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MEMORANDUM

SUBJECT: Torrijos and the Treaty: A Crucial Year

State Department review
completed

Summary

Panamanian strongman Omar Torrijos may be facing a critical period in which domestic and international pressures could prompt him to compromise on his administration's stated negotiating positions to bring the canal talks to a conclusion.

--The Panamanians would be most likely to give initially on technical issues and on such matters as land and waters jurisdiction.

--Even on more crucial issues such as defense, they will probably be flexible.

--Duration will be the most difficult issue for compromise but Torrijos could likely secure plebiscite approval even of a treaty which does not end all US involvement in the Canal Zone before the end of the century.

Torrijos' international support--the mainstay of Panamanian strategy to pressure the US into concessions--is not as unqualified as in the past. In Panama, an economic slump, widespread official corruption, lack of progress in the canal talks, and other problems have eroded the regime's revolutionary image and contradicted its rhetoric. Torrijos now

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has enough domestic enemies that widespread violence against US personnel or installations, his implicit threat throughout the negotiations, would also endanger him.

While not posing a threat to the stability of the government, these developments increase the pressure on Torrijos to conclude the treaty talks. The mercurial leader will probably react in characteristic fashion by occasionally taking aggressive actions against the US. Even his conscious strategy undoubtedly calls for more aggressive moves following the US elections, to demonstrate that the hiatus in the negotiations occasioned by the US election campaign has not sidetracked Panamanian demands. His focus, however, remains the international arena and there are soft spots in his strategy.

Torrijos' Strategy

During much of the long negotiating process, Torrijos, who took power in 1968, has felt he had the US over a barrel. He reasoned that the Vietnam experience in particular had created a climate in which the US would go to considerable lengths to avoid the possibility of violent confrontations overseas. At international forums, Panama provided a pat case of a small exploited nation attempting to throw off the imperialist yoke; it won vocal third world support. Strong Latin American backing in the name of regional solidarity was practically an automatic reflex. In Panama, aggressive tactics against the US--from threats to take "the Ho Chi Minh trail" to attempted seizures of US vessels in Panama's claimed territorial waters--were implicitly attributed to the pressures caused by popular impatience.

To date, Torrijos has used his broad international support, his posturing as a prisoner of revolutionary forces, and his threat of a violent popular explosion to pressure the US into concessions in the treaty negotiations. Panama, now calculating that the negotiations will be entering their final phase after

the US elections, is demanding a complete end to the US role in the Canal Zone before the year 2000. Its spokesmen have suggested that such public demands are practically non-negotiable.

Cracks have begun to appear in Torrijos' strategy, however, and they may well grow wider. Some of Torrijos' most prominent supporters in the hemisphere may be having second thoughts about backing him to the hilt.

The political pendulum in Latin America has taken a conservative swing during the course of the canal negotiations. The incumbent administrations in Peru, Argentina, and Chile, for example, will not back Panama as unreservedly as their predecessors. Some of their reservations are purely economic, others ideological. Some concerns are probably a reaction to Torrijos' personality and image. More general third world support continues to be semiautomatic, but most nonaligned states outside the hemisphere are only superficially concerned with the Panama Canal. Torrijos counts heavily on support in Latin America so he can bill the canal issue as a hemispheric concern.

Any weakening of support impacts on Panama's confidence and tactics--which rely heavily on international backing. Torrijos firmly believes that it is international pressure that will force the US to accede eventually to Panama's demands. He was the only Western Hemisphere leader other than Guyana's Forbes Burnham at Sri Lanka for the nonaligned conference in August. Torrijos has traveled throughout the hemisphere to generate additional support. OAS, UN, and third world declarations of support are used at home to stress the inevitability of a final treaty incorporating Panama's "just" demands. The Panamanians would be particularly sensitive to anything less than complete and unanimous support in Latin America and the Caribbean for their position. A diplomatic team is visiting Central and South American capitals to promote Panama's views--and probably to attempt to shore up backing.

The Peruvians, among others, have been reappraising

their support of Panama. Early in June, long-time Peruvian opposition leader Haya de la Torre called for Panamanian sovereignty over the canal--but in conjunction with an internationalization of the waterway as a regional resource. The Panamanians hurriedly responded with an official communique and a series of orchestrated press articles deriding the idea. This was a significant public departure from unequivocal support for Panama's position by a prominent Latin American.

