

CRS Issue Brief

Panama-U.S. Relations: Continuing Policy Concerns

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Panama-U.S. Relations: Continuing Policy Concerns

SUMMARY

The Dec. 20, 1989, U.S. military intervention in Panama, known as Operation Just Cause, heralded a new period in U.S.-Panamanian relations. Upon assuming office, the new government of President Guillermo Endara stated it was committed to five goals: 1) reestablishing democracy; 2) undertaking economic reconstruction; 3) continuing the process of transferring the Canal to Panama under the terms of the Panama Canal Treaties; 4) eliminating drug trafficking and money laundering; and 5) reorganizing the public forces so that they can play a professional and constitutional role in supporting democracy. U.S. support has been an important factor in attempting to realize these objectives.

In the aftermath of the intervention, U.S. policymakers immediately faced a new range of problems, including assistance for economic recovery, support for the development of a civilian police force, cooperation with the new government on counter-narcotics measures, and support for fragile democratic institutions. While Panama has made progress in all these areas, the country still faces notable challenges. U.S. policymakers maintain an active concern about these issues not only because of a feeling of commitment in the aftermath of Operation Just Cause, but also because of continued U.S. interests in Panama, particularly the Panama Canal, which continues to be important to the United States for its commercial and strategic value.

Looking ahead, U.S. policymakers face the important issue of the future U.S. military role in Panama beyond the end of 1999, when Panama assumes control of the Canal. On Jan. 14, 1993, the Department of Defense announced that the U.S. troop level in Panama would be cut to 6,000 by

1995, down from the current level of 10,000, in accordance with the U.S. commitment under the Panama Canal Treaties to withdraw U.S. forces by the end of the decade. Some observers have called for future negotiations for U.S. bases and facilities to remain in Panama after the end of 1999. Congress has gone on record twice favoring negotiations to consider a continued U.S. presence in Panama beyond 1999.

With regard to the future operation of the Canal, some Members have expressed concern about helping to bring about a smooth transfer of power when Panama assumes control of the Canal at the end of the century. In April 1994, President Clinton submitted recommendations to changes to the Panama Canal Commission in order to facilitate and encourage the operation of the Canal through an autonomous entity under the government of Panama when Panama assumes control of the Canal. In Panama, several actions occurred in 1993 relating to the Canal's future, including the establishment in February of an Interoceanic Regional Authority to handle the planning, promotion, and administration of reverted property.

On May 8, 1994, Panamanians went to the polls to vote in presidential and legislative elections which observers have called the freest in almost three decades. The results of the presidential race confirmed what opinion polls had been saying over the last several months; Ernesto Perez Balladares, candidate of the former pro-Noriega Democratic Revolutionary Party (PRD) won the election with 33% of the vote.

MOST RECENT DEVELOPMENTS

In a late June 1994 trip to Panama, U.S. Secretary of Defense William Perry stated that the United States plans to remove all forces by the end of the decade in compliance with the treaties, but also stated: "If the Panamanian government requests us to stay on, for reasons of, for example, regional stability, that's something we would certainly consider." (Orlando Sentinel, June 26, 1994)

In July 1994, U.S.-Panamanian relations were strained over the issue of Panama serving as a safe haven for Haitian asylum seekers. President Endara initially agreed to provide safe haven for up to 10,000 Haitians fleeing their nation by boat, but then retracted this offer on July 7, 1994. Endara maintained that the United States changed the terms of its proposal by planning to house the Haitians at U.S. military bases in Panama for a substantial period rather than quickly moving them to an island off Panama's Pacific coast. Endara asserted that he "felt mocked and intimidated" and that U.S. officials treated him as if Panama "were a banana republic," while U.S. officials maintained that they had been "exceedingly deferential" to President Endara because of the sensitivity of the issue. On July 10, President-elect Balladares (see section on May 1994 elections) stated that he would accept a number of Haitians for a period not to exceed six months, provided that the United States guarantee their departure and that the Haitians remain under the primary control and responsibility of the United States on U.S. military bases. On July 23, President Endara signed a document agreed to by Central American nations that committed the nations to accept Haitian refugees on a temporary basis "in keeping with the terms, deadlines, conditions, and the number of refugees determined by each Central American country."

President-elect Balladares -- who will be inaugurated on Sept. 1, 1994 -- stated on July 12, 1994 that he would be prepared to offer asylum to Haitian military leaders if it would help resolve the current political crisis, and the incoming government has offered to act as a "mediator" to achieve a peaceful solution to the Haitian crisis. The Endara government announced its support of the U.N. Security Council resolution approving military intervention in Haiti, while the incoming Balladares government announced that it would support military intervention only if there is no other solution to the political crisis.

On July 20, 1994, a Panamanian commuter plane leaving the city of Colon was blown up, killing 21 people, 12 of whom were Jewish. U.S. officials maintain that bombing methods and public statements linked the bombing, as well as recent bombings in Argentina and London, to Hizballah groups. (Hizballah is a radical Shia Muslim group in Lebanon, closely allied with and often directed by Iran.) (See LEGISLATION section for a resolution condemning the bombing.)

BACKGROUND AND ANALYSIS

Overview and Introduction

The December 1989 U.S. military intervention was the culmination of two and a half years of strong U.S. pressure against the *de facto* political rule of General Manuel Antonio Noriega, commander of the Panama Defense Forces (PDF). President Bush ordered U.S. forces into combat on Dec. 20, 1989 for four reasons: "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." A new Panamanian government was installed headed by Guillermo Endara, who was widely believed to have won the May 1989 elections by a 3-1 margin. On Jan. 3, 1990, General Noriega, who had taken refuge at the Vatican Embassy, turned himself over to U.S. officials, whereupon he was arrested by members of the U.S. Drug Enforcement Administration and brought to the United States to stand trial on drug trafficking charges. After this, President Bush announced that all four objectives of the U.S. intervention had been accomplished. (After a seven-month trial, on Apr. 9, 1992, Noriega was convicted on 8 out of 10 drug trafficking counts in U.S. Federal court in Miami, and on July 10, 1992, he was sentenced to 40 years in prison.)

