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# Panama: Prospects for Relations With the US

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Concurred in by the

UNITED STATES INTELLIGENCE BOARD

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## PANAMA: PROSPECTS FOR RELATIONS WITH THE US

### THE PROBLEM

To assess the situation in Panama and the outlook for new canal treaties.

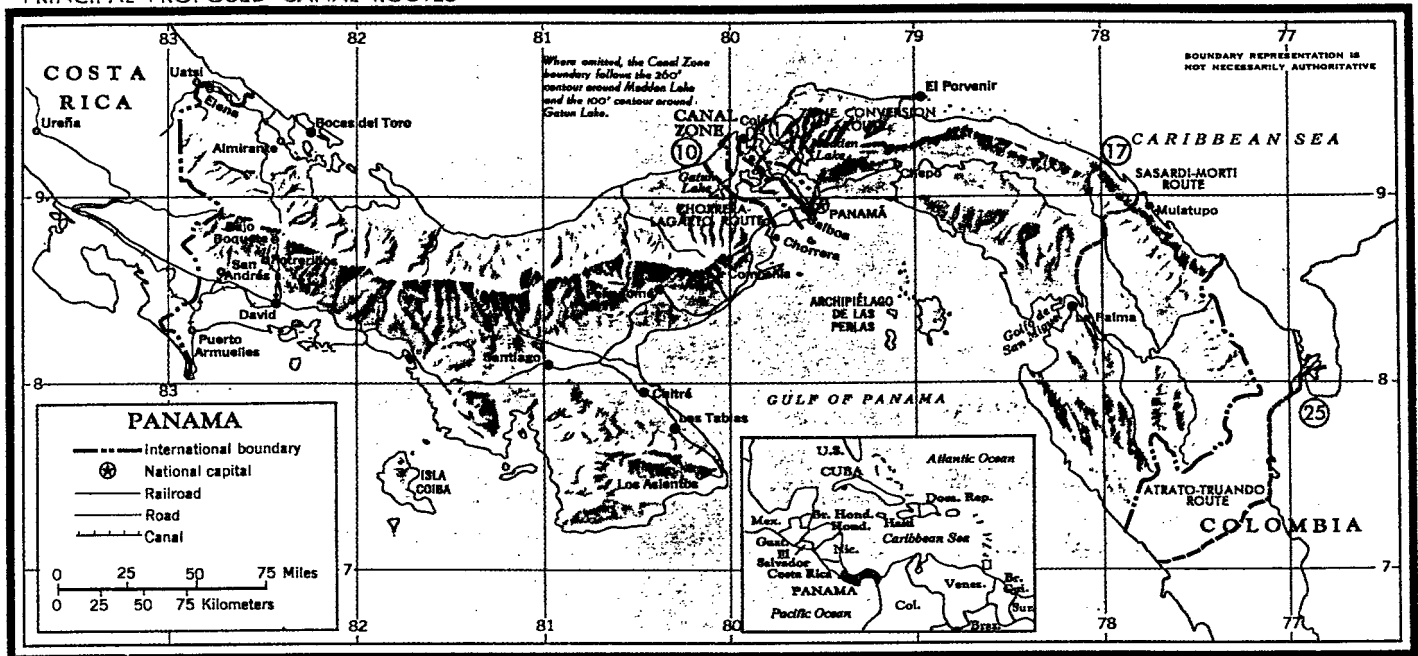
### CONCLUSIONS

A. Arnulfo Arias, who is scheduled to take office as President of Panama on 1 October, is committed to securing canal treaties which will appear more favorable for Panama than those negotiated with the US in 1967 and to carrying out some part of his extensive program of domestic reforms. His success in these exceedingly difficult tasks, and indeed his tenure of office, will depend heavily on his ability to work out a *modus vivendi* with the hitherto hostile Guardia Nacional and with a National Assembly strongly influenced by representatives of the oligarchy.

