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## **Panama: Political and Economic Conditions and U.S. Relations**

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# Panama: Political and Economic Conditions and U.S. Relations

## Summary

Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the military regime of General Manuel Antonio Noriega from power. Since then, the country has had three successive civilian governments, with the current administration of President Mireya Moscoso elected in May 1999. On May 2, 2004, Panama held presidential elections in which Martin Torrijos of the Democratic Revolutionary Party (PRD) won a decisive victory with 47.5% of the vote in a four-man race. Torrijos, the son of former populist leader General Omar Torrijos, will be inaugurated on September 1, 2004. His electoral alliance also won a majority of seats in the unicameral Legislative Assembly.

President Moscoso was elected as a populist, with pledges to end government corruption and reduce poverty, but her campaign pledges have proven difficult to fulfill amid high-profile corruption scandals and poor economic conditions over the past several years. As a result, the President's popularity has fallen considerably.

Before the December 1989 U.S. intervention, the Panamanian economy had been severely damaged by two years of U.S. economic sanctions and economic disruption caused by the political crisis. Since 1990, the economy has rebounded, registering real growth annually, although the level of annual growth has varied a lot and slowed considerably in 2001 and 2002. Although the economy has improved considerably since 1990, poverty has worsened over the past three years because of slow economic growth. Income distribution remains highly skewed and high unemployment has been a persistent problem.

The United States has close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. The current U.S. relationship with Panama is characterized by extensive cooperation on counternarcotics efforts as well as U.S. assistance to help Panama assure the security of the Canal and the security of its border with Colombia. U.S. assistance to Panama has increased in the past several years with the country receiving assistance under the Bush Administration's Andean Regional Initiative to help Colombia and its neighbors combat drug trafficking.

U.S.-Panamanian negotiations for a bilateral free trade agreement began in late April 2004. Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the Bush Administration has stressed that an FTA with Panama, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law. Since Panama has a service-based economy, it traditionally has imported much more than it exports to the United States. In 2003, the U.S. trade surplus with Panama was \$1.5 billion, with Panama exporting \$301 million in goods and importing \$1.8 billion in merchandise. The stock of U.S. foreign investment in Panama was estimated at \$20 billion in 2002, surpassing the combined U.S. foreign investment in the five other Central American nations.

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# Panama: Political and Economic Conditions and U.S. Relations

## Political Conditions

Panama has made notable political and economic progress since the December 1989 U.S. military intervention that ousted the military regime of General Manuel Antonio Noriega from power. The intervention was the culmination of two and a half years of strong U.S. pressure against the de facto political rule of Noriega, commander of the Panama Defense Forces (PDF). Since that time, the country has had three successive civilian governments, with the current government of President Mireya Moscoso elected in May 1999.

On May 2, 2004, Panama held presidential elections in which Martin Torrijos of the Democratic Revolutionary Party (PRD) won a decisive victory with 47.5% of the vote in a four-man race. Torrijos, who will be inaugurated on September 1, 2004, is the son of former populist leader General Omar Torrijos. His electoral alliance, led by the PRD, also won a majority of seats in the unicameral Legislative Assembly.

Before the U.S. intervention, Panama had held national elections in May 1989, and in the presence of a large number of international observers, the anti-Noriega coalition, headed by Guillermo Endara, prevailed by a three-to-one margin. The Noriega regime annulled the election, however, and held on to power. By the fall, the military regime was losing political power and relied increasingly on irregular paramilitary units, making the country unsafe for U.S. forces and U.S. citizens. On December 20, 1989, President George Bush ordered the U.S. military into Panama “to safeguard the lives of Americans, to defend democracy in Panama, to combat drug trafficking, and to protect the integrity of the Panama Canal Treaty.” Noriega was arrested on January 3, 1990, and brought to the United States to stand trial on drug trafficking charges.<sup>1</sup>

**Endara Government (1989-1994).** As a result of the intervention, the opposition coalition headed by Guillermo Endara that had won the May 1989 election was sworn into office. During his term, President Endara made great progress in restoring functioning political institutions after 21 years of military-controlled government, and under his administration, a new civilian Public Force replaced Noriega’s Panama Defense Forces. But Endara had difficulties in meeting

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<sup>1</sup> After a seven-month trial, Noriega was convicted on 8 out of 10 drug trafficking counts in U.S. federal court in Miami in April 1992, and he was sentenced to 40 years in prison. In 1999, a federal judge reduced Noriega’s prison term to 30 years because of disparity between his sentence and his co-conspirators. The reduction makes Noriega eligible for parole in 2007.

high public expectations, and the demilitarization process was difficult, with some police and former military members at times plotting to destabilize, if not overthrow, the government.

**Pérez Balladares Government (1994-1999).** In May 1994, Panamanians went to the polls to vote in presidential and legislative elections that observers called the freest in almost three decades. Ernesto Pérez Balladares, candidate of the former pro-Noriega Democratic Revolutionary Party (PRD), who led a coalition known as “United People”, won with 33% of the vote. Placing a surprisingly strong second, with 29% of the vote, was the Arnulfista Party (PA) candidate, Mireya Moscoso de Gruber, heading a coalition known as the “Democratic Alliance.”

In the electoral race, Pérez Balladares campaigned as a populist and advocated greater social spending and attention to the poor. He stressed the need for addressing unemployment, which he termed Panama’s fundamental problem. Pérez Balladares severely criticized the Endara government for corruption, and he was able to overcome attempts to portray him as someone closely associated with General Noriega. (Pérez Balladares served as campaign manager during the 1989 elections for candidate Carlos Duque, who the Noriega regime had tried to impose on the electorate through fraud.) Instead, Pérez Balladares focused on the PRD’s ties to the populist policies of General Omar Torrijos, whose twelve-year (1969-1981) military rule of Panama ended when he died in a plane crash in 1981.

President Pérez Balladares implemented an economic reform program and worked closely with the United States as the date of the Panama Canal turnover approached. Under his government, Panama and the United States held talks on the potential continuation of a U.S. military presence in Panama beyond the end of 1999 (the date Panama was to assume responsibility for defending the Canal). Ultimately negotiations ended without such an agreement. (For more see “Former U.S. Military Presence in Panama” below.)

Although Panama’s constitution does not allow for presidential reelection, President Pérez Balladares actively sought a second term in 1999. In 1997, the PRD had begun studying the possibility of amending the constitution to allow a second bid for the presidency in the May 1999 elections. Ultimately, a referendum was held on the issue in August 1998 but failed by a large margin.

**Moscoso Government (1999-2004).** In her second bid for the presidency, Arnulfista Party (PA) candidate Mireya Moscoso was victorious in the May 1999 elections. Moscoso, who was inaugurated September 1, 1999, for a five-year term, captured almost 45% of the vote and soundly defeated the ruling PRD’s candidate Martin Torrijos (son of former populist leader Omar Torrijos), who received almost 38% of the vote. Until March 1999, Torrijos had been leading in opinion polls, but as the election neared, the two candidates were in a dead heat. A third candidate, Alberto Vallarino, heading a coalition known as Opposition Action, received about 17% of the vote.