More than four years after the U.S. military intervention, Panama has made notable economic and political progress, with abundant U.S. assistance and cooperation, but the country still faces critical challenges. The economy has rebounded, but critics maintain that the recovery has not trickled down to the nation's poorer classes. A new civilian Public Force has replaced Noriega's Panama Defense Forces (PDF), but the demilitarization process has been difficult, with some police and former PDF members at times plotting to destabilize, if not overthrow, the Endara government. Panama cooperates closely with the United States on counter-narcotics measures, but the nation remains a major narcotics money laundering and illicit drug transshipment center. The government generally respects human rights, but, as the State Department's human rights for 1993 states, the nation's "principal human rights problems include prolonged preliminary and pretrial detention, an inefficient criminal justice system, and an overcrowded, oppressive prison system."

The future of the U.S. military presence in Panama beyond the end of the decade is an issue which could be influenced by Panama's progress in these areas as well as many other factors. Most importantly, these include: the perceived importance of the U.S. bases for defending the Canal and contributing to U.S. military activities in other parts of Latin America; and the overall cutback of U.S. military forces in light of the end of the Cold War (including U.S. base closures and the associated economic costs for the U.S. economy). Congress has already gone on record calling for negotiations to consider a base rights agreement to maintain troops in Panama beyond the end of 1999. While opinion polls show that most Panamanians would like to see a continued U.S. military presence, the Endara government is leaving the decision to negotiate a base rights agreement to the next Panamanian government.

Panama's Political Environment

Despite considerable political and economic progress in Panama, the Endara government has faced extensive criticism. Some claim that the Endara government represents a return to pre-1968 Panama, when the political system was dominated by upper class elites. Others maintain that the government is more concerned about servicing its foreign debt than with the plight of Panama's poor. Nevertheless, other observers maintain that the varied criticisms of the Endara government obscure the substantial democratic progress the nation has made. Still others describe Endara's governing style as collegial, and a welcome change from the previous 21 years of military-controlled government.

Panama's political parties represent a wide political spectrum, and since the return to democracy, intense debate and competition among the parties has replaced the repression of military rule. In April 1991, political infighting within the four-party ruling coalition led to the ouster of the Christian Democratic Party (PDC). (PDC leader Ricardo Arias Calderon continued to serve as First Vice President in the Endara government until his resignation in December 1992.) Since that time, the PDC has been the major opposition party, with 28 seats, more than any other party, in the 67-member National Assembly. The three remaining parties of the government coalition together have 27 seats: the National Republican Liberal Movement, the party of Second Vice President Guillermo Ford, with 16 seats; Endara's Arnulfist Party, with 6 seats; and the Authentic Liberal Party with 5 seats. The parties of the former pro-Noriega coalition have 12 seats in the Assembly, with 10 seats held by the Democratic Revolutionary Party one held by the Liberal Party and one held by the Labor Party.

May 1994 Elections

On May 8, 1994, Panamanians went to the polls to vote in presidential and legislative elections which observers have called the freest in almost three decades. The results of the presidential race confirmed what opinion polls had been saying over the last several months; Ernesto Perez Balladares, candidate of the former pro-Noriega Democratic Revolutionary Party (PRD) who led a coalition known as "United People" (consisting of the PRD, the Labor Party (Pala), and the Liberal Republican Party (PLR)) won the election with 33% of the vote. Balladares will be inaugurated on Sept. 1, 1994. Secretary of State Warren Christopher expressed U.S. satisfaction that the elections were conducted freely and fairly, and indicated that the United States would work closely with the new government to ensure a smooth transfer of the Panama Canal to Panamanian control by the end of the century.

Placing a surprisingly strong second, with 29% of the vote, was Arnulfist Party (PA) candidate Mireya Moscoso de Gruber (widow of former president Arnulfo Arias) who headed a coalition known as the "Democratic Alliance" (consisting of the PA, the Authentic Liberal Party (PLA), the Liberal Party (PL), and the Independent Democratic Union Party (UDI)). Moscoso de Gruber had placed fourth in many public opinion polls before the elections, and her second place finish reportedly resulted from support in Panama's countryside. Internationally known salsa singer Ruben Blades, candidate of the Papa Egoro party, placed a disappointing third, with just over 17% of the vote. In 1992, Blades had topped public opinion polls of presidential hopefuls, but had dropped to second in 1994 polls. Blades third-place finish reportedly resulted from his lack of support outside of Panama City. In fourth place, with between 16-17% of the vote, was former Controller General Ruben Dario Carles, candidate of an electoral coalition dubbed "Change 94" (consisting of the National Republican Liberal Movement (MOLIRENA), the Civic Renewal Party (PRC), and the National Renewal Movement (MORENA)). Three other candidates, with little support, each received 2% or less of the total vote: Eduardo Vallarino of the Christian Democratic Party (PDC); Samuel Lewis Galindo supported by a "National Accord" coalition (consisting of the Solidarity Party (PS) and the National Unity Mission (MUN)); and Jose Salvador Munoz of the Doctrinaire Panamenist Party (PPD).

Considering recent polls and the unpopularity of the Endara government, Balladares' election was not surprising. His government, however, will face considerable political challenges because of its minority status. To overcome this,

Balladares has indicated that he will appoint opposition and independent members to his cabinet.

