

The United States and Panama: End of the “Special Relationship”

The final implementation of the Panama Canal Treaty brought to an end the “special relationship” between the United States and Panama because the elements that characterized that “special relationship” for almost a century are gone. The canal is no longer the strategic “chokepoint” that it was; U.S. Southern Command Headquarters moved to Miami; U.S. forces have been redeployed; and the canal is now entirely under Panamanian control. As a result, the United States has downgraded Panama as a national security and foreign policy priority. Meanwhile, Panama faces difficult economic and political problems, which will require closer cooperation among the political elite.

To get a sense of how both governments are adjusting to their new relationship, an Atlantic Council delegation recently visited Panama for wide-ranging discussions with government officials, diplomats, and international business leaders. This was the fifth Atlantic Council delegation to survey relations in the last five years. We concluded that the canal is in the hands of competent managers and faces no serious threats, at least in the short term. Over the longer term, however, Panama’s economic problems could spill over and adversely impact the canal.

The Canal and Military Properties

The transfer of the canal to Panamanian control has been smooth. Many U.S. and Panamanian officials deserve high marks for the work on this seamless transition, which took place without political posturing. As a result, we are reassured about the short- and medium-term prospects for a safe, efficient, and neutral canal. Panamanian managers have a wealth of technical experience, and the canal was turned over on a sound financial footing. Canal modernization programs are well underway and security provisions appear adequate. Furthermore, Panama, for the first time, is taking steps to develop a national security strategy that addresses the overall security situation and priorities, including the defense of the canal.

Panama is also apparently weathering the economic impact of the withdrawal of U.S. forces reasonably well. The effects were cushioned by the fact that the transition was slow and expected. Also, the previous government increased spending on public works. According to Panamanian government reports, the almost 3,000 jobs that were lost over the last year have been offset by the same number of jobs created through some 80 projects associated with the properties turned over to Panama. According to these same reports, within about three years, property transfers may double the nearly 6,000 jobs lost during the last five years and the \$300 million in lost revenue generated from converting the bases will also be made up. While these figures are surely too optimistic, previous forecasts about the adverse impact of the U.S. military withdrawal seem exaggerated.

Some business leaders do not share the government’s favorable evaluation and expectations. They are concerned about the government’s skill in managing and disposing of reverted properties, in attracting direct foreign investments, and in implementing fiscal and social reforms—all necessary for sustained economic growth. Furthermore, the Panamanian public seems increasingly frustrated with the slow start of the new government. There is a troubling sense of drift.

Despite ambitious public plans, Panama continues to be plagued by the inability of the political elite to cooperate. In fact, they are aggressively uncooperative. As a result, there is little continuity in effort. After nearly one year in office, the government has not made the transition from a political campaign to running the country. The government at times seems focused on revenge against political opponents rather than governing well. The existence of a “kitchen cabinet” of advisors around the President undermines the ministerial cabinet and contributes to the confusion and diffusion of authority and responsibility. It is difficult to determine who has specific responsibilities. As a result, nobody seems to be held accountable and the public seems to sense this.

Panama faces major challenges. First and foremost is a combination of poverty, unemployment, and lack of job training. Almost half the population lives in poverty and unemployment is at 13 percent. President Moscoso calls current levels of unemployment “alarming,” and points to the “enormous gap between the rich and poor.” Indeed, income inequality is among the highest in Latin America. Poor public health, crime, and corruption exacerbate these persistent problems. Such conditions could put pressure on canal managers to provide more jobs and funds at the expense of canal maintenance and modernization. While the danger is not imminent and provisions exist to protect the canal, this bears watching over time.

A second challenge, absorbing and converting transferred property, is daunting. In addition to the canal, the United States turned over more than 5,000 buildings, facilities, and other infrastructure valued at more than \$4 billion, not counting the canal and nearly 350,000 acres of land. The facilities include 13 military bases, 3 airports, nearly 4,000 houses, 35 hotels, 11 schools, and 2 hospitals. While representing an enormous potential, these facilities must be maintained at substantial cost until they are leased or sold.

Panama developed a plan for dealing with the transferred property and was successful in disposing of Albrook Airbase and some other assets quickly. Subsequently, however, the demand for many properties has been weak, and the change in administrations has slowed the process while new personnel are involved in reviewing contracts let under the previous administration. Progress on the development of the former Howard Air Force Base and Fort Amador will be an indicator of Panama’s ability to attract investors to Panama. Thus far, the results have been disappointing.

Adequate water supply is another serious problem. Water is critical for both the operation of the canal and a fast-growing population. About 52 million gallons of fresh water are used for each of the 13,000 ships that transit the canal each year. In addition, the bulk of Panama’s nearly three million people live near the canal, and the population is growing at nearly two percent every year. Abundant rainfall in the past led to wasteful practices, and the decrease in rainfall in recent years has resulted in water shortages and forced canal operators to restrict the maximum draft of ships, requiring many to reduce cargoes. Water also was restricted for much of the population during this period. The demand for water may increase substantially if Panama moves ahead with construction of a third set of locks. Water concerns have caught the government’s attention and Panama is looking into creating additional lakes to supply water for future needs. Plans to modernize Panama’s inadequate water and sewage system are also being discussed, but privatization apparently lacks sufficient broad-based political support and no decision has yet been made on how to proceed.

