

2010-08-26

# Small States, Hegemony and the Security Dilemma: Panama's Quest for Autonomy in the 21st Century

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UNIVERSITY OF MIAMI

SMALL STATES, HEGEMONY AND THE SECURITY DILEMMA: PANAMA'S  
QUEST FOR AUTONOMY IN THE 21ST CENTURY

By

Juan M. Pons

A DISSERTATION

Submitted to the Faculty  
of the University of Miami  
in partial fulfillment of the requirements for  
the degree of Doctor of Philosophy

Coral Gables, Florida

August 2010

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QUEST FOR AUTONOMY IN THE 21ST CENTURY

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Small States, Hegemony and the Security Dilemma:  
Panama's Quest for Autonomy in the 21st Century

(Ph.D., International Studies)  
(August 2010)

Abstract of a dissertation at the University of Miami.

Dissertation supervised by Professor Bruce M. Bagley  
No. of pages in text. (143)

This study focused on how Panama as a small state defended and enhanced its national security within the sphere of influence of a hegemonic state. More specifically, it addressed the degree of state sovereignty and relative autonomy Panama had and how it adjusted to and dealt with hegemonic demands. To come to grips with the security issues and options presently confronted by Panama, first and foremost, required an understanding of Panama's history, economy, and society, and the region within which the country is located. Second, it was essential to understand U.S. interests in the Panama Canal, especially after the events of September 11th, 2001, which not only framed but dictated the security agenda of the region and of Panama specifically. Third, this study looked at three issue areas—the Panama Canal, Panama's border with Colombia, and the Colon Free Trade Zone and the banking sector—as cases of securitization. Interviews in the form of open-ended questions to political leaders, journalists, professors, and public employees helped determine why these issue areas were of primary interest. Their responses were also crucial in demonstrating the leadership or the lack thereof behind the securitization or desecuritization of all three areas studied. To understand national security from a small state's perspective, this study used the approaches of realism, liberalism, and constructivism. It was determined that using a single approach was

insufficient, and that a multilevel analysis was better suited to explaining not only why Panama was successful at securitizing its Canal but also why it failed at securitizing both its border with Colombia and the Colon Free Trade Zone and the banking sector. It was also determined that Panama is not part of a regional security complex or a subregional security complex and as such it was labeled an insulator state. Not being part of Central America or South America gave Panama an advantage in negotiating alliances in the region. It would be interesting to look at other insulator states, especially those with chokepoints like Panama's, to study whether these enjoy a similar leverage to enhance and defend their national security.

*To my father, “Don Alberto,” for teaching me the rewards of hard work and to love and honor my country.*

## **ACKNOWLEDGEMENT**

I wish to thank my professor and mentor, Dr. Bruce M. Bagley, for his confidence in me. His advice helped me to look under unturned stones and provided me with the necessary tools to move ahead. His encouragement and good humor were essential for me to seek the answers to what at times seemed an endless set of questions.

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**INTRODUCTION:**  
**SECURITY AND SOVEREIGNTY IN CONTEMPORARY PANAMA**

The examination of Panama's security dilemmas at the outset of the 21st century obliges analysts to revisit alliance politics in the region. Ever since Panama took full sovereign control of its Canal in December 1999, growing concerns among Panamanian authorities regarding the security of the Canal and Panama's unprotected border with Colombia have raised serious questions about the country's relationship with Washington.<sup>1</sup> Moreover, the events of September 11, 2001 (9/11), greatly increased U.S. concerns about the security of the Canal. This study focuses on how Panama as a small state defines, defends, and enhances its national security within the sphere of influence of a hegemonic state. More specifically, what degree of state sovereignty and relative autonomy does Panama enjoy, and how does it adjust to, and deal with, hegemonic demands emanating from the United States? This study looks at the extent to which Panama has been able to exert its authority over the Canal from 1999 to 2008 vis-à-vis hegemonic power. What mechanism is Panama utilizing to maintain and improve its national security given that it eliminated its national defense force in 1990 and that the U.S. military physical presence left the Canal Zone in 1999?

