rights issues. Despite PDF and PRD distrust of McGrath, the church's role as a neutral political actor makes it a potential candidate to mediate between the government and opposition or between the military and civilians. 

**Students and the Left**

25. Panamanian high school and university students make up a volatile group that sees itself as a vanguard representing middle- and lower-class interests against the military and government. There are numerous ultraleft, antigovernment, anti-US national student organizations and splinter groups. Chief among them are the Revolutionary Student Front November 29

27. Noriega has carefully manipulated Tendencia since Barletta's ouster in an effort to control its activities. Tendencia strongly supported the PDF's coverup of the Spadafora murder and the ouster of Barletta, and later received two key positions in the PRD directorate. Tendencia legislators were compelled to support the government's March economic reform package, which hurt them with their constituents. Noriega has allowed Tendencia a higher political profile to undercut leftist opposition to the increasingly centrist government. Should Tendencia attempt to enhance its position in the PRD too aggressively, it would risk a strong reaction by Noriega and the more moderate PRD majority faction, leaving it politically isolated. 

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28. The Moscow-line Communist People's Party (PdP), with some 2,000 active members, has close ties to the PDF. The party lost its legal status after the May 1984 election because it received less than the required 3 percent of votes cast, actually polling less than 1 percent. It is now trying various strategies to regain its legal status. The PdP maintains contact with Bloc and other Communist countries, and with Salva-

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doran insurgents. Although the party calls itself a Torrijista party and claims its objectives are similar to Tendencia's, the PdP is unwilling to align itself closely with the PRD. Other small parties on the left include the Central American Workers Party and the Socialist Workers Party, neither of which attracted enough votes in 1984 to retain its legal registration as a political party. [redacted]

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### Soviet-Cuban Links

29. Panama maintains diplomatic relations with Cuba and Nicaragua, although not with the Soviet Union. There are no official Soviet, East European, Chinese, or Cuban trade missions in Panama. But the Soviets have several dozen nondiplomatic personnel in Panama to handle a Soviet news agency, shipping, and a commercial outlet primarily for the sale of Soviet-built vehicles. The Soviets are pushing for Aeroflot landing rights and port basing rights for part of their Pacific coast fishing fleet. [redacted]

30. Cuba has some 60 to 70 personnel in Panama who work for CIMEX, a large Cuban trading company that acquires goods denied Cuba under the US trade embargo. CIMEX works in conjunction with some 35 to 55 other front companies controlled in varying degrees by the Cuban Government in association with Panamanian partners. CIMEX and other front companies probably serve as cover for Cuban clandestine operations in Central and South America. There is strong evidence that members of the PDF high command, including Noriega, are involved in Cuban front companies and other companies that do business with Cuba. [redacted]

31. Cuba and the Soviet Union actively recruit Panamanians for study in Communist countries. More than 600 students study in Communist countries each year, and an estimated 5,000 Panamanians graduated from Communist universities during the period 1973-82. Most study agriculture, engineering, and medicine and return to find employment in the public sector. [redacted]

32. Libya maintains a major People's Bureau in Panama to facilitate contacts with Panamanian leftists, Colombia's M-19, Ecuador's Alfaro Vive, and regional Caribbean leftists. Some Tendencia members were reportedly trained along with M-19 cadre in Libya from 1982 to 1984, but returned to Panama disillusioned by the experience. Tendencia's relations with Libya have cooled considerably since 1985. Some student and ultraleft groups publicly support Libya's anti-US stance and have staged small protests at the US

33. Panama has served as a transshipment point for arms, cadre, and funds for various regional insurgents—particularly Colombia's M-19. Cuba is often behind the shipments, and PDF officers reportedly cooperate for a price and assurances that Havana will not support internal subversives. The Colombian military has formally complained to the PDF about arms trafficking to Colombian insurgent groups through Panama. Anxious to improve the PDF's image and fearful of being implicated in the M-19's takeover of Colombia's Palace of Justice in November 1985, Noriega signed a cooperation agreement with his Colombian counterpart in early March 1986 to counter arms and drug trafficking, but it remains to be seen whether the PDF will follow through over the long term. [redacted]