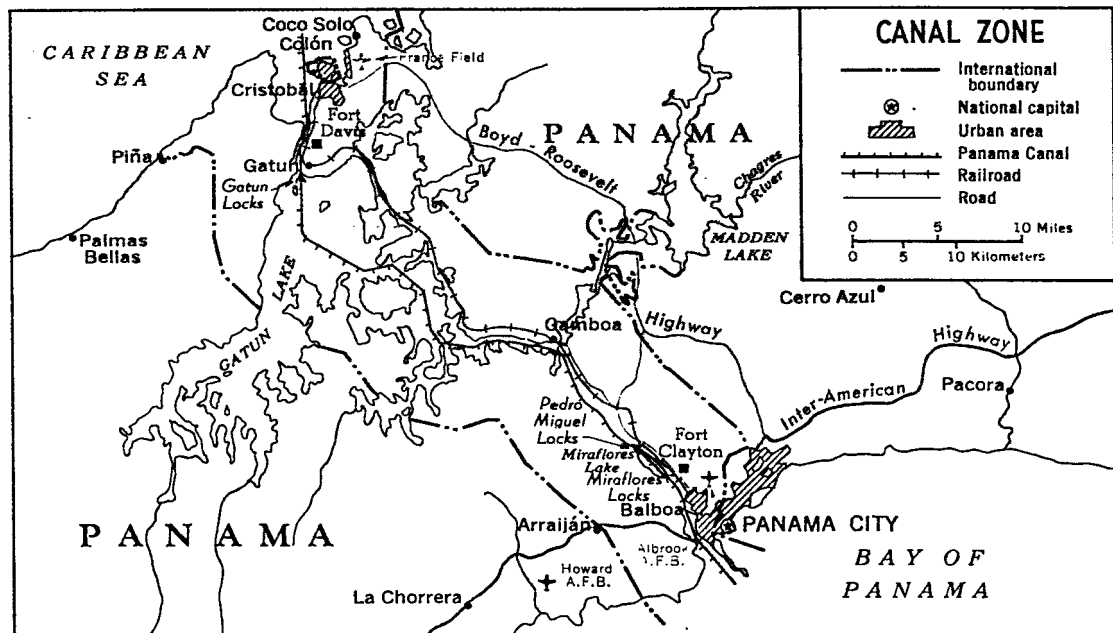
B. We believe that Arias, who was summarily deposed during his two previous terms as President, will initially move with reasonable caution on many sensitive domestic issues. Though he has a reputation of being unfriendly to the US, he is now apparently convinced that reasonably harmonious relations are essential not only for obtaining new canal treaties but for the overall success of his administration.

C. The major areas of contention during negotiations will probably be over issues of Panamanian sovereignty and the size of the US presence, the primary sources of Panamanian resentment under present arrangements. If Arias can present to the assembly before the end of 1970 treaties that appear to be more favorable than those negotiated by the preceding administration, we believe the chances for approval will be better than even. Proposals submitted after that date, however, would become involved in the election campaign of 1972, and their chances sharply diminished.

PRINCIPAL PROPOSED CANAL ROUTES



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D. If treaties approved by Panama, under Arias or any succeeding administration, failed of ratification by the US, relations between the two countries would become seriously strained for an extended period.

E. Over the longer run, whether or not Arias survives in office, and whether or not he obtains approval of new treaties, the US presence in Panama will remain the central issue in that country's political life. In fact, canal treaties approved by one administration would almost certainly be challenged in subsequent elections. Thus, over the foreseeable future, there will probably be recurrent strains and crises in US-Panamanian relations, particularly during election years. If Arias is forced out of office, anti-US extremists would have an opportunity to garner support among his followers.

## DISCUSSION

### I. BACKGROUND

1. On 3 November 1903, the Republic of Panama proclaimed its independence from Colombia. On 18 November, Panama's plenipotentiary, the French promoter-engineer Philippe Bunau-Varilla, signed a treaty granting the US the use and control, in perpetuity, of a canal zone 10 miles wide in return for a payment of \$10 million and an annual rental of \$250,000 in gold. On 15 January 1904, the Panamanian Government was organized and a constitution was drawn up.

2. Ever since then, the country's special relationship with the US has been the key factor in its economic development, and has repeatedly been involved in its domestic politics. This is mainly because the Canal, which is owned, operated, and defended by the US, is both the country's most important economic asset (generating altogether at least two-fifths of Panama's gross national product and two-thirds of its foreign exchange) and a conspicuous reminder of its dependent status. Panamanians have always resented the terms under which the canal is operated, particularly the provision authorizing the US to act as it would "if it were the sovereign" over the Canal Zone that cuts the country in two, "to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power, or authority." This resentment has served to imbue Panamanian politics with an intensity of nationalistic feeling which is unusual even for Latin America, and which is continually exploited by the oligarchy to divert attention from the excessive share it takes of the material benefits derived from the Canal and other economic activity.