President Moscoso, a coffee plantation owner and Panama’s first female president, ran as a populist during the campaign, promising to end government corruption, slow the privatization of state enterprises, and reduce poverty. She also

promised to ensure that politics and corruption did not interfere with the administration of the Canal. The memory of her husband Arnulfo Arias, a nationalist who was elected three times as president, but overthrown each time, was a factor in the campaign, particularly since Arias was last overthrown in 1968 by General Omar Torrijos, the father of the PRD's 1999 and 2004 presidential candidate.

While Moscoso took the presidency, the PRD-led New Nation coalition won a majority of 41 seats in the 71-member unicameral Legislative Assembly. Just days before her inauguration, however, Moscoso was able to build a coalition, with the support of the Solidarity Party, the Christian Democratic Party (which later became the Popular Party), and the National Liberal Party, that gave her government a one-seat majority in the Assembly. In August 2000, the Christian Democrats deserted the coalition and formed an alliance with the principal opposition, the PRD. However, corruption scandals in 2002 led to five PRD legislators defecting to support the Moscoso government, once again giving the President majority support in the Legislative Assembly. The President is expected to retain a majority in the Assembly through the remainder of her term that concludes at the end of August 2004.

As noted above, Moscoso was elected as a populist, with pledges to end government corruption and reduce poverty, but her campaign pledges have proven difficult to fulfill amid high-profile corruption scandals and poor economic performance over the past several years. As a result, the President's popularity has declined significantly from a 70% approval rating when she first took office in 1999 to now only 15%.<sup>2</sup>

**2004 Elections: Torrijos Elected.** On May 2, 2004, Panama held elections for president, as well as for its Legislative Assembly, which will have 78 members with this election. The next president will be inaugurated September 1, 2004.

In the presidential race, Martin Torrijos of the Democratic Revolutionary Party (PRD), won a decisive victory with 47.5% of the vote, defeating former President Guillermo Endara, who received 30.6% of the vote, and former Foreign Minister José Miguel Alemán, who received 16.4% of the vote. Torrijos' electoral alliance also won a majority of seats in the unicameral Legislative Assembly, 43 out of 78 seats, which should provide him with enough legislative support to enact his agenda. At 40 years of age, Torrijos has spent many years in the United States and studied political science and economics at Texas A&M University. He served four years under the Perez Balladares government as deputy minister of interior and justice, and as noted above, became the PRD's presidential candidate in the 1999 elections.

Torrijos maintains that his first priority is job creation, in a country with 13-14% unemployment.<sup>3</sup> He has called for the widening of the Canal, a project that would cost several billion dollars, and would seek a referendum on the issue. Torrijos

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<sup>2</sup> "Toss Up Between Torrijos and Endara," *Caribbean and Central America Report*, February 17, 2004.

<sup>3</sup> Frances Robles, "Ex-leader's Son Wins Presidency in Panama," *Miami Herald*, May 3, 2004.

supports free trade negotiations with the United States and has requested that his economic team be allowed to participate in the next round to be held in June 2004.

Leading up to the election, Torrijos had been topping public opinion polls, with 42-49% support. In the campaign, Torrijos emphasized anti-corruption measures as well as a national strategy to deal with poverty, unemployment, and underdevelopment. He was popular among younger voters and had a base of support in rural areas. With 32-34% support in opinion polls, former President Endara (who broke with the Arnulfista Party (PA), of which he was a long-time member) ran as the candidate of the Solidarity Party and had adopted a populist anti-corruption platform. He called for a constituent assembly to rebuild the Panamanian state. Running in third place in opinion polls, with 8-12% support, was former Foreign Minister José Miguel Alemán, who ran as the PA candidate. Alemán's poor showing can be attributed to Endara's ability to attract support from members of his former party, the PA, as well as the decline in popularity of President Moscoso, who supports Alemán's candidacy. In fourth place in opinion polls, with less than 8% support, was Ricardo Martinelli of the Democratic Change Party (CD), who also had emphasized that he would fight against corruption, especially in the judiciary.<sup>4</sup>

During the campaign, all four candidates supported negotiation of a free trade agreement with the United States, maintaining that it would be advantageous for Panama. Endara and Alemán appeared to emphasize the protection of some sensitive Panamanian sectors such as agriculture, while Torrijos and Martinelli stressed that such an agreement would make Panama's economy more competitive and productive.<sup>5</sup>

**Human Rights.** The Panamanian government generally respects human rights, but, as noted by the State Department in its human rights report for 2003 (issued in February 2004), serious human rights problems continue in a number of areas. Prison conditions overall remained harsh, with reported abuse by prison guards and regular outbreaks of internal prison violence. Prolonged pretrial detentions remained a problem. According to the human rights report, the judiciary is subject to political manipulation, and the criminal justice system is inefficient and often corrupt.

The State Department's human rights report asserts that the government at times does not respect the rights of freedom of speech and of the press and maintains that the Panamanian media has been subject to political and economic pressure by the government. Panama has been criticized by the State Department and international human rights groups for vestiges of "gag laws" used by the government to silence those criticizing policies or officials. The U.S.-based Committee to Protect Journalists maintains that Panama is known for its institutionalized system of legal harassment against the press and that journalists face "media laws that impose prison

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<sup>4</sup> Public opinion polls cited are drawn from: "Torrijos & Revived PRD Lead the Pack," *Latin American Special Report, Who is Competing for Power in Latin America*, Latin American Newsletters, Feb. 2004; and "Panama: Torrijos in Pole Position for May Elections," *Latinnews Daily*, Mar. 17, 2004.

<sup>5</sup> "Panama: Presidential Candidates Remark on FTA with US," *La Prensa* (Panama), Jan. 24, 2004, translated by Foreign Broadcast Information Service.

terms for defamation, criminalize criticism of public officials, and permit prior censorship.”<sup>6</sup>

In an attempt to redress human rights abuses that occurred under military rule and to prevent their reoccurrence, President Moscoso created a Truth Commission in January 2001 to investigate violations under the military regime. The Truth Commission issued its report in April 2002, and the commission’s investigations have been used by the government to reopen some past human rights cases. The Commission investigated 110 cases from 1969-1989 and concluded that 70 people were murdered and 40 disappeared.<sup>7</sup> The Commission and other human rights groups have called on the government to prosecute those responsible for the killings and to compensate the victims’ families.<sup>8</sup> The Moscoso government extended the time period of the commission, until December 2004, to investigate disappearances.<sup>9</sup>

With regard to worker rights in Panama, the State Department’s 2003 human rights report notes that the government has issued decrees that have impeded effective organization of unions in export processing zones. The report also noted that child labor was a problem, with violations occurring most frequently in rural areas at harvest time.

## Economic Conditions

Before the December 1989 U.S. intervention, the Panamanian economy had been severely damaged by two years of strong U.S. economic sanctions and economic disruption caused by the political crisis. Gross Domestic Product (GDP) declined about 25% between 1987 and 1989.