In the electoral race, Balladares campaigned as a populist and advocated greater social spending and greater attention to the poor. He stressed the need for addressing unemployment, which he termed Panama's fundamental problem. Balladares severely criticized the Endara government for corruption, while weathering attempts to portray him as having been closely associated to General Noriega. (Balladares served as campaign manager during the 1989 elections for candidate Carlos Duque, which the Noriega regime had tried to impose through fraud.) Instead, Balladares has focussed on the PRD's ties to the populist policies of Gen. Omar Torrijos, Panama's military leader who died in a plane crash in 1981. While some Panamanians remained wary of the PRD's return to political power, fearing that it could signify a return to the authoritarianism and corruption that characterized the government during Noriega's *de facto* rule, Balladares has worked to ease fears by promises to fight narcotics trafficking and maintain civilian leadership for the nation's security forces.

In the elections for 72 members of the Legislative Assembly (71 elected plus one so-called "Lone Ranger" seat for parties retaining their legal status, but having no candidate elected) Balladares' United People coalition won 33 seats (PRD 30, PLR 2, Pala 1). In addition, the new Solidarity Party, which won 2 Assembly seats, announced its legislative support for Balladares' coalition in mid-May. With regard to opposition parties, Moscoso de Gruber's Democratic Alliance won 21 seats (PA 14, PL 3, PLA 3, UDI 1), while the Change '94 alliance won 9 Assembly seats (MOLIRENA 5, PRC 3, and MORENA 1 -- the "Lone Ranger" seat). Ruben Blades' Papa Egoro party won 6 seats, while the Christian Democrats were dealt a resounding defeat, winning just 1 seat, down from 28 won in the 1989 elections.

Policy Issues and Concerns

Future of U.S. Military Presence and Role in Panama

A key issue facing U.S. policymakers is whether or not the United States should negotiate a base rights agreement with Panama to allow U.S. forces to remain beyond the end of the century. Under the terms of the Panama Canal Treaties, U.S. forces are to withdraw by the end of 1999, unless an agreement is reached to continue their presence, and Panama will assume responsibility for defending as well as operating the Canal. Nevertheless, in exercising their responsibilities to maintain the regime of neutrality (keeping the canal secure and open to all nations), both the United States and Panama, will each independently have the right to use military force to reopen the canal or restore its operations.

Current Presence and Role. U.S. military forces in Panama have several functions. At present, there are approximately 10,000 U.S. troops in Panama, stationed on 10 major military installations, with the primary purpose of providing for the defense of the Canal. (At the height of the U.S. intervention in Panama, there were around 27,600 U.S. troops in the country, but by Feb. 13, 1990, the Administration had reduced U.S. troops to below the 13,600 pre-invasion level.) U.S. troops are also involved in civic action programs in Panama, such as improving schools, hospitals, and roads in rural parts of the country. (Some observers maintain that an objective of the exercises is to make the U.S. military popular among Panamanians in order to make

a military presence welcome after 1999.) In addition, U.S. troops played a decisive role in subduing a police rebellion in early December 1990. Such involvement raises questions about the role of the U.S. military in Panama in defending the government from future threats, particularly whether the U.S. military should serve as the guarantor of Panamanian democracy.

Another function served by the presence of the U.S. military in Panama stems from its responsibility for activities throughout Latin America. Panama serves as the headquarters of the U.S. Southern Command (SOUTHCOM), a unified command responsible for all U.S. military operations south of Mexico. This most notably includes efforts to assist Latin American nations combatting drug trafficking, such as aerial reconnaissance and counter-narcotics training.

On Jan. 14, 1993, the Department of Defense announced that it would be cutting the U.S. troop level to 6,000 by 1995. Previous press reports had indicated that under a phased-withdrawal plan several U.S. installations would be turned over to Panama before 1999. According to DOD, the major part of the remaining U.S. forces will be consolidated at Howard Air Force Base, Rodman Naval Station, and Fort Kobbe at the Pacific entrance to the Canal with a small force to be consolidated on the Atlantic side until the withdrawal is complete in 1999. Some observers have suggested that these are the installations that the United States would like to retain.

Into the Next Century. An important long-term issue for U.S. policymakers is the role of the U.S. military in Panama beyond the 1990s. Some observers, both in the United States and Panama, have called for future negotiations for U.S. bases and facilities to remain after the end of 1999, particularly in light of Panamanian reluctance to reconstitute an army to defend the Canal because of the potential threat to the nation's newly established democracy.

Congress has gone on record twice favoring negotiations to consider a continued U.S. presence in Panama beyond the end of 1999, and legislation has again been introduced in the 103rd Congress, H.Con.Res. 17 (Crane). 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."

U.S. officials have expressed their commitment to follow through with their obligation under the Panama Canal Treaties to withdraw U.S. forces by the end of the decade. In a late June 1994 trip to Panama, however, U.S. Secretary of Defense William Perry stated: "If the Panamanian government requests us to stay on, for reasons of, for example, regional stability, that's something we would certainly consider." (*Orlando Sentinel*, June 26, 1994)

Factors Influencing U.S. Policymakers. There are several factors which could influence the U.S. decision of whether to negotiate a base rights agreement with Panama. One of the most important is the perceived importance of the U.S. military

presence in Panama for defending the Canal or for carrying out other U.S. military activities in Latin America. Could these U.S. military functions be carried out as effectively from bases located in the United States or from another Latin American or Caribbean location? A second important factor is the overall cutback of U.S. military forces in post-Cold War era. Related to this are domestic concerns about U.S. base closures and the associated costs to the U.S. economy, which raise the question of whether the United States should support bases in Panama when U.S. bases might effectively perform the same functions. A third factor is the potential costs of compensating Panama for continued use of the bases. Given U.S. budgetary constraints, would taxpayers' monies be better spent on domestic concerns?