Concerns about the Panama-Colombia border came up frequently in our discussions. For the last thirty years, guerrilla forces from Colombia have moved freely into and out of a poorly defined and uncontrolled border area for a resupply base and sanctuary. While this violates Panamanian sovereignty, it does not represent an immediate threat to the government of Panama or the canal. Nevertheless, as the government of Colombia puts increasing pressure on the guerrillas, more refugees may flee into Panama, straining Panamanian resources and infrastructure.

U.S.-Panama Relations

The significance of an inevitable end to the special relationship deserves more attention in both countries. Friendship and close ties will persist, of course. The United States, preoccupied with other foreign and domestic matters, including elections, is not likely to address the issue soon. Panama, however, has had a new administration since September 1999 and it has not addressed the issue adequately either. The failure to come to grips with a new set of circumstances in the relationship risks creating difficulties as the two friendly nations face several important, unsettled issues.

Because this change will have a great impact on Panama, it is very important that Panama face this challenge immediately. The idea persists in Panama that the U.S. still sees the canal as a strategic asset, and that this will preserve old ties. In the past, these close ties have tempted Panamanian officials not to take full responsibility for their problems. To the extent that such perceptions continue, Panama will probably continue to underachieve.

While the United States has downgraded the canal as a national security and foreign policy priority, Panama remains important as a unique regional transportation hub. Most of the commerce transiting the canal originates in or is destined for the United States. Japan, Taiwan, China, and Europe also are prominent users of the canal. The canal is even more important to countries in the region, especially the Pacific coast states, Ecuador, Peru, Chile, Nicaragua, and El Salvador. Trade patterns are shifting and North-South trade within the Western Hemisphere is growing quickly. Thus the United States shares the interests of many nations in a non-political, efficient canal that provides safe passage and good service at a reasonable cost.

U.S. Navy and Coast Guard vessels still use the canal about 90 times per year and make another 160 port calls in Panama for resupply and refueling. In addition, about 120 U.S. military aircraft continue to overfly or transit Panama each year, using commercial facilities when they land. These visits are handled through close, interpersonal cooperation, but they should be institutionalized through a visiting forces agreement so that they are more transparent and predictable over the longer term.

Another issue that has received undue attention recently is competition between Beijing and Taipei for Panamanian recognition. Panama recognizes Taiwan, but China wants it to shift official relations. The United States should not be drawn into this by wholly unfounded allegations about a security threat to the canal represented by the commercial activities of a Hong Kong-based company. This is a widely respected company with a good reputation for managing container port operations around the world. It has a solid record of cooperating with officials on law enforcement and security issues. Its operation and presence in Panama do not constitute a threat to the canal, much less to the United States.

Unexploded Ordnance

One of the first tests of the new U.S.-Panama relationship is the problem of unexploded ordnance (UXO) in the military training ranges that were turned over to Panama. The U.S. government believes it complied with the treaty in turning over these and other properties to Panama. Senior Panamanian officials, however, argue that the United States is obligated to rid these areas completely of any UXO.

It seems to us that the United States did clean up the ranges to the extent “practicable” as called for in the treaty. The treaty drafters never contemplated that unexploded ordnance would be entirely removed from the ranges because the ranges were to be turned over for similar use by Panamanian forces. However, Panama no longer has military forces, and environmental awareness has increased in the twenty years since the treaty was signed.

Given these changed circumstances, which could not have been foreseen in 1979, the two governments should consider examining the issue in a cooperative dialogue, without depending solely on treaty language for a solution. U.S. officials have indicated a willingness to work with Panama on the problem, provided treaty compliance is not called into question. If the government of Panama persists in a legalistic approach focused on treaty compliance, a productive dialogue is less likely. Also, trying to gain additional financial concessions from the United States risks poisoning the new relationship and may cost Panama more in the long run. For the United States, it will be difficult to treat the UXO problem in isolation because of the worldwide implications. But this should not preclude cooperative efforts to deal with the problem.

The main focus, therefore, should be on cooperation in managing safety and environmental concerns. A solution will surely provide a powerful impetus to establish the new relationship. Both sides have more important interests (e.g., counter-narcotics, canal security, and economic relations) that could be put at risk over an issue that can, with a cooperative attitude, be resolved.

The Longer Term

As noted above, we tempered our positive preliminary assessment of the transition and prospects for the short term with several concerns that challenge both sides. Although Panama occupies a lower priority in U.S. foreign policy, the

relationship nevertheless remains important and bears close monitoring. It is still not the time to raise the issue of stationing U.S. troops in Panama. The needs of both countries are better served by a visiting forces agreement to handle routine visits and transits.

Key questions for the future include:

Will Panama deal with economic and political problems in ways that do not adversely affect the canal? In particular, will its political leaders be able to develop sufficient consensus to overcome the divisiveness that precludes better management of economic problems and the reverted properties?

Will Panama be able to take measures that generate greater domestic and foreign confidence in the country as a well-governed regional economic hub and manager of the canal?

Will the United States and Panama be able to resolve the unexploded ordnance problem?

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