Coming to grips with the security issues and options presently confronted by Panama and its political leadership requires, first and foremost, an understanding of Panama's history, economy, society, and the region in which the country is located.

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<sup>1</sup> On September 7, 1977, Panama and the United States signed the Torrijos-Carter Treaties abrogating the Hay-Buanu-Varilla Treaty that gave the United States indefinite ownership of the Panama Canal and guaranteeing Panama's control of the Canal after 1999. For further history of the Canal please refer to Chapter 5.

Second, it is essential to understand U.S. interests in the Panama Canal and Colombia, which continue to frame, if not dictate, the security agenda of the region and of Panama specifically. At the same time, a regional level of analysis sheds light on current warning signs that presage the potential reorganization of the hegemonic coalition in which Panama is presently immersed.<sup>2</sup>

This study hypothesizes that Panama benefits from, and leverages, its position as an “insulator state” wedged between North and South America in order to maximize its ability to set security and economic policies that defend and enhance its national sovereignty and autonomy.<sup>3</sup> A key strategy for leveraging this position is to alternatively “securitize” and “desecuritize” issues in each regional context.<sup>4</sup> This study seeks to advance conceptual understanding in three areas: the insulator state, securitization, and sovereignty. Panama presents an exemplary opportunity to theorize the largely undeveloped concept of the insulator state. This close, empirical case study will demonstrate how a small state securitizes—and seeks to avoid or desecuritize—certain issues in order to maximize its autonomy and influence. Finally, it will shed light on the dynamic and differentiated nature of state sovereignty in a globalizing world.

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<sup>2</sup> According to Joseph Nye, the United States needs to stop devaluing soft power and institutions, if it wants to stop depriving “Washington of some of its most important instruments for the implementation of the new national security strategy[; otherwise,] American-led coalitions will become less willing and shrink in size.” Joseph Nye, “U.S. Power and Strategy after Iraq,” *Foreign Affairs* 82, no. 4 (July 1, 2003), pp. 73, 68.

<sup>3</sup> An insulator is defined by Barry Buzan and Ole Waever as “a state or mini-complex standing between regional security complexes and defining a location where larger regional security dynamics stand back to back.” Barry Buzan and Ole Waever, *Regions and Powers: The Structure of International Security* (Cambridge: Cambridge University Press, 2003), p. 490.

<sup>4</sup> “Security should not be thought of too easily as always a good thing. It is better, as Waever argues, to aim for desecuritization: the shifting of issues out of emergency mode and into the normal bargaining processes of the political sphere.” Barry Buzan, Ole Waever, and Jaap de Wilde, *Security: A New Framework for Analysis* (Boulder, CO: Lynne Rienner, 1998), p. 4.

Conceptually, this study lies at the nexus of international political economy, international security studies, and foreign policy analysis. While neither economic nationalism nor anti-Americanism seems to be on Panama's immediate horizon, foreign and economic policies are currently both in flux. Panama, like other states, is still struggling to adapt and reinterpret state authority and autonomy. All the while, a globalizing economy exacerbates its already compromised sense of sovereignty in the political and security realm as a consequence of U.S. interventionism. Panamanians, fearing further deterritorialization of economics and politics in addition to the erosion of national sovereignty, could elect leaders who set in motion the closure of its economy and who support trends toward an increasingly independent, or even anti-American, political and security stance.

**PART I:**  
**SECURITY DILEMMAS OF SMALL STATES**

This section deals with methodology and issue-area selection, methodological techniques, and sources. This research project is grounded in the contention that the most appropriate methodology for studying how Panama has sought to cope with its national security problems to maximize its foreign policy autonomy in the 21st century is a single, in-depth case study of Panama from 2000 to 2009.