Of even greater concern to Panama is the Peruvian government's behind-the-scenes re-evaluation of official policy. In late June, a Peruvian Foreign Ministry official told the US embassy that the Panamanians' overly ambitious pursuit of sovereignty was having a negative effect and that Peru was shifting its perspective on the canal issue to include economic aspects.

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The ouster of leftist Prime Minister Fernandez Maldonado and his supporters in mid-July can only have accelerated the trend toward more pragmatic consideration of the issue.

Colombian President Lopez, who has been one of Panama's principal regional backers, recently has injected an even-handed approach into his public statements that has undoubtedly troubled Panamanian officials. In a public message to Panama in June Lopez noted: "It would be naive, I would even say unreasonable, for Panama to become the exclusive guarantor of traffic through the canal." Although supporting Panama's general aspirations, he stated the US should maintain a reasonable number of bases. On August 8, Lopez reiterated that the US should retain responsibility for the defense of the canal. Panamanian sensitivity to such statements was obvious when most of the controlled press, which usually trumpets Latin American support, failed to carry the text of Lopez' remarks.

The foreign ministers of Bolivia and the West Coast Latin American countries--Ecuador, Peru, and Chile--have also met to discuss near and long-term prospects for toll rates and access to the canal.

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Publicly, there has been a demarche to the OAS protesting proposed increases in toll rates by the US Canal Zone administration. At the same time, however, there have long been private misgivings about the stability of toll rates and orderly management under Panamanian administration.

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These concerns are partly economic. Colombia, for example, has its Atlantic and Pacific coasts divided by the Panamanian isthmus and is dependent on the canal for its intracoastal commerce.

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As for the West Coast countries, a substantial amount of their foreign trade passes through the canal. Partly because of the long-term stability of canal tolls under the US, these countries had not clearly focused on the economic impact of any future increases by a Panamanian administration.

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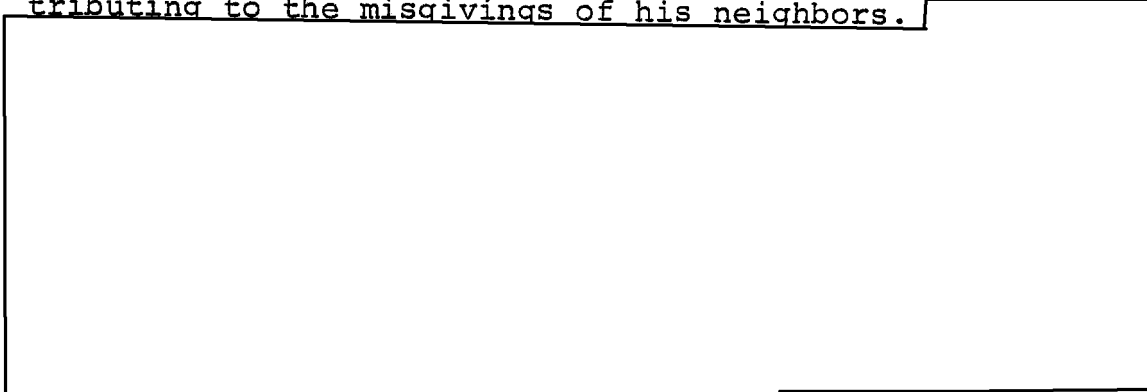
In addition, several Latin American governments are disturbed at Torrijos' relationship with Havana, especially in the wake of Cuba's Angola adventure. Panama and Cuba reestablished diplomatic relations in 1974 and Torrijos visited Havana early this year. These ties led directly to the failure of Torrijos' self-serving plans to celebrate the 150th anniversary of the Bolivarian congress with a Latin American summit in Panama. After the Panamanian leader invited Fidel Castro, many Latin American chiefs of state, unwilling to associate publicly with the Cuban leader and uncomfortable at being drawn into an expected propaganda barrage at the US, declined to attend. Even plans for a lower-level meeting of foreign ministers were eventually scrapped.

More recent, unsubstantiated rumors of a growing Cuban presence in Panama have probably further disturbed such conservative regimes as those in Nicaragua, Brazil, Argentina, Paraguay, and Chile.

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Torrijos' personal reputation does little to bolster Panama's regional support--and may be contributing to the misgivings of his neighbors.



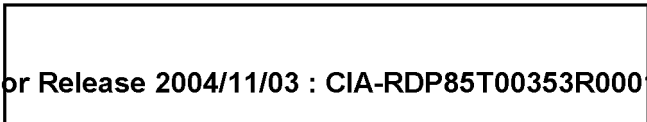
Some of Latin America's more sophisticated and better educated leaders have personal reservations about Torrijos' judgment, style, and acumen--if only to the point of worrying that the Cubans might take advantage of him.