Since 1990, the economy has rebounded, registering real growth annually, although the level of annual growth has varied a lot and slowed considerably in 2001 and 2002. While real economic growth averaged almost 6.6% from 1990 to 1994, GDP growth declined to 1.9% in 1995 and to 1.5% in 1996. From 1997-1999, economic growth picked up, with average annual growth of 4.1%. Under the Moscoso government, economic growth slowed, falling from 2.5% in 2000 to 0.9% in 2001, and 0.8% in 2002. Panama’s service-based economy — which is centered on Panama Canal operations, shipping, container port operations, banking, and sales and distribution in the Colon Free Zone — was hurt by the regional and U.S. economic downturn. The economy picked up in 2003, with an estimated growth rate of 3.4%.<sup>10</sup>

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<sup>6</sup> Committee to Protect Journalists. Attacks on the Press in 2003.

<sup>7</sup> U.S. State Department. Panama Country Report on Human Rights Practices, 2002. Mar. 31, 2003.

<sup>8</sup> Ibid.

<sup>9</sup> “Panama: Country Report,” Economic Intelligence Unit, Dec. 2003.

<sup>10</sup> “Panama: Country Report,” Economist Intelligence Unit, Dec. 2003 and Feb. 2004.



Although the economy has improved considerably since 1990, poverty has worsened over the past three years because of slow economic growth. With a per capita income of \$4,020 in 2002, Panama is classified by the World Bank as an upper-middle-income developing country. Yet income distribution remains highly skewed, with large disparities between rich and poor. High unemployment, currently estimated between 13-14%, has been a persistent problem.

The previous administration of President Pérez Balladares (1994-1999) implemented an economic reform program that included liberalization of the trade regime, privatization of state-owned enterprises, the institution of fiscal reform, and labor code reform. Tariffs were reduced to a range of 10-15% (with the exception of rice, milk products, and automobiles). The Moscoso government partially reversed the trade liberalization process by raising tariffs on some agricultural products. Overall, however, Panamanian tariffs remain quite low, ranking among the lowest in Latin America.<sup>11</sup>

A significant challenge facing the Panamanian government is the issue of dealing with the funding deficits of the country's social security fund (Caja de Seguro Social, CSS).<sup>12</sup> While the Moscoso government had pledged to draft legislation reforming the CSS, reform proposals in 2003 provoked strikes by workers protesting any efforts to raise the retirement age or increase employee contributions. The Moscoso government says that it will introduce legislation to reform the CSS in order to keep it afloat for the next 25 years. Some observers believe that the period between the May 2004 elections and the September inauguration of the new government could be an opportune time to enact the politically sensitive measure.<sup>13</sup>

Although Panama has traditionally eschewed economic linkages and integration schemes with its Central American neighbors (largely because of its privileged relationship with the United States), it has joined with Mexico and Central American states in a regional economic project known as the Puebla-Panama plan. The plan, which has the goal of spurring development in the region, will improve highways, standardize customs procedures, and join power grids to improve the quality of life in the region.

As part of its strategy of increasing its global trade and investment links, and accentuating its role as a global transportation hub, Panama has pursued free trade agreements (FTAs) with several countries, including the United States (see "U.S. Trade Relations and a Potential Free Trade Agreement" section below). In June 2003, an FTA with El Salvador entered into force, and in March 2003 Panama negotiated a framework agreement with the five Central American countries that reportedly will help Panama benefit from CAFTA. Beyond the Western Hemisphere, Panama negotiated an FTA with Taiwan that entered into force in January 2004, and

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<sup>11</sup> United States Trade Representative, *2003 National Trade Estimate Report on Foreign Trade Barriers*, p. 302.

<sup>12</sup> "Panama: Country Report," Economic Intelligence Unit, Feb. 2004.

<sup>13</sup> Brian Winter, "Gobierno Panamá Propondrá Reformar Sistema Pensiones," *Reuters*, Mar. 17, 2004.

in February, Panama and Singapore agreed to begin negotiations for an FTA. Panama also has expressed interest in joining the Asia Pacific Economic Cooperation (APEC) forum.<sup>14</sup>

## U.S. Relations

### Overview

The United States has close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. Today, some 19,000 U.S. citizens reside in Panama, many retirees of the former Panama Canal Commission. The current U.S. relationship with Panama is characterized by extensive cooperation on counternarcotics efforts as well as U.S. assistance to help Panama assure the security of the Canal and the security of its border with Colombia. Panama was one of several Latin American nations that publicly supported the United States during the war with Iraq as a member of the “coalition of willing.” As noted above, U.S.-Panamanian negotiations for a bilateral FTA began during the last week of April 2004. A second round is scheduled to be held June 7-11 in Los Angeles. Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the Bush Administration has stressed that an FTA with Panama, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law.

The United States turned over control of the Canal to Panama at the end of 1999, according to the terms of the 1977 Panama Canal Treaty, at which point Panama assumed responsibility for operating and defending the Canal. All U.S. troops were withdrawn from Panama at that time and all U.S. military installations reverted to Panamanian control. Under the terms of the Neutrality Treaty, however, the United States retains the right to use military force if necessary to reopen the Canal or restore its operations.

Before the turnover of the Canal and the closure of U.S. military bases in 1999, the United States conducted negotiations with Panama beginning in 1995 for a Multinational Counternarcotics Center that would have extended the U.S. military presence in Panama for a 12-year period with an explicit focus on drug interdiction. Although a tentative agreement was reached in 1997, the negotiations ultimately broke down in 1998, largely because of Panama’s internal politics. An issue that received considerable attention in the U.S. Congress before the turnover of the Canal and U.S. bases in 1999 involved allegations that China could threaten the operation of the Panama Canal because of its links to a Hong Kong company operating ports at both ends of the Canal. Both State Department and Department of Defense officials have indicated that the port operations do not constitute a threat to the Canal.

Panama did not agree to a continued U.S. military presence, but the country does cooperate extensively with the United States on counternarcotics efforts. In February

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<sup>14</sup> “Panama Economy: FTA with Taiwan Takes Effect,” *EIU ViewsWire*, Mar. 24, 2004.

2002, the two countries signed an agreement to conduct joint patrols for drug interdiction. The country is not a major drug producer but is a major drug-transit country because of its close proximity to Colombia and its vast maritime industry and containerized seaport operations. The country's large banking center and the Colon Free Zone make the country vulnerable to money laundering. While the government has made significant efforts to strengthen its anti-money laundering regime since 2000, the State Department's 2003 International Narcotics Control Strategy Report (issued March 1, 2004) maintains that money laundering remains a serious problem and "is a potential threat to the stability of the country's legitimate financial institutions."

U.S. assistance to Panama has increased in the past several years with the country receiving some assistance under the Bush Administration's Andean Regional Initiative to help Colombia and its neighbors combat drug trafficking.<sup>15</sup> The United States provided \$8.2 million in total foreign assistance to Panama in FY2001, \$16.2 million in FY2002, \$16.7 million in FY2003, and an estimated \$19.5 million will be provided in FY2004. The Administration's FY2005 request is for \$19.4 million, including \$6 million in international narcotics and law enforcement assistance, \$5.4 million in development assistance, \$3 million in Economic Support Funds, \$1.5 million in foreign military financing, and \$2.8 million for a Peace Corps program.

