

# Background

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## Panama and Obama's Latin America Policy: Time to Close Ranks and Support A Friend

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**Abstract:** *Panama, like its neighbor Colombia, is waiting for the U.S. Congress to approve the pending free trade agreement and to increase security cooperation. Panama is a strong democracy and trade partner often ignored in Washington, despite decades of fruitful ties. The cornerstone of the U.S.–Panama relationship remains the path-breaking 1970s treaties that granted Panama sovereignty over the U.S.-built Panama Canal, a historic milestone in the peaceful evolution of hemispheric diplomacy. The Panama Canal plays a prominent and growing role in U.S. trade. Panama is ready to deepen its long cooperation and friendship with the U.S.—it is time that Washington embrace this opportunity to strengthen a vital alliance.*

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Panama today is a strong, vibrant democracy and ready trade partner that is little discussed in Washington. Like its southern neighbor Colombia, Panama stands in the antechambers of U.S. policymakers, waiting to move ahead with a free trade agreement and enhanced security cooperation. While Washington policymakers fret about a growing list of nations—from Turkey and Brazil to Russia and China—that are ready to undercut U.S. interests abroad, Panama is ready to deepen its decades-long cooperation and friendship with the U.S.

U.S. national interests in Central and South America are broad in scope. They include combating the drug trade, stopping the spread of terrorism, building strong, representative democracies with sound institutions, advancing broad-based prosperity, and counter-

### Talking Points

- Panama today is a strong, vibrant democracy and ready trade partner that is little discussed in Washington.
- Panama is ready to deepen its long cooperation and friendship with the U.S.—it is time that Washington embraced this opportunity to strengthen a vital alliance.
- Working with Panama to complete the expansion of the Panama Canal and to safeguard the security of this important geopolitical asset in an age of international terror remains an important U.S. security objective.
- The time has come for the Obama Administration to push earnestly for immediate legislative approval of the Panama free trade agreement.
- History, trade and security interests, democratic ideals, and geopolitical common sense make it imperative that the U.S. shore up its challenged global leadership position with enduring ties to allies and friends like Panama, which can stand with the U.S. for the long haul.

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ing the ideological and geopolitical challenges posed by a range of anti-American actors from Hugo Chávez's Venezuela to geostrategic interlopers like Russia and Iran. China, Canada, and the European Union are aggressively pursuing mutually beneficial trade relations with Panama while the U.S. endlessly debates approval of an already-negotiated free trade agreement (FTA).

The time has come for the Obama Administration to push earnestly for immediate legislative approval of the Panama FTA. It must make the case that trade union and taxation issues will be addressed through active partnership with a shared review process rather than by denying the much-needed free-trade deal and demanding perfection on the labor and tax fronts. The U.S. should be an active partner as the expansion of the Panama Canal moves into high gear. Additionally, the Obama Administration should develop a long-term showcase program with robust objectives such as a Panama Canal centennial project with a 2014 target date that will demonstrate how a century of intimate connections and friendship have benefited both nations. History, trade and security interests, democratic ideals, and geopolitical common sense make it imperative that the U.S. shore up its challenged global leadership position with enduring ties to allies and friends like Panama, which can stand with the U.S. for the long haul.

## Panama: A Century of Ties, Decades of Democratic Progress

Since the days of the Spanish Empire, Panama has occupied a central geopolitical position at the crossroads of international commerce, licit and illicit.<sup>1</sup> It is a close neighbor, historic partner, and enduring friend of the U.S. Panama was born as a nation under the aegis of the United States in 1902.<sup>2</sup> Since the Panama Canal opened in 1914, it has been an object of global strategic and maritime interest, and with its three sets of gravity-fed locks is one of the greatest feats of U.S. engineering to this day. Due to the canal, democracy, and trade, the U.S. and Panama are bonded in a unique relationship.