A fourth set of factors that could influence U.S. policymakers relates to Panama's political stability and economic recovery. Most significant is Panama's progress in building an apolitical civilian police force, one that will not threaten democratic rule, and will not in any way threaten the operation of the Canal. Also important is Panama's commitment and capability to combat drug trafficking. Will Panama be able to prevent the Canal from being used as a conduit for drug traffickers? Even more fundamental questions are whether Panama desires a continued U.S. military presence, and what would be the political and economic effects on Panama from a continued U.S. military presence. Would a continued U.S. military presence help ensure political stability in Panama, or would it foster resentment and anti-American sentiment?

Panamanian Views. Panamanian reaction to the idea of a new base rights agreement has been mixed. While public opinion polls in Panama cite overwhelming support for a continued U.S. military presence, President Endara has indicated that he has no plans to negotiate such an agreement during his term of office. President-elect Balladares has made statements suggesting that his government would be open to a proposal from the United States, but also stated that there is no justification for U.S. bases in Panama from the purpose of protecting the Canal, and that any agreement would have to be subjected to a referendum. According to Balladares, "we Panamanians do not see any reason, from a military standpoint, for there to be bases in Panama, at least not with the justifications used in the past. If there is any other reason for a small or medium-sized U.S. military presence in Panama, the United States would have to say what it is and propose it to the Panamanians." (Foreign Broadcast Information Service, Daily Report, Latin America, May 16, 1994)

Some observers maintain that any Panama has to be concerned with other nations' views of its legitimacy and its independence from the United States. Many Panamanian politicians maintain that while they do not oppose a continued U.S. military presence (and may even support a U.S. presence that would benefit Panama economically) they believe that now is not the time to negotiate. Rather, they believe that Panama should focus on preparations for taking over the Canal's operation and for handling the territories and structures that will be turned over to Panama according to the treaties.

Some Panamanian politicians, however, would welcome the beginning of such base negotiations, and argue that many Panamanians favor a permanent U.S. presence because of jobs and income associated with the U.S. military facilities. Some 6,000 Panamanians work directly for the U.S. military, while thousands of others provide a variety of services to the U.S. military community. Estimates of the annual income generated for Panama from the U.S. bases, both salaries for employees and services, range from \$200 million to \$700 million.

Other Panamanians oppose a U.S. military presence beyond the end of 1999. Some argue that only with the U.S. military out of the country will Panama be able to break the dependent relationship it has with the United States and recover its own national identity. Others maintain that Panamanian use of the bases and their extensive infrastructure could be a great economic boom that could overcome the loss of income from the departure of the U.S. forces.

U.S. Options. At this juncture, two options for U.S. policymakers are apparent and a third, involving additional countries, has been raised by some observers. The first option would be for the United States to remove all military forces by the end of 1999, as provided in the Panama Canal Treaty. Even with this option, the United States would retain the right (espoused in the Neutrality Treaty) to take military action to keep the Canal open and operating. The second option would be to negotiate a base rights agreement, either for all or some of the bases. A third alternative would be to regionalize or internationalize the Canal's defense by involving additional countries, perhaps the Canal's most important users. This option could involve a U.S. military presence in Panama, as part of a multinational force, but could also involve the development of a coordinated security system, in which the United States and other nations could contribute forces to respond to threats to the Canal.

Operation of the Panama Canal

U.S. officials have consistently affirmed a commitment to follow through with the Panama Canal Treaty and turn the Canal over to Panama at the end of 1999. At that time, the Panama Canal Treaty terminates and the Panama Canal Commission, the U.S. agency operating the Canal, will be abolished. Under the terms of the Treaty on the Permanent Neutrality and Operation of the Panama Canal, or simply the Neutrality Treaty, Panama will have responsibility for operating and defending the Canal after 1999. Other countries, however, in exercising their responsibilities to maintain the regime of neutrality (keeping the Canal secure and open to all nations on equal terms) will each independently have the right to use military force to reopen the Canal or restore its operations. An important step in the process of transferring operation of the Canal to Panama took place on Sept. 20, 1990, when Panamanian Gilberto Guardia Fabrega was installed as the new Administrator of the Panama Canal Commission.

In 1993, several important actions were taken relating to the future of the canal. In February, Panama's Legislative Assembly approved the law creating an Interoceanic Region Authority (ARI) to handle the planning, promotion, and administration of reverted property. In early April, Endara transformed an Ad Hoc Commission that he had created in 1991 into a Presidential Commission for Canal Affairs and charged it with responsibility for drafting constitutional reform bills and internal laws for the future organization that will administer the Canal. On June 29, the Commission submitted its recommendations for to Endara for constitutional amendments relating to the future administration of the Canal under Panama. In September 1993, President Endara called on the Legislative Assembly to approve a constitutional amendment that would create a new Panama Canal Authority (ACP) to operate the Canal after the year 2000. The Legislative Assembly approved the constitutional amendment in late December 1993. Under Panama's constitutional reform process, in order to become law, the amendment must be approved by the next Legislative Assembly, elected in May 1994.

On Sept. 20, 1993, the Commission for the Study of Alternatives to the Panama Canal (a trilateral commission consisting of Panama, Japan, and the United States) issued a long-anticipated report. Originally established in 1985 with a five-year life span, the Commission halted work in 1988 because of Panama's political crisis and as a result was extended until Sept. 25, 1993. The Commission's final report rejected sea-level canal alternatives, and noted that the present Canal "with the widened Gaillard Cut, appears capable of handling the demand of international oceanborne commerce" until the year 2020. However, the Commission recommended that a high rise third set of locks should be considered to handle demand after 2020.