Another issue in U.S.-Panamanian relations has been Panama's desire to have the United States clean up three contaminated firing ranges in Panama as well as San Jose Island, which was contaminated with chemical weapons used in training exercises during World II. With regard to the firing ranges, U.S. officials maintain that the United States has already met its treaty obligations to clean up the ranges. With regard to the cleanup of San Jose Island, Panama rejected a U.S. offer in September 2003 that would have provided equipment and training so that Panama could clean up the island; the Panamanian government maintains that it did not want to sign any agreement releasing the United States from liabilities.

## **Drug Trafficking and Money Laundering**

An important concern for U.S. policymakers over the years has been securing Panamanian cooperation in anti-drug-trafficking and anti-money-laundering measures. Panama is a major drug-transit country for illicit drugs from South America to the U.S. market because of its geographic location and its large maritime industry and containerized seaports. Moreover, the country's service-based economy, with a large banking sector and trading center (Colon Free Zone), make Panama a significant drug money laundering center. The county is also a small-scale producer of coca leaf in the remote Darien province area that borders Colombia.

The State Department's *International Narcotics Control Strategy Report* for 2003 maintains that Panama has continued to demonstrate its willingness to cooperate with the United States in combating drug trafficking and money laundering

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<sup>15</sup> For more information, see CRS Report RL32021, *Andean Regional Initiative (ARI): FY2003 Supplemental and FY2004 Assistance for Colombia and Neighbors*, by K. Larry Storrs and Connie Veillette.

and that the government remains a principal U.S. partner in counternarcotics missions. Panama and the United States signed a comprehensive maritime interdiction agreement in February 2002, and in 2003 there were 13 instances in which drugs and 103 prisoners seized on the high seas were transferred through Panama for prosecution in the United States. The State Department report noted that Panama seized increased amounts of illicit drugs in 2003, including a significant amount of heroin, and that the government increased resources of various law enforcement agencies to combat narcotics-related crime. The report noted that Panama lacks an effective precursor chemical control regime but expressed hope that new legislation to establish such a system would be approved in 2004. As further demonstration of Panama's cooperation with the United States on anti-drug efforts, the Moscoso government in January 2004 extradited an alleged Colombian drug lord to the United States for prosecution on drug charges.

After Panama was cited in June 2000 by the Financial Action Task Force (FATF), a multilateral anti-money laundering body, as a non-cooperative country in the fight against money laundering, the government took action to improve its laws. The government undertook a comprehensive effort to improve its anti-money laundering regime; it enacted two laws and issued two decrees in 2000. As a result of these efforts, the FATF removed Panama from its non-cooperative country list in June 2001. The State Department's 2003 drug strategy report notes that although Panama has made significant progress in strengthening its anti-money laundering regime, money laundering remains a serious problem in Panama and a potential threat to the stability of the country's legitimate financial institutions.

## **Spillover From Colombia**

There has been concern in recent years about the spillover effects of Colombia's civil conflict into Panama. The Department of State reports that Panama has been affected negatively by the civil conflict in Colombia, including refugees and armed incursions by insurgents into the Darien region of Panama.<sup>16</sup> In May 1999, several hundred guerrillas of the Colombian Revolutionary Armed Forces (FARC), in flight from Colombian paramilitaries, crossed into the dense jungle Darien province region of Panama. In November 1999, two tourist helicopters were hijacked near Panama City by armed men claiming to be FARC guerrillas. In 2001, an arms smuggling operation was discovered in which AK-47 assault weapons were smuggled from Nicaragua, via Panama, to the paramilitary United Self-Defense Forces of Colombia (AUC); a subsequent Organization of American States investigation into the case concluded that Panamanian authorities had no involvement in the smuggling. In January 2003, several Panamanian Indians were killed and three journalists (including two Americans) were kidnaped by the AUC making incursions into Panama.

The United States has provided economic and military assistance and defense equipment to Panama in order to improve its security on the border with Colombia.

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<sup>16</sup> U.S. Department of State, FY2004 Congressional Budget Justification, Foreign Operations, p. 482.

In April 2003, Panama and Colombia signed a border security pact to strengthen security and prevent incursions by Colombian guerrillas and paramilitary forces.

Some 1,500 refugees are registered in Panama, mostly Colombians in the Darien region. The U.N. High Commissioner for Refugees (UNHCR) expressed concern in April 2003 about the deportation of more than 100 Colombians, including many children.<sup>17</sup>

## **U.S. Trade Relations and a Potential Free Trade Agreement**

Panama and the United States began negotiations for a free trade agreement during the last week of April 2004. U.S. Trade Representative Robert Zoellick had formally notified Congress in November 2003 that the Administration expected to launch such negotiations during the second quarter of 2004. Zoellick maintained that negotiating an FTA with Panama would further U.S. efforts to strengthen support for democracy and “shared fundamental values” throughout the region. He maintained that the agreement would enhance trade, promote respect for internationally recognized worker rights, greater respect for the rule of law, sustainable development, and accountable institutions of governance. Zoellick asserted that strong anti-corruption and transparency requirements in the agreement would help combat corruption.<sup>18</sup>

Panama was not a part of the negotiations for a U.S.-Central America Free Trade Agreement (CAFTA)<sup>19</sup> completed in December 2003, although Zoellick had indicated in April 2003 that Panama might be able to join the agreement through a possible “docking mechanism.”<sup>20</sup> Instead, the Administration chose to negotiate a separate bilateral FTA with Panama.

With the exception of two years when the United States was applying economic sanctions on Panama under General Noriega’s rule, Panama has been a beneficiary of the U.S. preferential import program known as the Caribbean Basin Initiative (CBI) since its inception in 1984. The program was amended several times and made permanent in 1990. CBI benefits were expanded in 2000 with the enactment of the Caribbean Basin Trade Partnership Act (CBTPA) (Title II, P.L. 106-200), which provided NAFTA-like trade benefits, including textile and apparel benefits, to certain CBI countries, including Panama, until September 2008.

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<sup>17</sup> “UNHCR Concerned over Deportation of Colombians from Panama,” Apr. 23, 2003, UNHCR press release.

<sup>18</sup> Office of the United States Trade Representative, “USTR Notifies Congress of Intent to Initiate Free Talks with Panama,” Press Release, Nov. 18, 2003.

<sup>19</sup> For information on CAFTA, see CRS Report RL31870, *The U.S.-Central America Free Trade Agreement: Challenges for Sub-Regional Integration*, by J.F. Hornbeck, and CRS Report RL32322, *Central America and the Dominican Republic in the Context of the U.S.-Central America Free Trade Agreement (CAFTA)*, coordinated by K. Larry Storrs.

<sup>20</sup> “Zoellick Says Central America FTA Talks Are “On Track” for Conclusion This Year,” *International Trade Reporter*, Apr. 17, 2003.