The sum total of these reservations and second thoughts about the Torrijos regime probably will not have a striking public impact either at international forums or in the tempo of declarations of support from Panama's neighbors. Regional solidarity against the US colossus remains a powerful Latin American bond. Some countries such as Cuba, Jamaica, and probably Mexico will remain avid, unequivocal boosters of the canal cause--although even the Cubans were apparently annoyed when Torrijos arrived in Colombo intoxicated last month. Leaders of other states may privately convey less than unreserved support, however, and if their reservations begin creeping into public statements, the effect will be very unsettling for Torrijos.

Domestic Difficulties

The possible pressures that could lead Torrijos to compromise do not stem solely from the international facet of his strategy. His problems at home are growing and the political pinch could narrow his options.

His popularity has slipped from a high point in 1973-74 for a variety of economic and political causes.



He does not appear to be in any danger of being overthrown, but there is discernible, growing dissatisfaction. Torrijos is counting on a signed treaty in 1977 as a political panacea.

The economic slump that gripped the country in 1974-75 may be the bedrock of unhappiness with the regime. Although Panama weathered the world recession in relatively good shape for an underdeveloped country, the 2-percent growth rates of the last two years came as a rude shock after the sustained high growth of the early part of the decade. Despite the government's hope that the worst is past, the slump has held on. Investment especially has not recovered.

Businessmen are not only reluctant to invest on financial grounds, they have personal and political disincentives as well. Most dislike Torrijos for his crudity, his leftist rhetoric, his lack of well defined long-term economic plans, his coziness with Cuba, and the steps he has taken toward state control in some areas. Businessmen are for the most part charter members of the oligarchy and look down on Torrijos' lack of polish. Torrijos further antagonized the private sector early this year by exiling about a dozen leading businessmen on vague, unsubstantiated charges of subversion. Three of those exiled have now been permitted to return, and in early August the National Guard ended its six-month occupation of a businessmen's association headquarters. The residue of ill feeling has not dissipated, however. A series of government fence-mending seminars with leading private sector representatives has yet to have much impact.

The economic slump has contributed to a tightening financial situation. Tax revenues--which finance 70 percent of the budget--have lagged. By mid-year, Panama's current budget deficit was already reported to be more than \$30 million, although officials hope to hold the revenue shortfall to \$20 million for the entire year. In addition, the foreign debt burden is heavy--some \$400 million last year--and this year's debt service is a whopping \$91 million. The situation is not out of control, but is of serious concern to Panamanian officials. The government has

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recently been seeking foreign loans to help refinance some of it's current commitments. Although the financial squeeze by itself is not sufficient to force concessions from Torrijos, he is well aware that a new treaty, confirming the prospect of larger US canal payments, would aid the government's borrowing efforts.

Adding to the government's economic worries is the drought. It is already worse than the 1972 dry spell, which seriously damaged grain production and prompted increased livestock slaughtering to ease the pressure on pastures and grain supplies.

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There is also a latent dissatisfaction with eight years of curtailed political freedoms and ignored constitutional rights--an imposed sacrifice for which there appears little return.

Torrijos may also be realizing that the public is nearly sated by his steady diet of sovereignty

propaganda. Domestic concerns, chiefly economic, weigh more heavily on most people than does the publicized colonialist yoke of the Canal Zone--which provides some 14,000 Panamanians with a wage well above what they could earn in Panama. A new treaty is undeniably Panama's equivalent of apple pie and motherhood, but it is not a burning daily concern for most people. Torrijos, realizing this, will probably be devoting greater attention to economic matters in coming months.

Offsetting many of Torrijos' problems is the fact that the National Guard continues to line up solidly behind him, leaving the opposition with few openings or alternatives. Exile plotting, although it continues, has come to nothing. Torrijos demonstrated his strength when he used strong-arm tactics to squelch the street protests initiated by businessmen following the exilings early this year.

The Threat of Violence

That incident showed Torrijos that the private sector would be likely to take advantage of opportunities to fuel protest against him. Many businessmen fear that if Torrijos does successfully negotiate a new treaty, he will be so entrenched in power that he will be able to rule with little or no regard for their views. Should Torrijos allow or encourage major rioting against the US presence, businessmen might well try to take advantage of the accompanying instability, and Torrijos knows it. A further disincentive is that violence in Panama would necessarily involve students--and this is one genie that Torrijos would prefer to keep in the bottle he has kept carefully plugged throughout his administration.