Congressional concerns and action. In the 102nd Congress, there was concern about helping to bring about a smooth transfer of power when Panama assumes control of the Canal at the end of the century. As a result, Congress approved legislative provisions related to this concern in the defense authorization measure for FY1993 (P.L. 102-484, signed into law Oct. 23, 1992), which incorporated the House-passed version of H.R. 1558. In the legislation, Congress required three reports relating to the future of the Canal: a presidential study (along with a plan, if warranted and a legislative proposal), due in one year, to see if changes in the structure of the Panama Canal Commission (PCC) are warranted before the termination of the Panama Canal Treaties in order to facilitate and encourage the operation of the Canal through an autonomous entity when Panama assumes control; a report by the General Accounting Office (GAO), due in one year, to see whether fiscal, operation, and management changes are necessary for the PCC to serve as a role model for Panama; and a PCC report, by September 1996, relating to recommendations for establishing a dissolution office to handle U.S. responsibilities and liabilities at the time of the transfer of the Canal to Panama.

The Administration, through the PCC, retained Arthur Andersen and Co. to perform the required study and also retained Weil, Gotshal and Manges to advise the PCC Board of Directors regarding legal and other issues addressed in the study. In November 1993, the GAO issued its required report, which was limited to "evaluating the recommendations and the scope and methodology of Arthur Andersen's study and the recommendations of the PCC Board of Directors."

On Apr. 12, 1994, the Clinton Administration, submitted its recommendations to Congress (House Document 103-233) for changes to the PCC in order to facilitate and encourage the operation of the Canal through an autonomous entity under the government of Panama when Panama assumes control of the Canal in the year 2000. Most significantly, the Administration recommended that the PCC be designated a government corporation with "an organizational structure that allows market responsiveness and operational flexibility." The Administration also recommended: that the PCC Board Members who do not hold full-time U.S. government positions should not be required to be selected from any specified interest group or economic sector; that the Presidents of the United States and Panama each name an international adviser from a third country to the PCC Board; that the Board take steps to strengthen its policy-making role; that the PCC should, after further study, be relieved of statutory or regulatory requirements which are inconsistent with efficient commercial standards of practice; that the requirement that the President approve toll-rate increases be eliminated, with the Board having final authority to change tolls; and that a dissolution fund be established to provide an orderly and funded mechanism to close out U.S. Canal responsibilities.

Demilitarization and the Development of a Civilian Police Force

For many observers, a critical test for the Endara government is the establishment of an apolitical public security force that will not constitute a threat to civilian democratic rule. Soon after the U.S. intervention, President Endara announced that Panama's new security force would be a modern police force with minimal military functions.

On Feb. 10, 1990, the new Public Force (PF) was officially established, replacing the old PDF. The President of the Republic was designated the supreme chief of the PF, which includes a National Police, a National Air Service (replacing the PDF air force), and a National Maritime Service (replacing the PDF navy). Each have separate commands and are under the authority of the Ministry of Government and Justice. The PF has a membership of around 12,000, compared to the PDF under Noriega which was a force of 16,000. The National Police is the largest component with a force of around 11,000. In addition to the Public Force, a 600-member Judicial Technical Police, under the authority of the Office of the Attorney General since early 1992, is responsible for criminal investigations. Its membership consists largely of members of the former National Department of Investigations. Finally, the Institutional Protection Service serves as a presidential guard under the Ministry of the Presidency.

Since the PF's creation, the government has taken numerous steps to support the demilitarization process. All high-ranking former PDF military officers and many of the lower-ranking officers have been retired. The government is continuing to weed out police officials who may have been involved in corruption in the past and who may threaten civilian rule. Nevertheless, some observers fear that former PDF members who continue to serve within the PF are beyond reform, and note that these are the same people who were involved in electoral fraud and institutionalized corruption. They fear that in building a new force the government runs the risk of creating a new PDF that could threaten Panama's nascent democracy.

These fears have proven well-founded. On Apr. 24, 1993, a member of Panama's police force was killed while attempting to plant a bomb at an auditorium where President Endara's Arnulfist Party was set to have a convention. Subsequent press reports claim that the failed bombing was part of a conspiracy to assassinate President Endara. In early February 1992, Panamanian police officials announced that they uncovered a plot to assassinate Endara and kidnap other government officials. Several police and three former military officials were implicated in the plan, and were also reportedly responsible for a series of bombings. More seriously, in early December 1990 former police chief Col. Eduardo Herrera, who had been jailed for alleged participation in a plot to destabilize the government, led a rebellion of around 100 police members and seized control of police headquarters in Panama City. Around 500 U.S. troops subsequently subdued the uprising after the Endara government requested U.S. assistance.

Panama had been moving to amend its constitution to prohibit the formation of a military force, a measure designed to ensure that another PDF would not be created. However, a Nov. 15, 1992 constitutional reform referendum, which included a ban on the formation of a military, was soundly defeated by almost a 2-1 margin. The defeat of the referendum was viewed as a rejection of the unpopular Endara government.

U.S. Policy. A key question for U.S. policymakers is whether U.S. law enforcement assistance can help Panama build an effective civilian force that will support, and not threaten, civilian democratic rule, and that is able to counter threats to public security (crime, terrorist threats, etc.) without U.S. military support. Since the military intervention, the United States has provided significant training and equipment for the Public Force. Most assistance and training has been provided by the Department of Justice's International Criminal Investigations and Training Assistance Program (ICITAP). (See **Legislation** section)

In May 1992, the General Accounting Office (GAO) issued a report on U.S. efforts to develop a professional police force in Panama. The report noted such problems as poor pay and benefits for the PF and lack of public confidence in the PF. In the report, the GAO recommended that beginning in FY1993, and each fiscal year thereafter, the U.S. Ambassador to Panama should "obtain from the Panamanian government, a demonstration of Panama's resolve and capability to provide resources adequate to enable the program to succeed so that the U.S. government investment in the program will not be wasted." Both the Departments of Justice and State disagreed with the recommendation of withholding ICITAP funding. The Department of Justice claimed that it would retard police institutional development in Panama. The Department of State claimed that GAO's report was based on dated and incomplete information, and maintains that the government of Panama is committed to the development of a functioning civilian police force.