In the FTA being negotiated with the United States, Panama is looking for a permanent extension of CBI benefits, which Panamanian officials believe would spur U.S. investment in the country, and 10-15 year tariff phase-out periods for certain sensitive agricultural products such as rice, sugar, and corn. Panamanian officials acknowledged that Panama needs to make improvements in its enforcement of the protection of intellectual property rights and in its protections for U.S. investors. They also maintain that the FTA would lead to Panama easing some of its sanitary and phytosanitary restrictions currently in place.<sup>21</sup> USTR maintains that obtaining Panama's recognition of the U.S. meat inspection system will be a primary focus of the FTA negotiations.<sup>22</sup>

During the first negotiating round held in late April 2004, Panama reportedly raised issues such as maritime services and competition policies.<sup>23</sup> A second round of FTA negotiations with Panama is scheduled to be held from June 7-11, 2004, in Los Angeles. Negotiators are looking to complete talks by early 2005. As noted above, President-elect Martin Torrijos has requested that his economic team be allowed to participate in the next round of talks, even though he will not be inaugurated until September 1, 2004.

Panama, with its service-based economy (which accounts for some 79% of GDP), traditionally imports much more than it exports to the United States. In 2003, the U.S. trade surplus with Panama was \$1.5 billion, with Panama exporting \$301 million in goods to the United States and importing \$1.8 billion in merchandise from the United States. Panama was the 42<sup>nd</sup> largest U.S. export market in 2003 and the 92<sup>nd</sup> largest U.S. import market.<sup>24</sup> Panama's major exports include fish and seafood (accounting for one-third of its exports to the United States), and sugar, coffee, and other agricultural products, while major import include oil, consumer goods, foodstuffs, and capital goods. Almost half of Panama's exports are destined for the United States, while almost one-third of its imports are from the United States.<sup>25</sup>

The stock of U.S. foreign investment in Panama, estimated at \$20 billion in 2002, surpassed the combined U.S. foreign investment in the five other Central American nations, although it was down some 20% from 2001.<sup>26</sup>

Panama is a supporter of the Free Trade Area of the Americas (FTAA). From March 2001 until February 2003, Panama served as the temporary secretariat for the

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<sup>21</sup> "Panama Seeks Permanent CBI Extension in Free Trade Deal with U.S." *Inside U.S. Trade*, Dec. 19, 2003.

<sup>22</sup> United States Trade Representative. 2004 National Trade Estimate Report on Foreign Trade Barriers. Apr. 1, 2004.

<sup>23</sup> "Panama Concludes First Round of FTA Negotiations with USA." *BBC Monitoring International Reports*, May 4, 2004.

<sup>24</sup> World Trade Atlas. U.S. Department of Commerce Statistics.

<sup>25</sup> "Panama: Economic Structure, *EIU ViewsWire*, Mar. 23, 2004.

<sup>26</sup> United States Trade Representative. 2004 National Trade Estimate Report on Foreign Trade Barriers. Apr. 1, 2004.

Free Trade Area of the Americas (FTAA), and is vying to become the permanent headquarters of a future FTAA secretariat (other contenders include Miami and Atlanta in the United States and Port of Spain in Trinidad and Tobago).

## Operation and Security of the Panama Canal

**Historical Background and the Panama Canal Treaties.** When Panama proclaimed its independence from Colombia in 1903, it concluded a treaty with the United States for U.S. rights to build, administer, and defend a canal cutting across the country and linking the Pacific and Atlantic oceans. The treaty gave the United States rights in the so-called Canal Zone (about 10 miles wide and 50 miles long) “as if it were sovereign” and “in perpetuity.” Construction of the canal was completed in 1914. In the 1960s, growing resentment in Panama over the extent of U.S. rights in the country led to pressure to negotiate a new treaty arrangement for the operation of the Canal. Draft treaties were completed in 1967 but ultimately rejected by Panama in 1970.

New negotiations ultimately led to the September 1977 signing of the two Panama Canal Treaties by President Jimmy Carter and Panamanian head of government General Omar Torrijos. Under the Panama Canal Treaty, the United States was given primary responsibility for operating and defending the Canal until December 31, 1999. (Subsequent U.S. implementing legislation established the Panama Canal Commission to operate the Canal until the end of 1999.) Under the Treaty on the Permanent Neutrality and Operation of the Panama Canal, or simply the Neutrality Treaty, the two countries agreed to maintain a regime of neutrality, whereby the Canal would be open to ships of all nations. The U.S. Senate gave its advice and consent to the Neutrality Treaty on March 16, 1978, and to the Panama Canal Treaty on April 18, 1978, both by a vote of 68-32, with various amendments, conditions, understandings, and reservations. Panama and the United States exchanged instruments of ratification for the two treaties on June 16, 1978, and the two treaties entered into force on October 1, 1979.

Some treaty critics have argued that Panama did not accept the amendments, conditions, reservations, and understandings of the U.S. Senate, including the DeConcini condition to the Neutrality Treaty. That condition states: “if the Canal is closed, or its operations are interfered with, the United States of America and the Republic of Panama shall each independently have the right to take such steps as each deems necessary, in accordance with its constitutional processes, including the use of military force in the Republic of Panama, to reopen the Canal or restore the operations of the Canal, as the case may be.” However, others argued that Panama, in fact, had accepted all U.S. Senate amendments. The State Department asserted that Panama expressly accepted all amendments, conditions, and understandings to the two treaties, including the DeConcini condition. The United States and Panama signed the instruments of ratification for both treaties, which incorporated all the Senate provisions. The two countries cooperated throughout the years on matters related to the canal and established five binational bodies to handle these issues. Two of the bodies were set up to address defense affairs and conducted at least sixteen joint military exercises between 1979 and 1985 involving Panamanian and U.S. forces.

**Canal Transition and Current Status.** Over the years, U.S. officials consistently affirmed a commitment to follow through with the Panama Canal Treaty and turn the Canal over to Panama at the end of 1999. That transition occurred smoothly on December 31, 1999. The Panama Canal Treaty terminated on that date, and the Panama Canal Commission (PCC), the U.S. agency operating the Canal, was succeeded by the Panama Canal Authority, a Panamanian government agency established in 1997.

Under the terms of the Neutrality Treaty, which has no termination date, Panama has had responsibility for operating and defending the Canal since the end of 1999. As noted above, both Panama and the United States, however, in exercising their responsibilities to maintain the regime of neutrality (keeping the Canal secure and open to all nations on equal terms) each independently have the right to use military force to reopen the Canal or restore its operations. This is delineated in condition (1) of the Neutrality Treaty.

The secure operation of the Panama Canal remains a U.S. interest since about 13-14% of U.S. ocean-borne cargo transits through the Canal. The United States provides assistance to Panama to improve its ability to provide security for the Canal and to enhance port and maritime security. In March 2003 congressional testimony, SOUTHCOM Commander in Chief General James Hill stated that Panama was “capable of defending the Canal” and noted that the Canal was “operating very efficiently.”<sup>27</sup>

**Privatization of Two Panamanian Ports and the China Issue.** A controversy that arose in U.S.- Panamanian relations in 1996 and continued through 1999 relates to the privatization of two Panamanian ports at either end of the Panama Canal, Balboa on the Pacific and Cristobal on the Atlantic. In July 1996, the Panamanian government awarded the concession to operate the ports to a Hong Kong company, Hutchison International Port Holdings, one of the world’s largest container port operators and a subsidiary of the Hutchison Whampoa Limited Group. The company operates the concession in Panama as the Panama Ports Company, S.A.