3. Panamanian efforts to change this basic relationship have produced some modifications in the treaty of 1903. In 1936, for example, the US, which had previously sent troops into Panama on several occasions, relinquished its right to intervene to guarantee Panama's independence and adjusted the annual pay-

ment for use of the Canal Zone to \$430,000. In 1955, the payment was increased to \$1,930,000, and the US agreed to provisions extending substantial employment and commercial benefits to Panamanians. But such changes fell far short of the hopes of the Panamanians both for increased government revenue from the canal and for recognition of their sovereignty over this national asset.

4. US-Panamanian relations continued gradually to worsen, and in January 1964 a minor incident involving sovereignty in the Canal Zone triggered serious riots in Panama City and Colón. The riots, and Panama's subsequent breaking of relations with the US, dramatically underscored the need for changes in the existing treaty arrangements. By April 1964 the two governments had agreed to seek prompt elimination of the causes of friction, and diplomatic relations were restored. At first, progress was facilitated by the cooperative attitude of the administration of President Marcos Robles (elected in May and inaugurated 1 October 1964), and the assurances of President Johnson (December 1964) that the US was willing to negotiate new treaties with the Government of Panama. But it took until mid-1967 to negotiate them; what emerged were proposals for three new treaties for the operation of the present lock canal, for the building of a new sea-level canal, and for the defense of the canals.<sup>1</sup> Furthermore, Robles' inept presentation and defense of the proposals were quickly exploited by those opposing them; this fact and the approach of the election of 1968 made it impossible to secure a consideration of the proposals on their merits.

5. The Panamanian elite groups that had supported Robles in 1964 split over his attempt to impose David Samudio, his Minister of Finance, as his successor. While some oligarchs accepted Samudio, despite his profession of liberal and reform-minded ideas, others came to terms with their traditional opponent, Arnulfo Arias, who though a man of considerable wealth is also the leader of Panama's only mass-based party. Despite the all-out efforts of the administration in an election campaign marked by a degree of violence, fraud, and official interference unusual even for Panama, Arias won the election (12 May 1968) by a substantial margin. His victory was made official only after General Bolívar Vallarino, head of the country's defense and police force, the Guardia Nacional, shifted from obvious support for Samudio to a position of insisting on a reasonably honest count of the ballots. With a cynicism typical of Panamanian politicians, the Samudio forces, which earlier had supported the treaty proposals, now denounced Arias as a US puppet, imposed by a US-dominated Guardia Nacional to secure new treaties more favorable to the US than to Panama. There is still an outside chance that Arias may not be permitted to take office on 1 October as scheduled.

## II. THE ARIAS ADMINISTRATION

6. As president, Arias will face major problems in three different but inter-related spheres: (a) in his relationship with General Vallarino and the Guardia Nacional, which remains Panama's final political arbiter; (b) in maintaining

<sup>1</sup> See Annex, "Key Aspects of the 1967 Treaty Proposals."

support in a National Assembly strongly influenced by the oligarchy; (c) in concluding canal treaties with the US on terms which at least appear better than the Robles government could get—and yet are still acceptable to both countries. Serious miscalculations or missteps in any one of these spheres would probably cost him his chance for success in the others—and could indeed abruptly end his hold on power.

7. Arias' previous record as president of Panama gives little basis for confidence in his ability to overcome these various challenges, or to establish fruitful relations with the US. Arias was president on two previous occasions (1940-1941 and 1949-1951); each time he was charged by powerful opponents with arrogance and emotional instability and was removed from office after he had attempted to override certain constitutional restraints. He sought to keep Panama neutral in World War II, has cooperated with anti-US forces on other occasions, and has charged the US with supporting his removal from office in both his previous administrations. Arias has also indicated that the treaty proposals negotiated with the Robles administration must be renegotiated to bear his personal stamp.