Economic Recovery

In the aftermath of the U.S. intervention, an important congressional concern was the status of Panama's economic recovery. Before the military intervention, the 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) had declined some 25% between 1987 and the end of 1989. The intervention added further to the economic decline. Some sections of Panama City were heavily damaged, leaving thousands homeless, and subsequent looting left businesses with damages in the hundreds of millions.

Four years after Operation Just Cause, the Panamanian economy has made considerable progress under the Endara government, with real economic growth measured at 4.6% for 1990, 9.3% for 1991, and an estimated 8% for 1992, according to the Department of State. Unemployment dropped from 25% in 1990 to about 16% by the end of 1991 and to less than 14% in 1992. Nevertheless, critics maintain that Panama's impressive economic growth has only benefitted the middle and upper classes, and that it has not improved the situation of the nation's poorest people. Critics also maintain that the Endara government's inattention to social concerns, particularly unemployment and poverty, is exacerbating the plight of Panama's poor.

U.S. Policy. The United States has provided substantial amounts of assistance to help revive Panama's economy. In 1990, Congress approved two bills making available around \$471 million in assistance to Panama, largely for economic recovery and development aid, including law enforcement assistance. First, in February 1990, Congress approved legislation (P.L. 101-243) authorizing \$42 million in urgent economic assistance and around \$9 million for police equipment from prior year military assistance funds that had not been spent. Second, in late May 1990, Congress

appropriated another \$420 million in Economic Support Funds (ESF) assistance to Panama (P.L. 101-302), with more than three-fourths dedicated to economic recovery.

As a result of this assistance, Panama was the largest Latin American recipient of foreign aid in FY1990 -- receiving \$395 million -- and the fifth largest recipient worldwide. Since then, the Administration has not requested large levels of assistance for Panama. In FY1991, \$58 million was provided, but this was the carryover from the money appropriated in FY1990. For FY1992, the United States provided \$29.1 million in aid, including \$14.5 million in development assistance, and \$9.7 million in ESF assistance and for FY1993, almost \$10 million was provided, including \$6.3 million in development assistance and \$2.3 million in ESF assistance. For FY1994, an estimated \$10.8 million will be provided, including \$5.5 million in development assistance and \$4.0 million in ESF assistance. The Administration's FY1995 request is for \$8 million, with \$6.7 million for sustainable development.

There have been additional forms of U.S. economic assistance to Panama. The United States has provided assistance in the form of trade benefits, credits, and guarantees under various programs (Export-Import Bank, Overseas Private Investment Corporation, P.L. 480, the sugar quota system, and the Caribbean Basin Initiative/Generalized System of Preferences trade programs). Still other U.S. programs providing assistance to Panama include: small-scale development projects funded by the Inter-American Development Foundation; a program to donate excess U.S. property to Panama; and a U.S. military civic action program in Panama donating assistance in the form of food, medical equipment and supplies, and construction materials.

Some critics argue that the United States did not provide enough assistance to Panama, given the state of the economy before the intervention and the damage done by the intervention itself. Some argue that the United States has not adequately compensated those Panamanians who lost their homes in the Chorrillo section of Panama City as a result of the military intervention. Others have expressed dismay that the United States will not take responsibility for compensating the families of civilians killed as a result of the invasion. (The U.S. Foreign Claims Act, 10 U.S.C. 2734, does not provide for compensation for damages if they "arise from action by an enemy or result directly or indirectly from an act of the armed forces of the United States in combat.")

According to a May 1993 GAO report on U.S. economic assistance to Panama, the impact of the assistance in jumpstarting the Panamanian economy is questionable since "over 60% of the assistance was not disbursed until 1992 or later, well after the economy was on its way to being restored to near pre-1987 levels." Moreover, the report observed that because AID did not target specific areas of need in the economy and disbursed most of the private sector reactivation funds before economic reforms were instituted in Panama, the extent of the direct impact of the assistance is unclear.

Drug Trafficking and Money Laundering

An important concern for U.S. policymakers has been securing Panamanian cooperation in anti-drug-trafficking and anti-money-laundering measures. Since the mid-1980s, Panama reportedly has been an important drug money laundering center and a drug transshipment point from South America to the U.S. market. Since the Endara government took office until 1993, Panama was consistently certified, as

required by legislation, as fully cooperating with the United States in the war on drugs. For 1994, however, the Administration did not certify Panama as fully cooperating, because, as the State Department noted, "Panama has cooperated with many U.S. drug control efforts, but has not made sufficient progress on its own to deter money laundering." Instead, the Administration certified Panama based on the vital national interest of the United States (under section 490 (b)(1)(B) of the Foreign Assistance Act of 1961). The Administration maintained the certification on national interest grounds was necessary "in preserving a cooperative relationship to operate the Panama Canal, to carry out effectively the 1977 Panama Canal treaties, and to permit orderly withdrawal of U.S. military forces."