Then U.S. Ambassador to Panama William Hughes complained about the lack of transparency in the bidding process in which several U.S. companies competed. The Panamanian government responded with a communique describing the process by which Hutchison was awarded the 25-year concession. Panamanian officials maintain that Hutchison had the highest bid, agreeing to pay Panama \$22.2 million annually over the life of the concession. In May 1997, six U.S. Senators charged in a letter to the Federal Maritime Commission that irregularities in the bidding process denied U.S. companies an equal right to develop and operate terminals in Panama. After a review of the issue, the Commission responded that while the port award processes were unorthodox and irregular by U.S. standards, it saw no evidence that U.S. companies were subjected to discriminatory treatment. A May 1997 Senate

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<sup>27</sup> Hearing of the Senate Armed Services Committee, “Testimony of Unified and Regional Commanders on Military Strategy and Operational Requirements in Review of the FY2004 Defense Authorization Request,” Mar. 13, 2003, *Federal News Service*.



Foreign Relations Committee staff report on the issue also concluded that while the bidding process was unorthodox, U.S. officials found no evidence of illegality.<sup>28</sup>

In addition to the privatization process, some press reports in March 1997 raised the issue of Hutchison's relationship with the Chinese government and the China Ocean Shipping Company (COSCO) and suggested that China would gain control of the Panama Canal. (Also see CRS Report 97-476, *Long Beach: Proposed Lease by China Ocean Shipping Company (COSCO) at Former Naval Base*.) The same May 1997 Senate Foreign Relations Committee staff report mentioned above concluded that Hutchison's operations of the ports does not constitute a threat to the Panama Canal. It noted that legal safeguards in the Panama Canal Treaties and Panamanian law guarantee the continued operation of the Canal and ensures its access to all nations.

In early August 1999, Senator Trent Lott raised questions about Chinese influence over the Canal in a letter to Defense Secretary William Cohen. Subsequently, both the State Department and the Department of Defense made statements responding to the concerns raised about potential Chinese influence in Panama. In an August 12, 1999, press briefing, the Department of Defense noted that it does not consider Hutchison's ownership of two port facilities as a threat to U.S. security. DOD asserted that "the company does not have any ability to stop or impede traffic through the Canal" and noted that under the Neutrality Treaty, "the United States has a unilateral right to maintain the neutrality of the Canal and reopen it if there should be any military threat." The State Department, in an August 12, 1999, press briefing, noted that it has seen "no capability or interest on the part of the People's Republic of China, a major user of the Canal, to disrupt its operations."

According to September 29, 1999, congressional testimony by Peter Romero, then Acting Assistant Secretary of State for Western Hemisphere Affairs (before the House International Relations Committee, Subcommittee on the Western Hemisphere), the U.S. intelligence community also studied the question of the influence of China in Panama as a result of the concession. Romero testified that, after reviewing the study, the State Department concluded that the Hutchison concession "does not represent a threat to canal operations or other U.S. interests in Panama."

On October 22, 1999, the Senate Armed Services Committee held a hearing on Canal security. Officials from the Department of Defense, the Panama Canal Commission, the SOUTHCOM, and the Department of State testified, and all concluded that the Hutchison's port operations did not constitute a threat to the Canal. Ambassador Lino Gutierrez, Principal Deputy Assistant Secretary of State for Western Hemisphere Affairs, stated that the Department found no information to substantiate the allegation that Hutchison is a front for the People's Republic of China. He noted that Panama's contract with Hutchison (Law 5) does not give China any role in determining which ships will pass through the Canal or in which order they will travel, and it does not give Hutchison any control over Canal pilots.

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<sup>28</sup> Senate Committee on Foreign Relations. *Staff Report on the Privatization of Panamanian Ports*. May 1997.

Alberto Aleman Zubieta, Administrator of the Panama Canal Commission, stated that “Hutchison has no authority whatsoever to interfere with, dictate or influence the operation of the Canal, nor will it ever be allowed to do so.” Gen. Charles Wilhelm, SOUTHCOM Commander in Chief, stated: “We are not aware of any current internal or external threats to the Panama Canal, and we have no evidence that it has been targeted by terrorists or foreign governments.”

In March 2003, the issue of Hutchison’s operations of the ports was raised during a hearing of the Senate Armed Services Committee. In response to a question, Admiral Fargo, Commander in Chief of the United States Pacific Command, asserted that there has not been any threat to U.S. security associated with Hutchison’s operations of the ports in Panama.<sup>29</sup>

## Contamination of Firing Ranges and San Jose Island

Another issue in relations has been Panama’s desire to have the United States clean up three former firing ranges (Empire, Piña, Balboa West) used by the U.S. military for live-fire exercises and testing of ground explosives during its tenure in the country. The Piña range was turned over to Panama in June 1999, while the Empire and Balboa West ranges were turned over in July 1999. Some 60,000 Panamanians live in areas surrounding the ranges, and reportedly at least 24 Panamanians have been killed in the last two decades by coming into contact with the explosives.<sup>30</sup> Estimates of the cost to clean up the unexploded bombs and other contaminants range from \$400 million to \$1 billion.<sup>31</sup>

U.S. officials maintain that it is not possible to remove the unexploded ordinance without tearing down the rain forest and threatening the Canal’s watershed. They also point to a Canal treaty provision which states that the United States is obligated to take all measures “insofar as may be practicable” in order to ensure that hazards to human life, health and safety were removed from the defense sites reverting to Panama. In response to a press question while attending Panama’s centennial celebration in November 2003, Secretary of State Colin Powell maintained that the United States had already met its obligations to clean up the ranges.<sup>32</sup>

The controversy over the U.S. cleanup of the ranges at times has been an irritant in the bilateral relationship but at this juncture appears to be somewhat of a dormant issue. Officials of the Pérez Balladares government (1994-1999) believed that the

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<sup>29</sup> Hearing of the Senate Armed Services Committee, “Testimony of Unified and Regional Commanders on Military Strategy and Operational Requirements in Review of the FY2004 Defense Authorization Request,” Mar. 13, 2003, *Federal News Service*.

<sup>30</sup> “No Home on Panama’s Range, U.S. Munitions Scattered Over Canal Training Zones,” *Washington Post*, Jan. 10, 2000; Vanessa Hua, “U.S. Weapons, U.S. Mess? Panama,” *Bulletin of the Atomic Scientists*, July 1, 2002.

<sup>31</sup> “An Expensive Farewell to Arms: The U.S. Has Abandoned 51 Military Sites in Canada,” *The Gazette (Montreal)*, Apr. 28, 2001.

<sup>32</sup> U.S. Department of State. International Information Programs. Washington File. “Colin Powell Hails Panama’s 100 Years of Independence,” Nov. 3, 2004.