8. We do not know whether Arias has learned from experience; he has generally behaved more arbitrarily and unpredictably when in office than when out of it. Particularly in the last several years he has behaved with notable moderation. At the time of the January 1964 riots, he restrained his followers rather than exploiting the situation for short-term political profit. Throughout the long negotiations on new treaties, he confined his attacks to assertions that the Robles government was illegal, and he was noticeably restrained with respect to the substantive issues being negotiated. During the recent campaign, he proposed an extensive but relatively moderate program of administrative, economic, and social reforms closely in line with the concepts of the Alliance for Progress. He declared his intention to seek advice and assistance from all sectors interested in the general welfare and has set up committees to study specific problems and to consult on them with US representatives. At 68 he realizes that this is his last chance to make his mark in Panamanian history, and apparently feels that a reasonably harmonious relationship with the US is essential to that end. Finally, he is aware that the presence of the Guardia and the strength of the conservative forces in the National Assembly provide restraints on his freedom of action.

### III. INTERNAL PROBLEMS

#### A. The Guardia Nacional

9. The most urgent internal problem facing the new administration is its relationship with the Guardia Nacional. Arias and the Guardia have been consistent enemies. Vallarino only reversed his commitment to Samudio when it became apparent that Arias was winning a majority too large to be easily overcome by manipulation of the election returns. Moreover, in the counting of the votes for seats in the National Assembly, Vallarino and Arias each intervened



directly in an effort to ensure the "election" of deputies favorable to his particular interest.

10. The role played by the Guardia Nacional in the election campaign of 1968 marked the end of an extended period during which it had abstained from direct and forceful intervention in national politics. Since overthrowing Arias in 1951, its leaders had served as the loyal supporters of subsequent administrations representing the oligarchy, and had concentrated on using US assistance to improve the professional skills and equipment of the Guardia. Though Vallarino and other key officers eventually acquiesced in the election of Arias, they still distrust him and fear that he intends to bring the Guardia under his direct control. Thus Arias will face formidable opposition from both the Guardia and the oligarchy if he attempts to dominate the Guardia and to end its role as the final arbiter of Panamanian politics, or to force reform measures through the National Assembly.

11. The way in which Arias handles the Guardia will be crucial to his survival in office. If he attempts to make changes not acceptable to its leadership, there is at least an even chance that the Guardia will take steps to remove him. The outcome might then depend on whether Arias could bring his followers into the streets in large enough numbers to face down the Guardia. On the other hand, if Arias moves slowly and carefully with the Guardia leaders, he can probably reach a *modus vivendi* with them. But this would be at best a fragile truce, and the Guardia would continue to be a restraining influence on Arias.

#### B. The National Assembly

12. The National Assembly is scheduled to convene on 1 October, but the manipulation of the election returns and award of seats are still in progress. It appears possible that Arias' National Union coalition may wind up with as many as two-thirds of the 42 seats. Although his Panameñista Party is the largest political movement in Panama, it will probably hold not more than 15 seats. The remainder of Arias' support will be divided among the four small political parties that broke with the Robles administration. Now that the election is over, the coalition partners are much more concerned with advancing their particular interests than with assuring the success of Arias' program. Thus Arias will be faced with the necessity of making arrangements with party leaders and individual deputies to secure the necessary majority on each measure requiring legislative approval.<sup>2</sup>

13. The most important of the four parties in the political coalition opposing Arias is Samudio's National Liberal Party. Samudio has maintained an intransigent attitude toward Arias and will almost certainly continue to oppose him. The other parties in the opposition, however, have limited followings

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<sup>2</sup>Some measures require only a majority of the deputies present while others must secure an absolute majority (22) of the membership. Treaties appear to fall in the first category, but some argue that treaties may be affected by procedural rules of the Assembly which could require approval by a two-thirds vote of the total membership.

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and also are primarily vehicles to serve the interests of their leaders. At least some of them are likely to seek an arrangement with the new administration to protect these interests. As a result Arias will have some bargaining power with them, particularly in the first years of his administration.<sup>3</sup>

### C. The Economic Situation

14. The Panamanian economy has been expanding fairly rapidly in recent years, but most of the population still lives at or near the subsistence level.<sup>4</sup> Also, though the rate of unemployment has been decreasing, it continues at about 10 percent in the most important cities, Panama City and Colón, where there is also considerable underemployment. It is, of course, these cities that show the most conspicuous contrasts between the poor on the one hand and the wealthy Panamanians and the US citizens in the Canal Zone on the other. About 50 percent of the country's population is engaged in agriculture; half the farmers are essentially outside the money economy and are ill fed, clothed, and housed. These problems are intensified by a 3.3 percent annual rate of growth in population. The population, now some 1.3 million, has doubled since 1940, and will probably double again by 1990.