Students present Torrijos with one of his most effective tools and canal negotiating gambits--and also with his most outspoken critics and potentially dangerous adversaries. When Torrijos raises the threat of a violent explosion against the Canal Zone, he is essentially speaking of the students--and the spectre of the 1964 riots that were touched off by a student incident. With 1964 still fresh in the minds of many, Torrijos' sabre rattling and hints of another Vietnam have a less hollow ring. He has

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frequently employed such threats to try to win concessions from the US. Yet the very last thing on which he would want to stake his political future and his place in the Panamanian pantheon would be a major student uprising. At some point he might have to try to control it and risk killing students or chance that student radicals who criticize his caricature of a revolution might turn major demonstrations against him.

Torrijos has manipulated the student movement to his great advantage. The largest student federation is responsive to government control and has been used to support the official line. In some instances, it has been used directly against opponents, as when students overran and vandalized an antigovernment radio station.

The administration treats the student sector with some deference and the students--given their central role in the 1964 disturbances--are imbued with a considerable sense of self-importance. Torrijos has met personally with complaining students. School-age protestors have forced senior officials to see them about grievances and the education minister on one occasion even had to walk through the rain with them in order to make an immediate, first-hand examination of maintenance problems. Torrijos released details of the then secret negotiations to a student group last year and student clamor helped push him into declaring an official policy of open negotiations. Torrijos still meets periodically with students along with representatives of other interest groups to keep them informed on the negotiations.

Many student groups are unhappy with Torrijos, however, for his failure to carry out radical domestic reforms or take a stronger line against the US in the canal talks. These groups, bitterly anti-US, are antigovernment as well. The radicals have been principally responsible for the violence attending student demonstrations. The government, through close monitoring and the muscle of the National Guard, has nevertheless kept these demonstrations within bounds and used them to its advantage. The stoning of the US embassy during the "banana war" protests against

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United Brands fruit company in 1974, for example, served the government's purpose of underscoring the struggle against multinationals. There have been striking differences in the extent of National Guard "protection" of the US embassy during different demonstrations.

Proof that the students acknowledge the government's upper hand is the fact that Torrijos, recognizing that the US election campaign would cause an effective halt to the negotiations, has apparently imposed a tacit moratorium on anti-US demonstrations. On a recent radio program one student radical implicitly acknowledged the situation with the comment: "The fact that all Panamanians must obey does not mean that all Panamanians agree with those who are ruling us."

The government is probably not so confident of its control that it would want to risk touching off massive demonstrations, however. There is no doubt about simmering resentment toward Torrijos in the student left, and National Guard officers have reportedly been surprised on occasion at the lack of general student support for the government, notably during the confrontation with the private sector surrounding the January exilings of businessmen. Students have sometimes ignored Guard orders and the Guard had to use tear gas to disperse one demonstration. Last year when the controlled media repeatedly warned that those seeking to foment violence were enemies of the revolution who were being duped by imperialists, Torrijos was setting the stage for possible repression of radical, antigovernment students,

In general, however, Torrijos has a reasonably firm grip on the student movement. The National Guard gives him the means to maintain this hold and selectively employ student protest, and even small-scale violence, to his advantage. He must be aware, however, of the potential danger in widespread student violence because student radicals who are most opposed to him would probably assume a major role and could seize leadership of the student movement. Torrijos probably would not unleash and support major violence unless he believed he had been

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forced into a position--for example by a complete breakdown in the talks and little prospect of their resumption--where a desperate gamble was his only hope for a new treaty. He would be far more likely to turn to the international arena to try to pressure the US first instead of embracing violence. His negotiating ace--major violence--is a wild card he probably hopes he never has to play.

A dissatisfied business sector, a troubled general public, and restive students have brought Torrijos' ballyhooed revolutionary bandwagon pretty much to a standstill. The eight-year-old Revolution, always more mild reform than radical change in spite of the rhetoric, has broken little new ground recently. In fact, the only really clear goal of the otherwise amorphous Revolution is a new treaty.

1977--Year of the Treaty

Torrijos has now billed 1977 as the "Year of the Treaty" and his spokesmen are talking of "months" before a new treaty is signed. Panamanian officials are raising the expectation that once US elections are past, the talks will be speedily concluded. In 1977, Torrijos says, "the US will have run out of excuses and the Panamanians out of patience".