United States was reneging on its treaty commitment and wanted to press the United States to clean up the firing ranges regardless of economic cost. The Moscoso government raised the issue during her October 19, 1999, meeting with then President Clinton in Washington. At the time, President Clinton stated that the United States had met its treaty obligations to clean up the ranges to the extent practicable, but did say that the United States wanted to stay engaged and work with Panama on the issue. The issue also came up during then Secretary of State Albright's visit to Panama on January 15, 2000. In a December 2001 letter to Secretary of State Colin Powell, Panama's Foreign Minister reiterated his country's call to clean up the three firing ranges.<sup>33</sup> In April 2003, Panamanian Foreign Minister Harmodio Arias asserted that the issue of clearing the firing ranges was not dead.<sup>34</sup> More recently, however, President Moscoso did not raise the issue during a June 2003 meeting with President Bush in Washington, and the issue was not on the agenda during a Secretary of State Colin Powell's visit to Panama in November 2003.

On a separate issue, U.S. Embassy officials in Panama announced in May 2002 that a plan was being prepared to clean up Panama's San Jose Island, which was contaminated with chemical weapons used in training exercises during World War II.<sup>35</sup> The Organization for the Prohibition of Chemical Weapon (OPCW) had confirmed in July 2001 that there were several live chemical bombs on the island, and Panama evacuated residents of the island.<sup>36</sup> In September 2003, however, Panama rejected a U.S. offer for the environmental cleanup of the island that would have reportedly offered more than \$2 million in equipment and training so that Panama could clean up the island. According to Foreign Minister Harmodio Arias, Panama rejected the offer because it did not want to sign a document releasing the United States from all liabilities.<sup>37</sup> A provision in the FY2004 Foreign Operations appropriations measure (P.L. 108-199, Division D) would have permitted Foreign Military Financing for the San Jose Island cleanup.

## Former U.S. Military Presence in Panama

Under the terms of the Panama Canal Treaty, all U.S. military forces withdrew from Panama by December 31, 1999, since no mutual agreement was reached to continue their presence. At that time, Panama assumed responsibility for defending as well as operating the Canal. Nevertheless, under the terms of the Treaty on the

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<sup>33</sup> "Panama Asks U.S. Military to Clean Up Former Bases," *Agence France Presse*, Dec. 27, 2001.

<sup>34</sup> Foreign Broadcast Information Service, Highlights: Central America Press, Apr. 8, 2003 ("Panamanian Foreign Minister Says Firing Range Cleanup Not Dead Issue," *La Prensa*)

<sup>35</sup> "U.S. Creates Chemical Weapon Clean-up Plan on Panamanian Island." *EFE News Service*, May 27, 2002.

<sup>36</sup> "Panama-U.S. Panama Clears Isle After Finding World War II Chemical Weapons." *EFE News Services*, Sept. 6, 2001.

<sup>37</sup> Victor Torres, "Foreign Minister Explains Why Panama Rejected U.S. San Jose Island Cleanup Offer," *La Prensa* (Panama), Oct. 12, 2003 (as translated by Foreign Broadcast Information Service).

Permanent Neutrality and Operation of the Canal, often referred to as the Neutrality Treaty, the United States will have the right to use military force to reopen the canal or restore its operations.

**Former Role and Presence of U.S. Troops.** Over the years, U.S. military forces in Panama had several functions. The primary purpose of the troops was to provide for the defense of the Panama Canal, as set forth in the Panama Canal Treaties, until December 31, 1999. Another function served by the presence of the U.S. military in Panama stemmed from its activities throughout Latin America. Until late September 1997, Panama served as the headquarters of the U.S. Southern Command (SOUTHCOM), a unified command responsible for all U.S. military operations south of Mexico. In March 1995, President Clinton announced that SOUTHCOM headquarters, located at Quarry Heights in Panama, would be moved to Miami. The move began in June 1997 and was completed by the end of September 1997. U.S. bases in Panama provided assistance to Latin American nations combating drug trafficking with aerial reconnaissance and counter-narcotics training. Howard Air Force Base in Panama provided secure staging for detection, monitoring, and intelligence collecting assets. Panama also provided unique opportunities and facilities for military training, including the Jungle Operations Training Center (which was deactivated on April 1, 1999) at Fort Sherman, Panama.

By the end of December 1999, all U.S. forces had withdrawn from Panama, and all of the U.S. bases and facilities had reverted to Panamanian control. Ten major installations were returned to Panama over a four-year period: Fort Davis and Fort Espinar in early September 1995; Fort Amador, at the Pacific entrance to the Canal, on October 1, 1996; Albrook Air Force Station on October 1, 1997; Galeta Island (a former U.S. Naval Security Group Activity that passed to Army control in 1995) on March 1, 1999; Rodman Naval Station on March 11, 1999; Fort Sherman, on the Atlantic side, on June 30, 1999; and Howard Air Force Base, which ceased air operations in May 1999, was officially turned over to Panama on November 1, 1999, along with Fort Kobbe. Finally, Fort Clayton was turned over on November 30, 1999.

**Failed Negotiations.** In September 1995, President Clinton and President Pérez Balladares met in Washington and announced that the two countries would begin informal discussions to determine if there was mutual interest in the United States maintaining a military presence in Panama beyond the end of 1999. Those talks never materialized, but instead there were a series of bilateral talks regarding a U.S. contribution to a Multinational Counternarcotics Center (MCC). President Pérez Balladares had announced in July 1996 that Panama would be willing to allow the United States to use Howard Air Force Base, at no cost, as an international drug interdiction center. He stated that Panama would “provide the facility free of charge as part of our contribution to the drug war.”

Talks on a potential MCC began in late November 1996 and ultimately led to a tentative agreement, announced December 24, 1997, on the establishment of a MCC with the United States contributing troops for the center. Despite the tentative accord, progress on a final agreement was stymied during 1998, and on September 25, 1998, both countries announced that they were ending the MCC talks without a final accord.

As described in the press, the MCC would have involved about 2,000 U.S. troops operating at Howard Air Force Base, Rodman Naval Station, and Fort Kobbe on the Pacific side of the Canal. Other facilities reportedly to be utilized would have been communication facilities at Galeta Island and Corozal. Panama would have provided free use of the bases, while the United States would have been expected to pay for such facilities as housing. The MCC reportedly would have been established for a 12-year period, renewable for additional five-year periods, with the potential participation of other Latin American nations. Reportedly the MCC would have had a Directors' Council made up of the foreign ministers of participating countries and presided over by Panama's foreign minister. If the United States and Panama had agreed on the MCC, the next step would have been for Panama's Legislative Assembly to approve the agreement, which then would have been subject to a national referendum in Panama.