15. During the first half of 1968 the unsettled political situation caused a slowdown in private investment and tourism. The new administration probably will inherit a depleted national treasury but will have available some \$35 million in US aid previously authorized and not yet disbursed. Moreover, much of the momentum for economic growth follows automatically from activities connected with the canal. Thus, unless there is prolonged or recurrent political unrest that continues to discourage investment and tourism, the economy will probably resume its rapid expansion. Yet even if the Arias administration carries out a number of its proposed programs in behalf of the poor, the reduction of the widespread poverty will proceed only slowly.

## IV. RELATIONS WITH THE US

### A. Outstanding Problems

16. A basic and continuing problem in relations with the US is that Panama's political institutions and leadership are inadequate to deal rationally with an issue as charged with hypernationalism as the canal issue. The population does benefit from existing treaty arrangements; the oligarchy, handsomely so. Yet the canal is viewed by Panamanians generally as a sort of treasure trove whose assets have been sequestered by foreigners and which must be retrieved. Thus

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<sup>3</sup> Panama has also various extreme leftist, pro-Castroite, and Communist groups that have tried, with little success, either to infiltrate the pro-Arias forces or to spur opposition to Arias. These are all small in numbers, and have been important only in their ability to exacerbate a situation such as occurred in January 1964. None of them is represented in the National Assembly.

<sup>4</sup> Panama's GNP has been increasing by about eight percent per year. Per capita GNP (estimated at about \$550 in 1967) is already well above the average for Latin America.

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Arias—like his predecessor—must seek terms acceptable to Panamanian nationalists at the risk of disrupting the economic benefits that flow from the present US-Panamanian relationship.

17. In renegotiating the canal treaties, the issues involving sovereignty will probably be more serious than the size of the payments to Panama and the day-to-day details of operating a canal. In fact, eventual Panamanian control of the canal and an early substantial increase in Panama's role in its administration are issues on which no Panamanian politician can give much ground and long survive. Many Panamanians resent the presence of US personnel employed in the Zone, whose jobs, wages, and standard of living contrast sharply with their own.

18. The arrangements for the defense of the present canal and of any future sea-level canal are also a particularly sensitive issue for the Panamanians. The political leaders generally recognize the need for US forces to protect the lock canal, but public opinion is strongly in favor of a reduction in the large US military presence. The traditionally close relationship between the US defense forces and the Guardia Nacional also becomes involved in domestic politics whenever the Guardia takes action some political group considers hurtful to its interests. The small size (fewer than 5,000 men) and relative weakness of the Guardia reinforce the impression, held not only by the Guardia itself but by most Panamanians, that ultimate power and control over Panama rest with the military forces of the US stationed in the country.

19. Other Latin American countries are also interested in the results of the negotiations for new canal treaties. Although the Latin American countries generally tend to sympathize with Panama, few if any are inclined to subordinate their own interests to those of Panama. The west coast countries, particularly Peru and Chile, are concerned lest new treaties result in sharply increased tolls for transit of their exports and imports. From 80 to 90 percent of the international trade of Chile, Ecuador, and Peru passes through the canal, about 65 percent of Bolivia's, and 33 to 50 percent of Colombia's. Colombia is concerned that new treaties will disrupt its special transit rights through Panama—which incidentally are another bone of contention between the US and Panama.

20. The Panamanians appear confident that the US will construct the new sea-level canal in Panamanian territory, but the site has not been settled. A US team has been surveying a route through the eastern part of the isthmus (the Sasaki-Morti Route), an area so sparsely populated that the use of nuclear devices in excavation of the site is being considered (see map). Use of nuclear explosive devices for a canal, however, would require an amendment to the Test Ban Treaty of 1963.<sup>5</sup> Such an amendment is not likely to be adopted soon enough to permit specific agreement on nuclear excavation of such a canal to be reached during the Arias administration. Other sea-level routes are also

<sup>5</sup> An amendment requires the concurrence of a majority of the signatories, including the US, the USSR, and the UK.