The cornerstone of the U.S.–Panama relationship remains the path-breaking 1970s treaties that granted Panama sovereignty over the U.S.-built canal and former Canal Zone, a historic milestone in the peaceful evolution of hemispheric diplomacy.<sup>3</sup> Despite fierce partisan debate in the 1970s, the successful transition of the canal to Panama's sovereign control was completed on December 31, 1999. Critics of Panama's stewardship of the canal have been silenced by its transparent management and continued success in improving volume and lowering transit times.<sup>4</sup>

An often-overlooked feature of the treaties is the fact that the U.S. retains a permanent right to

1. A key pillar of U.S. national security strategy is the ability to access the "commons" of sea, air, and space. See Barry Posen, "Command of the Commons: The Military Foundation of U.S. Hegemony," *International Security*, Vol. 28, No. 1 (Summer 2003), pp. 5–46, at [http://muse.jhu.edu/login?uri=/journals/international\\_security/v028/28.1posen.pdf](http://muse.jhu.edu/login?uri=/journals/international_security/v028/28.1posen.pdf) (July 13, 2010); Michelle Flournoy and Shawn Brimley, "The Contested Commons," *United States Naval Institute Proceedings Magazine*, Vol. 135, No. 7 (July 2009), at [http://www.usni.org/magazines/proceedings/story.asp?STORY\\_ID=1950](http://www.usni.org/magazines/proceedings/story.asp?STORY_ID=1950) (July 13, 2010); Saul Bernard Cohen, *The Geopolitics of the World System* (Oxford: Rowman & Littlefield, 2003); and John A. Cope, "A Prescription for Protecting the Southern Approach," *Joint Forces Quarterly*, Issue 42, No. 3 (2006), pp. 17–21, at [http://www.dtic.mil/doctrine/jel/jfq\\_pubs/4210.pdf](http://www.dtic.mil/doctrine/jel/jfq_pubs/4210.pdf) (July 13, 2010).
2. Panama separated from Colombia in 1902 following the active involvement of President Theodore Roosevelt and the U.S. Navy. Matthew Parker, *Panama Fever: The Epic Story of One of the Greatest Human Achievements of All Time—The Building of the Panama Canal* (New York: Doubleday, 2007); Walter LaFeber, *The Panama Canal: The Crisis in Historical Perspective* (New York: Oxford University Press, 1989); and David G. McCullough, *The Path Between the Seas: The Creation of the Panama Canal, 1870-1914* (New York: Simon and Schuster, 1977).
3. The treaties negotiated by the Carter Administration include the "Panama Canal Treaty" (no copy is available online) and the "Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal," at <http://www.panacanal.com/eng/legal/neutrality-treaty.pdf> (July 14, 2010). The second treaty commits the U.S., Panama, and other signatories to preserve the canal's neutrality and to engage in the mutual defense of the canal.
4. "A Plan to Unlock Prosperity," *The Economist*, December 3, 2009, at <http://www.panacanal.com/eng/pr/articles/pdf/A-Plan-to-Unlock-Prosperity.pdf> (July 13, 2010).

defend the canal from threats to its operations. Under the agreement, U.S. warships are guaranteed front-of-the-line privileges in emergencies. This security promise gives permanence to the uniqueness of the U.S.–Panama relationship. Closure of the canal by an act of domestic or international terrorism would devastate Panama and seriously harm U.S. commercial interests.

Canal operations account for 6 percent of Panama's gross domestic product (GDP). In a 2006 referendum, Panamanians overwhelmingly backed a \$5.25 billion canal expansion project to construct a third set of larger, more efficient, and environmentally sound locks. When completed in 2014, the enlarged canal will break a significant global bottleneck and allow transit by super-container ships (post-Panamax), capable of carrying as many as 12,000 containers in a single load (versus the current 4,000-container Panamax capacity). The enlarged canal is expected to generate a substantial increase in the volume of traffic, raising the amount of freight from 280 million tons in 2005 to 510 million tons by 2025.<sup>5</sup>

The Panama Canal plays a prominent and growing role in U.S. trade. The U.S. East Coast-to-Asia trade route generates one-third of all cargo passing through the canal. Routing Asia-to-U.S. commerce through the canal rather than by truck or train will save energy and cut down on transportation congestion. The increased ability of the U.S. Navy to pass larger warships through the enlarged canal will also help keep it an active global force and enhance U.S. force projection in the future. Mindful of the continued importance of the canal, U.S. Southern Command annually conducts Panamax exercises, joint naval exercises with fleets from the Americas, designed to remind cooperating hemispheric partners of their shared responsibility to protect the canal from traditional and emerging threats.

Panama is bounded by Colombia and Costa Rica. To the north, democratic, peaceful Costa Rica shares Panama's ambition to curb the harm caused by

localized and transnational crime. Like Panama, Costa Rica relies on a civilian security force to protect the nation from harm. Both Panama and Costa Rica are increasingly concerned about inroads by Mexican drug cartels and look to the U.S. for continued support.

