

~~SECRET~~

DECLASSIFIED

E.O. 13526, Sec. 3.3

- 2 -

NND 018005

By MP/PB, NARA, Date 8/11/2014

Offsetting this partially was a substantial US appropriation of funds for use by the Inter-American Development Bank. Taking all factors into consideration, we believe prospects for economic advance under the Alliance in 1968 are fair.

3. Four presidential elections, plus several congressional and municipal contests may place a somewhat greater strain on Latin America's political institutions than they have experienced in the past two years. Presidential elections in Ecuador, Panama, and Venezuela are being fought hard, and in Panama, particularly, there is a prospect of political instability following the elections. The ability of Panama to maintain a viable and effective government is of special importance to the US because of the canal and the related treaties that have been drawn up, which are now awaiting further consideration. Quite a different situation exists in Venezuela, where the ruling AD party is being severely challenged. The three chief candidates are all of a fundamentally democratic orientation; the basic issues are whether the established political institutions will stand the strain of fragmentation and whether Venezuela's democratic development of recent years will continue without interruption or setback.

4. Latin America has continued in recent months to believe that its best opportunities for economic advancement lie in trade preference arrangements and in commodity agreements. In spite of little success at the New Delhi UNCTAD Conference, countries in this area will doubtless continue to press for more advantageous trade relations vis-a-vis the more developed countries. To maintain a relatively stable price level

- 2 -

~~SECRET~~

ditions and a 1967 slump in exports contributed to this decline. Barriers to development include a high population growth rate (3.3%), maldistribution of national income, a limited national market, a very high illiteracy rate, limited educational and technical training facilities, maldistribution of cultivable lands, overdependence on a few major agricultural exports, institutional deficiencies within the government, and a powerful oligarchical conservative business-industrial community. A comprehensive economic and social development program will be required to initiate progress in the face of these great difficulties, and it is hoped that the present government will turn its attention to this field. The government failed in its first attempts to raise taxes for badly needed revenue, but it seems determined to continue its efforts.

Panama

65. The draft treaties completed by US and Panamanian negotiators still have not been signed by the President of either country and it is unlikely that they will be signed soon or in their present form. Panamanian presidential and legislative elections are scheduled for May 12, 1968, and whichever candidate wins and takes office on October 1 probably will seek to make some changes in the present drafts. There are three draft treaties which have been negotiated separately but concurrently: a new treaty to replace the 1903 treaty and its amendments covering the present Panama Canal; a treaty to provide for the possible

~~SECRET~~

- 42 -

construction and operation in Panama of a new sea level canal; and a defense agreement covering US military forces and installations in Panama, the Canal Zone, and any future canal areas. The US has agreed to recognize the sovereignty of Panama over the present canal zone or future canal areas and is prepared to share responsibility for the operation of any canals with Panama. Panama has pushed for as much Panamanian control as it can get. However, the US has insisted that it must retain the rights necessary for the effective operation and protection of all canals.

66. Another issue of great significance for shipping nations is that of the tolls to be charged for transit through the canals. The US is interested in keeping tolls as low as possible commensurate with the costs of construction and operation. Panama, naturally, desires to derive as much revenue as possible from what it considers to be an exploitation of its only important natural resource, its location. Panama is worried also lest any new sea level canal, which will require fewer workers to operate than the present lock canal, will produce less indirect income for Panama and will engender other forms of economic dislocation.

67. The contest for the May 12 elections has locked Panama in one of the most serious political crises in its history. The eight-party coalition which participated in President Marco Robles' government has split, with four of the parties supporting Robles' principal foe,

- 42 -

~~SECRET~~

SECRET