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### Outlook and Alternative Scenarios

34. We believe that the most likely political outcome in Panama over the next few years is the continuation of the current system of PRD-PDF control up to and after the 1989 election, with Noriega in command of the military at least up to the election. If the PDF holds corruption to tolerable levels and makes necessary political adjustments, it may be able to maintain this system without generating too much domestic opposition and instability. [redacted]

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35. There is a substantially less than even chance that the PDF's political role will diminish sharply, clearing the way for a full transition to civilian, democratic rule that might culminate in the 1989 elections. For this to occur would require at the very least the departure of both Noriega and Diaz Herrera and the emergence of a less politically oriented PDF leadership, a resulting realignment of civilian political actors, and the arrangement of a deal that would protect the vital interests of the PDF once the civilians had assumed control. Favoring this kind of transition are the corrupt activities of Noriega and the PDF that might provoke a strong antimilitary response among civilians and encourage PDF officers to prefer institutional withdrawal from power over permanent damage to the military institution and its interests. [redacted]

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36. A military coup resulting in direct PDF exercise of power is even less likely between now and 1989. Under normal circumstances, the PDF is able to protect its interests and what it perceives to be Pana-

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ma's national interests under the present governing formula. A military coup might be precipitated if sustained popular reaction to revelations concerning PDF corruption is effectively exploited by the opposition or if the reaction results in Delvalle's refusal to take the PDF's side or to help work out an accommodation. The military might also take power before the 1989 election if Arias appears to have a prohibitive lead and the PDF feared it could not prevent his election by fraud. [redacted]

37. A sharp turn to the left appears to be the most unlikely scenario. Such a scenario would probably have to involve Noriega's replacement by his second in command and chief rival, Col. Diaz Herrera. Diaz Herrera is much more to the left ideologically than Noriega, and there appears to be little chance that he can put together the type of leftist political-military alliance necessary to shift Panama's domestic and foreign policy significantly to the left. [redacted]

#### Key Variables

38. The degree of corruption of General Noriega and most of the senior officer corps is a key variable affecting the various alternative political scenarios. The populist image of the PDF and the PRD could continue to fade if they are viewed as becoming too corrupt and unresponsive to popular needs, setting off a spiral of resistance to the system and government repression to maintain it. Nevertheless, we believe that Noriega is sufficiently astute to keep corruption within bounds and to coerce and co-opt any significant opposition to his and the military's dominance without provoking massive popular unrest. [redacted]

39. Another key variable in the political outlook is the fate of Arnulfo Arias. Arias demonstrated impressive vote-drawing powers in the 1984 election, and would have won had there been a legitimate count. His nationalistic antimilitary message is well received, and it will probably enjoy new appeal if there is no halt to the expanding list of rumors and revelations about PDF misdeeds. Arias is 84, however, and may not be physically able to run in the 1989 contest—or may not survive until then:

— The absence of Arias would probably help the governing coalition. With no opposition figure to weld together an opposition coalition in the manner of Arias, the ruling UNADE would probably be able to co-opt enough erstwhile Arias supporters to ensure a fraud-free victory, a development that would allow the PRD-PDF to begin legitimately institutionalizing their contin-

ued rule. The chances of a popular opposition figure emerging or being thrust forward by events will increase if the PRD-PDF formula performs badly economically, grows increasingly unresponsive to popular demands, and sinks deeper into corruption.