To the south lies the Colombian border area—the Darien Gap—often described as the most dangerous place in the Americas. The presence of the Revolutionary Armed Forces of Colombia (FARC) and criminal elements in this largely ungoverned space is a source of long-standing concern. Beginning in March 2009, Panamanian security forces have killed or captured numerous elements of FARC's 57th Front, an organized unit of FARC's northwestern bloc, demonstrating that Panama is also ready to act against illegally armed actors.<sup>6</sup> In May 2010, Colombia and Panama concluded an agreement tightening immigration controls and promising to share intelligence in order to combat transnational crime. Joint U.S.–Panamanian–Colombian operations can reduce the number of safe havens for FARC and criminal gangs. The region of the Darien is also an area of sensitive ecological and ethnic interest to the U.S. and the international community, meriting closer U.S. attention.

### Democracy, Trade, and Prosperity

The second pillar of the U.S.–Panama relationship is the preservation and advancement of democratic governance. During the 1980s, General Manuel Noriega, a corrupt strongman or *caudillo*, usurped power from elected civilians, repressed freedom, and began converting Panama into a narco-state. In 1989, Operation Just Cause employed U.S. military forces to remove Noriega from power and restore electoral democracy. This pro-democracy operation was the last U.S. military operation involving casualties in the Western Hemisphere.<sup>7</sup> Since Noriega's fall, Panama's democratic process has flourished with competitive elections and government institutions that have become

5. *Ibid.*

6. Don Winner, "Five Colombian FARC Guerillas Captured in the Darién," Panama-Guide.com, May 14, 2010, at <http://www.panama-guide.com/article.php/2010051415453365> (July 13, 2010). FARC operates several fronts within its seven geographical blocs.

stronger. Successive governments led by Presidents Endara, Perez Balladares, Moscoso, and Torrijos have stressed anti-corruption efforts, social security reform, macroeconomic stability, and prudent management of the canal.

In 1994, Panama took a major step to prevent the return of a military strongman. It constitutionally abolished the Panamanian Defense Force (PDF) as a standing military force, replacing it with the Panamanian Public Forces that includes civilian-controlled and -staffed border, maritime, air, police, and protective services. Panama spends a modest \$132 million, roughly 1 percent of GDP, on its security forces each year. It relies on international and regional order and the protective mantle of U.S. power to safeguard its security.

In May 2009, Panamanians elected Ricardo Martinelli as president. A prominent businessman and entrepreneur, Martinelli promised to promote free trade, establish a Panama City urban transport system, overhaul the health care system, and rapidly execute Panama Canal expansion. He emphasized the need to transform Panama into a “safer, modern and supportive” nation devoted to improving the living conditions through efficient and accountable governance. In foreign policy, he was among the first to recognize the legitimacy of the November 2009 Honduran elections and acknowledges the threat that Hugo Chávez’s authoritarian populism poses to representative democracy. Washington has, nevertheless, done little to enhance its relationship with Panama’s new president.

The third U.S.–Panama pillar is a vigorous trade and investment relationship. As interest declined in the Clinton-era creation of the Free Trade Area of the Americas, the Administration of George W. Bush launched negotiations for bilateral and smaller regional agreements, leading to free trade agreements with Chile (September 2003), Central Amer-

ica and the Dominican Republic (CAFTA–DR, August 2005), and Peru (January 2009). The Bush Administration also signed agreements with Panama and Colombia in 2006. Forgotten is the fact that with passage of the proposed Colombia and Panama FTAs, the U.S. would enjoy privileged free-trade relations with every Pacific Rim nation in the Americas except Ecuador.

Panama’s imports from the U.S. exceed its exports to the U.S. by a ratio of 10 to one. Currently the U.S. exports \$4.9 billion in goods and services to Panama; Panama’s exports to the U.S. come to \$379 million, primarily in seafood and merchandise that has been sent to Panama for repair. Panama has no significant agricultural or manufacturing sector to take jobs from U.S. workers. Seafood exports help create U.S. jobs in food markets and restaurants. Passage of the FTA will strengthen a beneficial trade link. It will, for example, allow U.S. heavy equipment giant and global manufacturing leader Caterpillar of Peoria, Illinois, to escape higher import duties and compete more aggressively for sales to Panama as canal expansion moves into high gear.