## **CHAPTER 1: CONCEPTUALIZING SMALL-STATE SECURITY**

When it comes to international security studies, theories of international relations (IR) tend to concentrate on superpowers, and little is said about small states. Chapter 2 of this dissertation expands on the available literature by revisiting realism, liberalism, and constructivism and extracting their most useful contributions to the topic of small states' security dilemmas. This chapter argues that the eclectic combinations of conceptual elements drawn from each of these schools are needed to analyze Panama's security challenges in the 21st century. First, realist theory correctly depicts Panama's subordinate position in the international system and its limitations in gaining autonomy as such. Second, while still maintaining a materialistic realist premise of economic and military capabilities, liberalism adds aspects of security interdependence that, while relatively speaking, are minor in comparison to those found among powers of equal strength, are still important and require full attention. Finally, expanding on the notion of leadership and soft power, constructivism brings forward a socially constructed nonmaterialistic answer to national security. All three schools become essential in comprehending not just the limitations small states face but also all available tools for safeguarding their national security vis-à-vis a hegemon. Small states are more susceptible to hegemonic power, and Panama more so because of its strong relationship with the United States, which helped the country gain independence in 1903, completed building the Canal in 1914, and operated it until 1999. Therefore, hegemonic demands, more than regional proximity, determine what issues Panama is to securitize and what region it is to favor.

Moreover, Section d of Chapter 2, Contemporary National Security in the International System, brings a fresher look to international security studies by revisiting what is understood by the terms securitization and sovereignty. To adapt to new circumstances brought about by the end of the Cold War, 9/11, and globalization, scholars have broadened these two concepts and made them more inclusive. Globalization renders sovereignty an “organized hypocrisy.”<sup>5</sup> At the same time, if the end of the Cold War was not enough reason for scholars to revisit the impact that nonstate actors have on states, 9/11 definitely was. A critical security study of what sovereignty and security mean in the 21st century helps to clarify the path that Panama must traverse in its quest for autonomy in the modern world.

### **a) Methodology**

Panama is profoundly different from any other case, especially in the Western Hemisphere, because of the Panama Canal and the history of the U.S.-dominated Canal Zone.<sup>6</sup> Moreover, because of the continuing strategic and commercial importance of the Panama Canal to the United States and the entire Western Hemisphere in the contemporary period, Panama continues to live in the wide shadow of the hegemonic United States. As described in Chapter 3, Panama became independent quite recently and does not belong to any of the two regional security complexes (RSCs) it borders (North or South), thus making it difficult to group it with neighboring states; nor is Panama part of subregional security complexes such as the Andean region and Central America.

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<sup>5</sup> Stephen Krasner, *Sovereignty: Organized Hypocrisy* (Princeton, NJ: Princeton University Press, 1999).

<sup>6</sup> The Panama Canal Zone refers to a five-mile strip of land on either side of the structure of the Canal occupied by the U.S. from 1903 until 1999.

Hence, the case of Panama needs to be taken alone in order to avoid generalizations that might mask its specific characteristics. Indeed, because of Panama's small size, few researchers have devoted the time and effort to study it. Instead, it has generally either been overlooked altogether or wrongly grouped with Central American countries. Panama's relatively small economy (GDP of US\$31.4 billion) and population size (3.3 million as of 2006) are not indicative of the nation's having little relevance, as in the past 18 years it has showed itself to have enviable leadership in the hemisphere. Defying some of the basic premises of realism, Panama has managed to "tame the beast" and to form alliances with balancing states while still being able to bandwagon with the United States. However, lessons can be learned from Panama's security composition and applied to other global maritime chokepoints such as that of Egypt and its Suez Canal, the Strait of Hormuz, the Strait of Gibraltar, the Strait of Malacca, and so forth.

## **b) Issue Areas**

Based on preliminary interviews of political leaders in Panama conducted by the author and a review of Panamanian newspapers during the period 2000–2007, three issue areas have been selected as the focal points for this case study of Panamanian security: the Panama Canal, the border with Colombia, and the Colon Free Trade Zone (CFTZ) and the banking sector.