As early as April 1998, the Clinton Administration had expressed concern that negotiations would have to be concluded soon, or the United States would be forced to locate the U.S. anti-drug operations elsewhere. Although the text of the draft MCC accord was not made public, press reports indicated that one problem in the negotiations was a provision that would permit U.S. soldiers to engage in other missions beyond counter-narcotics. Panama and several Latin American nations expected to join the MCC expressed reservations about this aspect of the accord, with concerns centered on the potential for U.S. military intervention in the region. U.S. officials, however, maintained that U.S. military activities beyond anti-narcotics work would consist of such benign activities as search and rescue and disaster relief. Another reported problem in the negotiations was the U.S. rejection of Panama's call to allow a change in the agreement, whereby the center could be dissolved after three years if the drug trafficking problem diminished.

Some participants, including former Ambassador Thomas McNamara, the lead negotiator in the talks with Panama, believe that the main reason that an agreement was not reached was Panama's internal politics. While Panamanian opinion polls overwhelmingly favored a continued U.S. military presence, the President appeared concerned about vocal opposition, even from within his own party, to the proposed center. Moreover, President Pérez Balladares was actively seeking a constitutional change for a second term of office, and this appeared to have influenced the MCC negotiations.

In early December 1998, U.S. officials announced that they had begun talks with several Latin American countries to find new bases of operation in Central and South America for the anti-drug missions formerly undertaken in Panama. Short-term interim agreements were concluded in April 1999 to have Forward Operating Locations (FOLs) in Ecuador, Aruba, and Curaçao for U.S. aerial counternarcotics missions. Subsequently, the United States concluded longer-term 10-year agreements with Ecuador and with the Netherlands (for Aruba and Curaçao) for the anti-drug FOLs. An additional FOL site also was being sought in Central America, and on March 31, 2000, a 10-year agreement was signed with El Salvador.

In 1999, some Members of the U.S. Congress and politicians in Panama suggested that there was still an opportunity for the United States to negotiate the use of facilities in Panama for U.S. anti-drug flights, similar to the FOLs negotiated with

Ecuador, Aruba, and Curacao. Press reports suggested that President-elect Moscoso was interested in allowing the U.S. military to use Panama as a staging area for anti-drug flights. In 2000, however, President Moscoso turned down a request from the United States for a visiting military forces agreement. On September 26, 2000, she announced that Panama would not participate in a visiting forces agreement with the United States.

**U.S. Congressional Views on U.S. Military Presence.** Before December 1999, Congress had twice gone on record favoring negotiations to consider a continued U.S. presence in Panama beyond the end of 1999, and in the 104th Congress the Senate approved a non-binding resolution on the issue. In 1991, Congress enacted legislation (P.L. 102-190, Section 3505) expressing the sense of Congress that the President should begin negotiations with Panama to consider whether the two nations should allow the permanent stationing of U.S. forces in Panama past 1999. Twelve years earlier, Congress had approved the Panama Canal Act of 1979 (P.L. 96-70, Section 1111) which states that “it is the sense of the Congress that the best interests of the United States require that the President enter into negotiations” with Panama “for the purpose of arranging for the stationing of United States military forces after the termination of the Panama Canal Treaty.” And on September 5, 1996, the Senate approved S.Con.Res. 14, expressing the sense of Congress that the President should negotiate a new base rights agreement with Panama, while consulting with Congress regarding any bilateral negotiations that take place.

In the 106<sup>th</sup> Congress, numerous measures were introduced relating to a continued U.S. military presence in Panama as the Canal turnover approached, but no legislative action was taken on these measures. The measures would have urged the President to negotiate a new base rights agreement with Panama to permit U.S. troops beyond December 31, 1999 (S.Con.Res.59, S.J.Res.37, H.Con.Res. 233); expressed the sense of the Congress that the United States should negotiate security arrangements with Panama to protect the Canal and to ensure Panama’s territorial integrity (H.Con.Res. 186/S.Con.Res.61); authorized and directed the President to renegotiate the Panama Canal Treaties to provide for the security of the Canal (H.R. 2244); and expressed the sense of the Senate that the President should negotiate security arrangements with Panama regarding the protection of the Canal and that any attack on or against the Canal would be considered an act of war against the United States (S.Res. 257). One measure (H.R. 3452) would have provided that unpaid balances of the Panama Canal Commission be payable to Panama only upon completion of an agreement that leases half of Howard Air Force Base to the United States.

In the second session of the 106<sup>th</sup> Congress, H.R. 3673, introduced by Representative Benjamin Gilman, and reported by the House International Relations Committee (H.Rept. 106-803, Part I), would have provided Panama with certain benefits if Panama agreed to permit the United States to maintain a presence there sufficient to carry out counternarcotics and related missions from Panama. The benefits would have been preferential trade access to the U.S. market; a scholarship program for Panamanians to study in the United States; and assistance for infrastructure construction. Supporters argued that the bill offered an opportunity for the United States to regain its traditional military presence in Panama and restore full

U.S. military capability to perform anti-narcotics missions in the region. Opponents argued that Panama had not expressed interest in regaining a U.S. military presence in the country and believed that it could jeopardize talks underway with Panama for a “visiting forces” agreement. The State Department expressed opposition to the bill for several reasons. It maintained that there was a lack of credible support in Panama for any agreement to re-establish a U.S. military presence there; that the quid pro quo nature of the offer to Panama would give the appearance of the United States paying rent for the right to establish a military presence, and U.S. policy was not to pay rent for foreign bases or base rights; and that the trade benefits offered for Panama could violate the most-favored-nation obligation of the World Trade Organization. State Department officials also pointed out that trade benefits for Panama and other Caribbean Basin countries had been enacted into law in May 2000 as part of the U.S.-Caribbean Basin Trade Partnership Act (Title II of P.L. 106-200).

In the 107<sup>th</sup> Congress, just a single resolution was introduced related to the stationing of U.S. troops in Panama, but no legislative action was taken on the measure. H.Con.Res. 296, introduced by Representative Bob Barr on December 20, 2001, would have urged the President to negotiate a new base rights agreement with Panama in order for U.S. Armed Forces to be stationed there for purposes of defending the Canal.

In the 108<sup>th</sup> Congress, H.Con.Res. 9, introduced by Representative Virgil Goode, is identical to H.Con.Res. 296 introduced in the 107<sup>th</sup> Congress described above. The resolution would urge the President to negotiate a new base rights agreement with Panama for the purposes of defending the Panama Canal.

**Panamanian Views on U.S. Military Presence.** Prior to the departure of U.S. troops at the end of 1999, public opinion polls in Panama cited overwhelming support for a continued U.S. military presence. Some Panamanians focused on the importance of continuing a U.S. military presence to help conduct counternarcotics operations in Panama and in the region. They pointed with concern to incursions of Colombian narco-traffickers into the Darien jungle region of Panama. Despite the polls, Panamanian opponents to the MCC were vocal and staged protests at various times. In 1997, there were several protests by student, human rights, and labor groups who opposed a continued U.S. presence. An umbrella organization was formed known as the Organizations Against Military Bases, which included some 30 labor, peasant, and student groups. In early 1998 another umbrella organization against U.S. military presence was formed, the National Movement for the Defense of Sovereignty, consisting of labor, student, and professional organizations. These groups argued for the need to break what they regarded as Panama’s dependent relationship with the United States and recover its own national identity.