The Endara government has cooperated with the United States on drug issues. This includes the April 1991 signing of a Mutual Legal Assistance Treaty (MLAT) making bank records in Panama accessible to U.S. criminal investigators to develop evidence in money laundering and drug crimes. The MLAT was approved by Panama's Legislative Assembly in June 1991 and is awaiting U.S. Senate action. The Endara government has also concluded MLAT-type agreements with several other countries and in 1993 approved the 1988 U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. In addition, the Endara government has frozen numerous bank accounts associated with suspected money laundering and has provided most bank records requested for use in U.S. Government investigations and prosecutions. U.S. and Panamanian law enforcement agencies also conduct joint investigations, share information, and collaborate to interdict illegal narcotics shipments. Moreover, the United States has provided anti-narcotics training for Panamanian law enforcement agencies, and the two countries have bilateral agreements on the control of chemicals, ship boarding, and maritime operations.

Nevertheless, U.S. officials have expressed concern over continued illegal drug activities in Panama. An April 1994 Department of State report (International Narcotics Control Strategy Report, issued annually) noted that while Panama made progress in some counternarcotics areas during 1993, key action remained incomplete in the critical area of money laundering controls. The report stated that Panamanian agencies with money laundering control responsibilities are ineffective, resources are inadequate, and that money laundering control legislation needs strengthening. In December 1992, Panama's Attorney General, Rogelio Cruz, and another senior official were dismissed from office after being charged with helping Colombian drug traffickers launder funds through Panamanian banks. In a December 1992 speech, U.S. Ambassador Deane Hinton in talking about drug trafficking and money laundering, warned that "constitutional government might not survive if widespread corruption or even uncertainty about the extent of corruption were slowly to eat away at public confidence in democracy."

Democratization

The Endara government has made great progress in restoring functioning political institutions after 21 years of military-controlled government, but it still faces notable problems. A critical problem facing the government lies in Panama's administration of justice. Although the Endara government appointed a new Supreme Court with widely respected justices in early 1990, the judicial system remains bogged down at the lower levels. For many observers, problems with the administration of justice were highlighted in the September 1993 acquittal of seven former military officials on trial

for the 1985 murder of government critic Hugo Spadafora. The verdict prompted demonstrations and some violence. On Oct. 20, 1993, however, Noriega and two former Panamanian military officials were convicted for Spadafora's murder and sentenced to 20 years in prison, an action which vindicated the Panamanian judicial system in the eyes of many observers. On Mar. 2, 1994, Noriega and another officer were convicted for the murder of Major Moises Giroldi who led an unsuccessful coup against Noriega in October 1989. In addition, three former National Guard officials were convicted on Nov. 21, 1993, for the 1971 murder of Colombian priest Hector Gallego, one of the most infamous crimes that occurred under military rule.

The U.S. Department of State reports that two of Panama's principal human rights problems are prolonged preliminary and pretrial detention and an inefficient criminal justice system. Moreover, as noted by the Department of State in its human rights report for 1993, prison conditions throughout Panama remain deplorable and health-threatening. According to the report, most prisons are dilapidated, medical care is inadequate, escape attempts are frequent, and there are credible reports of corruption and abuse of prisoners by guards.

U.S. Policy. The United States provides support for Panama's democratic institutions through several projects overseen by the Agency for International Development. The largest, a \$12 million, 5-year project signed in March 1991, is designed to improve the operation of the justice system in the conduct of the investigative and trial stages of the criminal justice process. Other smaller components of a Democratic Initiatives project have included measures designed to help strengthen the capabilities of the Legislative Assembly; to provide assistance to the Electoral Tribunal; to improve professionalism in the news media; and to conduct a civic education program. In addition, FY1993 and FY1994 foreign assistance legislation (P.L. 102-391, Section 588 and P.L. 103-87, Section 551) included a waiver for the general prohibition against the use of foreign aid for prisons (found in Section 660 of the Foreign Assistance Act). The waiver provides "for programs to improve penal institutions and the rehabilitation of offenders in Panama."

LEGISLATION

H.R. 4426 (Obey)

Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 1995. Passed House, amended, May 25, 1994 (337-87). Passed Senate, amended, July 15, 1994 (84-9). Conference report (H.Rept. 103-633) filed Aug. 1, 1994. As approved in conference, Section 549 of the bill would continue to provide funding for police assistance to Panama. Up to \$3 million may be made available, subject to the regular notification process of the Appropriations Committees, for the objective of creating a professional civilian police force for Panama, and for programs to improve penal institutions and the rehabilitation of offenders in Panama. Not more than \$1 million of the assistance may be provided for non-lethal law enforcement equipment.

H.Res. 496 (Ackerman)

A resolution condemning the terrorist attack on the Delegation of Argentine Israeli Associations on July 18, 1994, the terrorist attack on a Panamanian commuter plane on July 20, 1994, and the terrorist bombings near the Israeli embassy and a building housing Israeli and Jewish organizations in London on July 26, 1994. Introduced July 28, 1994; referred to Committee on Foreign Affairs.

