



# Executive Memorandum

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## WHY PANAMA IS A VITAL NATIONAL INTEREST

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The United States stands at the crossroads of an historic but dangerous transfer of power in the Americas. By the end of 1999, the U.S. military will no longer have troops in Panama, the nerve center of U.S.–Latin America policy throughout this century, as well as a major artery for U.S. commerce and counternarcotics operations.

But phasing out America's strategic presence in Panama carries serious consequences. Unless the Clinton Administration cements a new agreement to retain a direct U.S. presence in Panama, the complete withdrawal of U.S. troops will jeopardize the security of, as well as U.S. access to, the Canal. It will open the door for China to gain virtual control of the Panama Canal and assert its influence in the Western hemisphere; it also could make the war on drugs and terrorism more difficult.

**Frustrated Negotiations.** The 1977 treaty transferring ownership of the Canal to Panama requires all U.S. military troops to leave when the treaty expires on December 31, 1999. Under the companion Treaty of Permanent Neutrality, which also becomes effective on that date, the United States retains the right to protect and defend the Canal beyond 2000. The U.S. instrument of ratification for the Neutrality Treaty allows both sides to negotiate an extension of the agreement giving the United States the right to station troops in Panama and enjoy basing rights there.

Panama agreed to these terms. Since then, both sides have been working on an agreement to define the new U.S. presence, but progress stalled in early 1998. The United States sees Panama as an important base for counternarcotics and intelligence gathering; Panama is interested primarily in leasing the former U.S. holdings to the highest bidder.

On July 29, 1999, U.S. Special Negotiator Thomas McNamara told the House International Relations Committee that a "cooling off" period of several years should occur before negotiations resume. "Having spent the money to move out of Panama, we should do just that—leave."

But this frustrated assessment is not shared by every Member of Congress or by most Panamanians. McNamara admits that opposition to a U.S. military presence comes from "a small, but vocal minority of the Panamanian elite"; 65 percent to 80 percent of the population, however, favors U.S. involvement in the proposed Multinational Counternarcotics Center.

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Indeed, most Panamanians recognize that their government is unable to defend the Panama Canal or protect the country against the type of terrorist raids that Colombian guerrillas conducted in the Darien region in 1997. José Luis Sosa, director of Panama's National Police, said that Panama is "not in a condition to undertake a battle in the field with any group." In such a vulnerable environment, a U.S. priority should be the joint establishment of an effective security force.

**Panama's Importance.** Although the Panama Canal is no longer the vital national interest it once was, the United States is the Canal's number one user. The U.S. military relies on it to move naval vessels between the Atlantic and Pacific Oceans. More than 15 percent of goods entering or leaving the United States pass through the Canal, including 40 percent of U.S. grain exports. In 1996, according to a recent *Investor's Business Daily* article, about 670,000 barrels of oil per day passed through it.

Panama is also the hub of major anti-narcotics operations in the region. More than 2,000 multinational anti-drug flights were staged from Howard Air Force Base each year before it closed last May. The counternarcotics force reportedly used the now-closed Rodman Naval Station for boat searches and Fort Sherman for jungle training. Concerns have been expressed that sites in Ecuador and elsewhere may not be as effective.

**China's Connection.** In 1997, a subsidiary of Hong Kong-based Hutchison Whampoa, Ltd., a firm with close ties to Beijing and the People's Liberation Army (PLA), won a 25-year concession to operate the Canal's coastal ports at Balboa and Christobal. The U.S. government is disputing this contract, claiming to have outbid the Chinese. The deal gives China virtual control of both the Atlantic and Pacific entrances to the Canal. Such control could compromise the U.S. military's ability to move ships between the oceans during a conflict.

Senator Majority Leader Trent Lott (R-MS), in an August 1 letter to Secretary of Defense William Cohen, noted that "U.S. naval ships will be at the mercy of Chinese-controlled pilots and could even

be denied passage through the Panama Canal by Hutchinson, an arm of the People's Liberation Army." Moreover, "the Chinese Communist Party will gain an intelligence information advantage...."

Under treaty rights Panama has granted to Hutchison in Law No. 5, the Chinese could exercise the right of "first option" to lease the Rodman Naval Station; they could even "transfer contract rights" to a third party, such as Cuba, Iran, Iraq, or Libya.

Although the Pentagon says that China's foothold in the region is not a threat, the geopolitical implications are serious. China's flagship commercial fleet, China Ocean Shipping Company (COSCO), has direct links to Beijing and the PLA. It has participated in drug smuggling and in transporting missiles and nuclear technology to such countries as Pakistan and Iran. Having found "friendly" facilities on both coasts, COSCO could continue its illicit activities and threaten the political and social interests of the Americas. "This is absolutely not the time to leave Panama," said retired U.S. Army General George Joulwan, former chief of the U.S. Southern Command, speaking before the International Relations Committee.

**What Course?** Newly elected President Mireya Moscoso, who will be inaugurated on September 1, has indicated an interest in joint patrols to defend Darien. Her concern may well offer Washington its last best opportunity to preserve a strategic U.S. presence in Panama.

To that end, the Administration should pursue negotiations on strict adherence to treaty obligations, the establishment of a multinational counternarcotics center, fair compensation for a continued U.S. presence in the Canal zone, the feasibility of private U.S. ownership of base sites with an open option for military use, joint security patrols in areas that are vulnerable to terrorist attacks, and a fair bidding process in the awarding of leases of former U.S. bases in Panama.

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