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being considered; one in the Zone, one in Panama near the Zone, and one in Colombia.<sup>6</sup>

### B. Short-Term Prospects

21. Arias' majority in the National Assembly is large but inherently unstable. We think that while Arias will attempt to enact some portions of his domestic program, including less controversial aspects such as construction of public housing, schools, and roads, he will husband his majority for consideration of the treaties he expects to negotiate with the US. If the treaty proposals can be submitted before the latter part of 1970, and if Arias is able to show that he has obtained more favorable terms than Robles, there is a better than even chance that the National Assembly will give approval. If not, the chances for approval will be slim and the treaties are apt to be delayed indefinitely. Any proposals submitted after 1970, even if they included more favorable terms, would almost certainly become involved in the presidential campaign of 1972.

22. We believe that Arias will give a high priority to his administration's relationship with the US because he realizes that if he can secure treaties with more favorable terms his personal prestige will be considerably enhanced and his chances for carrying out domestic reforms improved. He appreciates the considerable impetus the Panamanian economy would receive, at least in the short run, from the initiation of activities involved in constructing a sea-level canal.

23. In sum, we judge that the administration scheduled to assume office on 1 October 1968 has a better chance of securing approval of new treaties and of certain aspects of a domestic reform program than obtained in 1964-1968 or would obtain under any likely successor. We think that Arias' interest in the smooth progress of relations with the US will have a moderating influence upon his actions. If he attempted to move too rapidly or too arbitrarily the Guardia would probably remove him from office with the approval of the Panamanian elite.

### C. Longer Run Considerations

24. Whether or not Arias survives in office, and whether or not he obtains approval of new treaties, the US presence in Panama will remain the central issue in that country's political life. If Arias is not able to secure that approval, the Panamanian political system is not likely to produce another leader who can, at least for some years to come. Approval of the treaties by an administration controlled by the Guardia would be regarded as a betrayal of Panamanian interests, especially as the Guardia has frequently been depicted in Panama as

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<sup>6</sup> Colombia has also undertaken studies to determine the feasibility of building a multi-purpose project including a lock-type canal, but this would only serve ships of limited size. A route through Nicaragua is no longer being considered; construction by conventional methods would cost upwards of \$10 billion, and nuclear excavation would require the resettlement of one million people.

controlled by the US Government. Furthermore, if Arias were removed by the Guardia, anti-US extremists would have a favorable opportunity to garner support among his followers. This might result in the emergence of a mass political movement under virulently anti-US leadership.

25. As we have indicated, the construction of a new sea-level canal would give a considerable impetus to the economy. But once the new canal became operational, perhaps 15 years after agreement, the indirect benefits from a sea-level canal would significantly decrease, because it would require much smaller forces to operate and defend it. If the new canal is remote from the two large cities which prosper from the location of the present canal, their economic problems will become acute.<sup>7</sup> Thus measures to ease the effect on the Panamanian economy, such as increased US assistance for development of other sectors of the economy, would probably be required before the new canal opened.

26. If the Panamanian Government approved more favorable treaty terms, and those terms then failed of ratification by the US, there would be a broadly based and bitter anti-US reaction in Panama, and US-Panamanian relations would probably be seriously strained for an extended period.


27. The chances for ratification by Panama of treaties dealing with such vital matters as canals and bases will decline sharply if not disposed of before a Panamanian election campaign begins. Even then, the provisions of treaties arranged with one administration almost certainly will be condemned as inadequate by the opposition and made an issue in the next election. In short, we expect that over the foreseeable future there will be recurrent strains and crises in US-Panamanian relations, particularly during election years.

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<sup>7</sup> Nearly 75 percent of urban employment in Panama City and Colón is related directly or indirectly to operations of the present canal.

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ANNEX



## KEY ASPECTS OF THE 1967 TREATY PROPOSALS

There are three proposed treaties: the Lock Canal Treaty, to govern all aspects of the present canal; the Sea-Level Canal Treaty, to govern a new interocean canal; the Defense Treaty, to provide for the security and neutrality of both canals.

The *Lock Canal Treaty* would supersede all presently existing treaties. Specified areas needed for operation of the canal are designated as the Canal Area, which is to be administered by a Joint Administration. Other areas are designated as Defense Areas pursuant to, and administered under, the Defense Treaty. All other parts of the present Canal Zone revert to Panama.