For the moment, however, Torrijos' strategy appears to be that following the US elections he will step up his international campaign, probably focusing on the UN. He has indicated he will consult with national sectors concerning the timing of a UN move and that his support at the nonaligned meeting laid the foundation for a successful UN effort. Official spokesmen have fuzzed up the timing of any UN move in order to keep as many options open as possible. If negotiations do not proceed smoothly following the US elections, the UN timetable will be moved up, but even Torrijos is probably unsure of how exactly he will proceed at this point. If it suits his purposes, he appears willing to stretch Panamanian "patience" into next year without vigorous cage rattling. October 11, the eighth anniversary of Torrijos' revolutionary takeover, will present some temptation for anti-US action, but he is probably willing to let it pass uneventfully. He has laid the groundwork in Panama for a major push next year rather than this.

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Torrijos' efforts to conclude the negotiations are quite likely to include rash actions that could disrupt relations with the US. Torrijos, with his military background and macho image, prefers forceful tactics to protracted negotiation. His aggressive side was evident in April when the National Guard attempted to seize foreign, including US, fishing boats and levy heavy fines as a show of sovereignty and for financial gain. The campaign ended with two US boats bottled up in the Canal Zone. Torrijos eventually agreed to scale down the fines to retro-active license fees, but only the National Guard's limited marine capabilities and the international media's late start on the story prevented a major bilateral incident. Then in May, Torrijos apparently gave his approval for a brief National Guard seizure of a boat in Canal Zone waters that was the subject of an ownership dispute. Not all such actions are hastily conceived--Torrijos believes the US responds to aggressive tactics with greater concessions.

Conclusion

Torrijos may be playing with a weaker hand than at any time during his negotiations. His international position is obviously not without some flaws. For the near term, Panamanian negotiators may continue generally to hold to their positions and yield little. If the negotiations approach their final stages and it appears the sticking points are primarily US concerns for defense arrangements, guarantees of reasonable tolls, and unimpeded access--as opposed to centering on such sovereignty-laden issues as local jurisdiction, jobs, and land-and-waters administration--then hemispheric leaders may signal Torrijos to moderate his stand.

Even the sometimes strident call for a complete end to all US involvement in Panama before the end of the century is a possible area for compromise, although duration would probably be the most difficult issue for the Panamanians to give ground on. Perhaps significantly, Torrijos' performance at Sri Lanka was relatively moderate. He had practically a blank check for the Panamanian resolution, but the declaration that emerged omitted any reference to a complete end to US involvement before the year 2000.

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The omission could have resulted from moderate counsel from the Colombian and Venezuelan presidents. Although the Panamanians have backed themselves toward a corner with public statements about the year 2000, they could still compromise if Torrijos felt he could get an otherwise generally acceptable treaty. The duration issue could be soft-pedaled if provisions for a US presence were contained in a defense agreement, for example, rather than the treaty proper.

The dispute over defense sites and roles remains an area for possible Panamanian compromise, since there appears to be Latin American concern that there be a continued US guarantee of stability and access to the canal. The Panamanians, for example, have demanded that the present fourteen US bases be cut to three. A loose definition of what constitutes a base area, however, could allow the Panamanians to gain their numerical target without as drastic a corresponding reduction in the actual size of US forces.

On lands and waters, where the US and Panama started far apart, the Panamanians are probably willing to give on their initial proposal that the US retain only a strip of land equivalent to 10 percent of the present Canal Zone. Panama will be gaining a considerable amount of land, and could easily emphasize the gains rather than continued US control in some areas.

Torrijos has promised a plebiscite on a new treaty, but compromise in any of these several areas or others would probably not jeopardize public acceptance of an officially backed treaty. Government resources should allow Torrijos to propagandize and mobilize a vote, especially from rural areas, guaranteeing a favorable outcome to a plebiscite. In any event, Torrijos would have few scruples about rigging the vote, if that were necessary.

Torrijos has promised and promised that he can secure a treaty with his tactics and he will feel an increasing domestic need--underscored by continued economic doldrums, some political disenchantment, and a lack of revolutionary successes on other fronts--to deliver. Even with the National Guard solidly

behind him, Torrijos would be loath to look ahead to 1978 without a final treaty accord. He would then be facing--with empty hands--the tenth anniversary of his rule, national assembly elections, and the need for another six-year term as Maximum Leader of the Revolution. He wants an agreement in the near term and, as the talks move into 1977 he will probably feel under increasing pressure to conclude the negotiations. His threat of major violence, although not entirely hollow given his rash temperament, is still a very unattractive option.

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