— The likelihood of electoral fraud or a military coup would increase if Arias were a candidate in 1989. There is little chance that Arias would be allowed to win or that he would be permitted to serve a full term if he were inaugurated. [redacted]

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40. Another key variable is President Delvalle. Delvalle could be forced into retirement by health or political problems, possibly prompting at least a temporary disruption in the PRD-PDF plan for continued political rule. Vice President Esquivel is strongly opposed by both the PDF and PRD, who do not trust him. Assuming he could be convinced to step aside by measures short of a military coup, new elections would be constitutionally required if such events were to occur before September 1987. After that date, a caretaker regime could be installed to oversee affairs until inauguration of the 1989 winner. [redacted]

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41. External pressure—particularly from the United States—could also have a significant impact on the question of PDF involvement in politics. If, for example, Panama were to be denied economic and military assistance and become more isolated politically as a result of continuation of the corrupt practices associated with Noriega's supremacy, PRD-PDF critics would have important new leverage to use against the current system. The government, on the other hand, would be likely to appeal to Panamanian nationalism, claiming that the United States, abetted by the opposition, was trumping up a pretext to renege on the Canal Treaties and keep the Canal. [redacted]

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42. A final key variable is the domestic economy. Only moderate growth over the next few years, tight government austerity measures, and rising unemployment are likely to cause some domestic unrest. Should the economy turn drastically downward, the government would probably be faced with greater worker unrest, which could strengthen both opposition and leftist elements within the PRD. This, in turn, would increase pressure for another change in government and for more direct military involvement before the 1989 election. [redacted]

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#### Impact on US Interests

43. US interests in Panama would be best served by a stable, friendly government, preferably one that

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is democratic. Specific US interests in Panama include:

- Unhindered access to the Panama Canal for military and civilian purposes.



- Official cooperation in the fight against drug trafficking.
- Denial of Panama as a base for the support of regional terrorism and insurgency and as a site for Cuban and Soviet Bloc activities, particularly those designed to undermine the US embargo against Cuba.
- Economic stability and continued access for US trade and investment.
- Continued Panamanian support for US policies and activities in Central America.

44. Among the alternative scenarios discussed above, the first, and most likely, the continuation of the present system, involves little change for US interests in Panama. This scenario would provide sufficient stability to ensure protection of US strategic interests in terms of access to the Canal, maintenance of access to defense facilities, and support for US activities in Central America. Specific problem areas would remain with respect to certain issues, however, such as money laundering, arms, drug trafficking, and PDF machinations with Cuba:

- US interests would probably suffer if the Noriega-led system of PRD-PDF control became increasingly repressive. Critics would probably attack the United States for allegedly supporting, or not forcing out, such a government. Not only would the system become less stable as it became more authoritarian, but anti-US sentiment—never difficult to arouse in Panama—would remain as a latent threat to US interests, awaiting circumstances in which it could find expression.



45. The second scenario, a transition to increased civilian rule, may provide the context most conducive to the protection and furtherance of US interests and open the way for the kind of economic and political cooperation that could facilitate a turnover of control of the Canal under the best possible circumstances for both countries. Much would depend, however, on the attitudes of the civilian officials toward the United States and their ability to cooperate effectively on common interests. Furthermore, even a democratic, pro-US Government is unlikely to be able to eliminate the extensive system of corruption in Panama.

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46. A military coup would seriously complicate US policy toward Panama, even if the resulting government presented neither ideological problems nor threats to US security interests. The disparity between such a government and the US policy emphasis on encouraging democratic government in Latin America would make US cooperation extremely difficult. The results would be particularly damaging for US interests in Central America if cooperation with Panama would be restricted. The human rights abuses that a military government would probably commit to attain and consolidate power would also create bilateral difficulties.

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47. A sharp turn to the left would be likely to place at risk US political, economic, and strategic interests.

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Conflict over these and other foreign policy issues could poison cooperation even on matters of common interest.

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48. US ability to influence those potential outcomes is constrained by the capacity of Noriega and the PDF-PRD coalition to take retaliatory actions that would harm US interests. For example, Noriega could respond to US pressure to end corruption and move the military out of politics by strictly enforcing Panama Canal Treaty provisions, restricting access to US bases and facilities, and exploiting his relationship with the Soviet Union, Cuba, and the domestic left.

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