CONGRESSIONAL HEARINGS, REPORTS, AND DOCUMENTS

- U.S. Congress. House. Committee on Armed Services. Investigations Subcommittee. *The Invasion of Panama: How Many Innocent Bystanders Perished?* 102nd Congress, 2nd session. July 7, 1992. Washington, U.S. Govt. Print. Off., 221 p.
- U.S. Congress. House. Committee on Merchant Marine and Fisheries. Subcommittee on Coast Guard and Navigation. *Panama Canal Commission Authorization, Fiscal Year 1994. Hearing, 103rd Congress, 1st session.* Mar. 31, 1993. Washington, U.S. Govt. Print. Off. 1993. 72 p.
Serial no. 103-13
- *Panama Canal Commission Authorization, Fiscal Year 1995. Hearing, 103rd Congress, 2nd session.* Mar. 1, 1994. Washington, U.S. Govt. Print. Off. 1994. 43p.
Serial No. 103-84
- U.S. Congress. House. Committee on Merchant Marine and Fisheries. *Recommendations for Changes to the Panama Canal Commission. Message from the President of the United States.* 103rd Congress, 2nd session. Apr. 12, 1994. Washington, U.S. Govt. Print. Off., 1994. 7 p.
House Document 103-233
- U.S. Congress. Senate. Committee on Armed Services. Investigations Subcommittee. *H.R. 1558, Panama Canal Act Amendments of 1992. Hearing, 102nd Congress, 2nd session.* Feb. 19, 1992. 79 p.
H.A.S.C. No. 102-39
- U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on Terrorism, Narcotics and International Operations. *Treaty between the U.S. and the Republic of Panama on Mutual Assistance in Criminal Matters, Treaty Doc. 102-15.* Hearing, 102nd Congress, 2nd session. May 6, 1992. Washington, U.S. Govt. Print. Off., 1992. 41 p.
S. Hrg. 102-699

CHRONOLOGY

- 05/08/94** --- Ernesto Perez Balladares of the former pro-Noriega Democratic Revolutionary Party (PRD) is elected President, winning 33% of the vote among seven candidates.
- 03/02/94** --- Noriega and another former PDF officer were convicted for the murder of Major Moises Giroldi, who led an October 1989 coup against Noriega.
- 11/21/93** --- Three former National Guard officials were convicted for the 1971 murder of Colombian priest Hector Gallego.
- 10/20/93** --- A Panamanian court convicted Noriega and two former Panamanian military officials for the 1985 murder of opposition leader Hugo Spadafora, and sentenced them to 20 years in prison.

- 09/20/93** --- The trilateral Commission for the Study of Alternatives to the Panama Canal issued a long-anticipated report, which rejected sea-level canal alternatives, but recommended that a high rise third set of locks should be considered to handle demand after the year 2020.
- 04/24/93** --- Press reports claim that a failed bombing by a member of Panama's police force was part of a conspiracy to assassinate Endara.
- 11/15/92** --- In a national referendum, Panamanians rejected a package of constitutional reforms, by almost a 2-1 margin, that included a permanent military ban.
- 06/11/92** --- President Bush's planned address in a public plaza in Panama City was disrupted when Panamanian police fired tear gas to break up a protest.
- 06/10/92** --- A U.S. soldier was shot and killed and another was wounded near the town of Chilibre, 30 miles north of Panama City. Protests against President Bush's impending visit turned violent in Panama City with police dispersing protestors with tear gas.
- 04/09/92** --- Noriega was convicted on 8 out of 10 drug trafficking counts in U.S. Federal court in Miami. Sentencing was scheduled for July 1992.
- 02/07/92** --- Panamanian police officials reportedly uncovered a plot to assassinate President Endara and kidnap other government officials.
- 04/11/91** --- Panama and the United States signed a Mutual Legal Assistance Treaty designed to improve cooperation in investigating money laundering and drug crimes.
- 04/08/91** --- President Endara ousted the Christian Democratic Party (PDC) from the ruling government coalition, sacking five ministers and breaking the fragile coalition that has ruled since late 1989.
- 01/27/91** --- In elections for 9 Legislative Assembly seats, former pro-Noriega coalition parties captured 5 seats, whereas the ruling coalition won 4.
- 12/5/90** --- A rebellion of around 100 police members, led by former police chief Col. Eduardo Herrera, was suppressed by around 500 U.S. troops whose assistance had been requested by the Endara government.
- 09/20/90** --- Panamanian Gilberto Guardia Fabrega was sworn in as Administrator of the Panama Canal Commission.
- 03/02/90** --- One U.S. serviceman was killed and 15 others were wounded along with 12 Panamanians in a grenade attack on a disco in Panama City.
- 12/20/89** --- President Bush ordered U.S. forces into combat "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"; Guillermo Endara, Ricardo Arias Calderon, and Guillermo "Billy" Ford, widely

believed to have won the national elections of May 1989, were installed as Panama's new President and Vice Presidents, respectively.

FOR ADDITIONAL READING

- U.S. General Accounting Office. *Aid to Panama, improving the criminal justice system.* [Washington] May 1992 GAO/NSIAD-92-147.
- *Aid to Panama, status of emergency assistance to revitalize the economy.* [Washington] April 1991. GAO/NSIAD-91-168.
- *Foreign assistance, resettlement of Panama's displaced El Chorrillo residents.* [Washington] December 1990. GAO/NSIAD-91-63BR.
- *Panama, cost of the invasion.* [Washington] September 1990. GAO/NSIAD-90-279FS.
- *Panama Canal Commission, Assessment of Proposal for Organizational and Management Change.* [Washington] November 1993. GAO/NSIAD-94-50.
- *Panama, issues relating to the U.S. invasion.* [Washington] April 1991. GAO/NSIAD-91-174FS.
- *The war on drugs, narcotics control efforts in Panama.* [Washington] July 1991. GAO/NSIAD-91-233.
- *U.S. efforts to spur Panama's economy through cash transfers.* [Washington] May 1993. GAO/NSIAD-93-56.
- U.S. Library of Congress. Congressional Research Service. *Central America and U.S. Foreign Assistance: Congressional Action*, by Mark P. Sullivan. [Washington] (Updated regularly)
CRS Issue Brief 84075
- *Congress and policy toward Latin America in 1990.* [by] Nina M. Serafino, K. Larry Storrs, and Mark P. Sullivan. [Washington] Nov. 26, 1991.
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- *Panama and the future of the U.S. military bases: An examination of Panamanian views.* [by] Mark P. Sullivan. [Washington] Nov. 1, 1991.
CRS Report 91-784 F