The two most significant differences between the U.S. and Panamanian positions, according to trade specialists, are concerns that Panama might become an offshore “tax haven,” and objections to Panama’s labor laws that require a total of 40 individuals in order to form a trade union. The International Labour Organization (ILO) specifies a minimum of 20. Labor laws also prevent unions from striking against companies less than two years old. These are issues that Panamanian negotiators say they are eager to resolve with a tax information exchange treaty and potential labor reforms.<sup>8</sup>

In the long run, Panama sees itself evolving as a Singapore-like nation in the Americas, becoming a dynamic financial and service center for the region and a hub for international business operations.

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7. Lawrence A. Yates, “The U.S. Military Intervention in Panama: Origins, Planning, and Crisis Management, June 1987–December 1989,” U.S. Army Center of Military History, 2008, at [http://www.history.army.mil/html/books/just\\_cause/CMH\\_55-1-1\\_Just\\_%20Cause\\_opt.pdf](http://www.history.army.mil/html/books/just_cause/CMH_55-1-1_Just_%20Cause_opt.pdf) (July 14, 2010).

8. J. F. Hornbeck, “The Proposed U.S.–Panama Free Trade Agreement,” Congressional Research Service *Report for Congress*, November 1, 2005, at <http://fpc.state.gov/documents/organization/57846.pdf> (July 13, 2010). See also Kim R. Holmes, “Free Trade as a Stimulus Strategy,” *The Washington Times*, May 14, 2009, at <http://www.washingtontimes.com/news/2009/may/14/free-trade-as-a-stimulus-strategy> (July 13, 2010).

Computer giants Dell and Hewlett Packard, along with Caterpillar, currently operate regional hubs in Panama and more companies will likely operate in Panama in the future. The unjustified U.S. failure to connect the commercial, political, and strategic dots is costing the U.S. jobs, market share, and the friendship of the Panamanian public.

### What the U.S. Should Do

- **Approve Free Trade in 2010.** The time is overdue for the White House and Congress to move to approve the pending free trade agreement with Panama. In order to preserve its credibility in the region, this process should be completed before the end of 2010.
- **Conduct Presidential Visits.** President Obama should reinforce U.S. commitment to Panama with an early visit to meet with President Martiñelli. Such a visit would demonstrate the importance the Obama Administration attaches to strong ties with friends.
- **Establish a Panama–Colombia–U.S. Security Commission.** The U.S. State and Defense Departments should join forces to develop a framework for a security commission that shares intelligence, organizes missions, and coordinates cooperative security action in the Darien Gap and in the maritime approaches to Colombia and Panama.
- **Open the Door for Panama to Join the Visa Waiver Program (VWP).** Excellent relations, a low visa refusal rate, and strong law enforcement and security cooperation make for a compelling case for Congress and the Administration to help bring Panama into the VWP.
- **Panama Canal Centennial Project.** The U.S. and Panama should establish a major bilateral, public–private project focused on education, health care, or ecological preservation to commemorate the 100th anniversary of the opening

of the Panama Canal in August 2014. The purpose of such an undertaking is to demonstrate the enduring relationship between the two nations as well as the promise of future cooperation and friendship.

### Conclusion

After 18 months in control, the Obama Administration is still searching for a signal accomplishment or victory in the Americas. The Administration has encountered the unforeseen and the horrific in the catastrophic earthquakes in Haiti and Chile and responded generously. It stumbled in its management of the Honduran constitutional crisis of mid-2009, but is working to promote democracy and normal relations with Honduras. Efforts to overcome Cuban and Venezuelan hostility have faltered because of the immense gap between free and unfree societies. Brazilian President Luis Inácio Lula da Silva, emerging champion of a more responsible Brazil, severely disappointed Washington after breaking ranks with fellow U.N. Security Council members to side with Iran on grave nuclear proliferation issues.

At this juncture, the Obama Administration needs to examine its ties with friends, especially in such an ally as Panama, more closely. The Administration and Congress should recognize that bonds of friendship and association are not the outcomes of good intentions or fine speeches, but of patient, consistent actions. The U.S., according to the U.S. Southern Command, wants to remain the “enduring partner of choice” in the Americas.<sup>9</sup> This can only be accomplished with deeds.

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9. “Posture Statement of General Douglas M. Fraser, United States Air Force, Commander, United States Southern Command,” testimony before the Armed Services Committee, U.S. Senate, March 11, 2010, at <http://www.southcom.mil/AppsSC/files/634038960550937500.pdf> (July 14, 2010).