The Administration of the Canal Area will be governed by a Board of nine members, five appointed by the President of the US, four by the President of Panama. The chief executive officer of the Administration will have a deputy; one will be a US national, the other a Panamanian. The Administration has expressed rights and powers in connection with operation of the canal and the administration of the Canal Area, and can make laws relating thereto. Certain criminal laws can be enacted only by a two-thirds vote of the Board. Legal matters within the Administration's jurisdiction will be litigated in courts established by the Administration. With respect to all other matters, Panamanian law applies and Panamanian courts have jurisdiction. The treaty continues certain rights and benefits enjoyed by employees of the present Panama Canal Company and Canal Zone Government, as well as specified privileges to operate by such US agencies as the Public Health Service, Smithsonian Institution, and Coast and Geodetic Survey.

The canal, the Canal Area, the Administration, and ships passing through the canal will (with minor exceptions) be exempt from Panamanian taxes and customs duties. Employees of the Administration and residents of the Canal Area will not (again with certain minor exceptions).

Tolls, payable in US dollars, will be established by the Administration. Panama is to receive 17 cents per long ton of commercial cargo, rising in five years to 22 cents (this could have provided some \$16 million in fiscal year 1969). The US is to receive 8 cents per ton, increasing in two years to 10 cents. Remaining proceeds from the Administration's revenues are to be shared equally between Panama and the US.

The canal will remain neutral and open to vessels of commerce and of war of all nations on nondiscriminatory terms.

The Lock Canal Treaty will expire at the end of 1999 unless superseded by the Sea-Level Canal Treaty. Property not needed for the sea-level canal will revert to Panama.

The *Sea-Level Canal Treaty* is considerably looser. It gives the US the right to build a sea-level interocean canal; the US must give notice of its intent to

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do so within 20 years of the entry into force of the treaty. The US cannot construct an interocean canal in any other country during the 20-year option period, unless by notice to Panama it surrenders its option. And during the option period, Panama may not construct, or agree to let others construct, a canal in Panama. The US is responsible for design and construction of the canal and may, subject to Panama's agreement, use nuclear excavation methods consistent with IAEA standards. The US, after consultation with Panama, may let other states, organizations, and individuals participate in financing canal construction. Or Panama, in agreement with the US, can undertake the financing.

Within general areas defined by the treaty, Panama will provide the use of land and water areas needed to construct and operate the canal. Where there is no private interest on the date the treaty is signed, Panama will provide the necessary areas without cost; otherwise the US will pay compensation as part of the construction cost.

The canal will be operated and maintained by a Commission, governed by a Board of nine members, five appointed by the President of the US, four by the President of Panama. If others participate in the financing, provision can be made for their representation on the Board. Either the chief executive officer of the Commission or his deputy will be a US national, the other will be Panamanian.

The Commission's rights and powers are spelled out in some detail. They are designed to provide the necessary authority to operate and maintain the canal. Panama is to be the preferred source of certain specified goods and services, provided quality and cost are satisfactory. Panama is responsible for law enforcement; security is covered by the Defense Treaty; the Commission may "adopt measures for the protection of the sea-level canal installation."

Broad exemptions from Panamanian taxes and customs duties are provided for both construction and operation of the canal, though the Commission must pay Panamanian taxes on commercial enterprises it operates.


Canal tolls and payments to Panama are to be fixed in the agreements for financing construction; the treaty itself merely specifies certain factors to be considered: e.g., contribution by Panama of its territory, resources contributed by others, the interests of world commerce.

Provisions for neutrality and nondiscrimination are like those in the Lock Canal Treaty.

The treaty remains in force for 60 years from the opening of the canal (though not beyond 2067), or until the option to build it expires or is surrendered. All property and rights then revert to Panama.

The *Defense Treaty* gives the US the right to use for Canal Defense (which is defined) certain specified areas. These are essentially the same installations now existing in the Canal Zone, though some are to be relinquished, and though





the list is subject to revision by mutual agreement if and when the sea-level canal is built. The operational rights given to the US are in substance those it presently enjoys.

The status of US armed forces and accompanying civilians is to be roughly as provided in the NATO status-of-forces agreement. Exclusive US jurisdiction over US personnel in the Canal Zone and exclusive Panamanian jurisdiction outside the Zone are to be replaced by a countrywide system of concurrent jurisdiction.

The Defense Treaty terminates five years after termination of the Lock Canal Treaty, or until the US no longer has a treaty obligation to Panama to defend an interoceanic canal in that country, whichever is later.

A separate exchange of notes gives the US the use of training and maneuver areas at Rio Hato for 10 years, renewable for successive one-year periods.

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