### **1) The Panama Canal**

The Canal is Panama's main source of income. Because the Panama Canal generates 6.4% of Panama's GDP and because 4.5% of world trade passes through it, the

Canal is the top priority of the government of Panama and its people. U.S. Department of Transportation figures show that traffic has increased by 5% from 2005 to 2007. Total Panama Canal traffic in number of transits in 2005 was 14,011 and in 2007 was 14,721. Similarly, total Panama Canal traffic in long tons of cargo in 2005 was 193,840,295 and in 2007 208,231,572, representing a 7.42% increase from 2005 to 2007.<sup>7</sup> With the Canal expansion set to open by 2015, this figure should double, to 510 million tons a year.<sup>8</sup> The Canal has improved the time it takes for a vessel to cross it, including waiting time (Canal Water Time). Furthermore, the Canal's flagship registry and current port regulations have been enacted in order to acquire a fully panoptic view of all players involved and all possible threats.

Even though the Panama Canal continues to be guarded by the United States, whose responsibility as stipulated by the Neutrality Treaty is to ensure it is not threatened by anyone (including the Panamanian government), its vulnerable nature presents a constant challenge to both countries. The United States has no military bases in Panama; however, in the case of an emergency or a "real threat" it is allowed to send up to 50,000 military personnel to Panama in less than two hours. Since the U.S. invasion of Panama in 1989, all subsequent Panamanian democratic governments have understand the U.S. security strategy of the Canal as being fairly straightforward, and they cooperate fully and comply accordingly. On the Panamanian side, security translates to the proper operation of the Canal and to its economic gain, which recently received a boost from the approved expansion of the Canal. Considered the Eighth Wonder of the World, the Panama Canal

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<sup>7</sup> [http://www.bts.gov/publications/maritime\\_trade\\_and\\_transportation/2007/html/table\\_01\\_07.html](http://www.bts.gov/publications/maritime_trade_and_transportation/2007/html/table_01_07.html) (accessed July 20, 2010).

<sup>8</sup> <http://www.allbusiness.com/caribbean/623519-1.html> (accessed April 2, 2008).

is in essence Panama's "raison d'être." Chapter 4 explores how the Canal shapes Panama in all possible aspects. Hence, the chapter is about Panama's quest for autonomy, about the safety and neutrality of the Canal, and, at the same time, about a U.S. agenda according to which, after 9/11, threats from nonstate actors have altered the dynamics of cooperation in the region. How much cooperation with the United States is too much, what new threats Panama needs to be aware of, and what other state and/or nonstate actors might be jeopardizing the Canal's neutrality are some of the questions this issue area examines and answers.

## **2) The Colombian Border**

The second issue area focuses on Panama's 165-mile frontier with Colombia. The Colombian border began to be important in 1990 when Panama's military forces were dissolved; however, it grew exponentially beginning in 2000, when all U.S. military bases in Panama closed, leaving them unprotected and vulnerable to guerilla warfare and to drug and arms trafficking. One out of 10 Colombians now lives abroad because of political, social, and economic insecurity. "Over time, the armed confrontation has evolved from an ideological-based conflict to one driven by territorial control and economic interests."<sup>9</sup> Panamanian leaders fear that precisely a lack of ideology makes irregular armed groups involved in drug trafficking, kidnapping, and terrorist activities more prone to migrate to less secure places such as Panama. Equally important is the continuous displacement of indigenous groups who, faced with endless guerilla fighting, look for refuge in Panama's dense jungle of Darien. In 2003 an estimated 23,424

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<sup>9</sup> <http://www.migrationinformation.org/Profiles/display.cfm?ID=344> (accessed April 2, 2008).

Colombians lived in Panama, the second-highest number after the United States in North and Central America and third-highest among South American countries (Venezuela and Ecuador occupying the top two places, respectively).<sup>10</sup> According to the United Nations High Commissioner for Refugees, Panama ranks sixth among countries where Colombians have sought asylum:

The majority of refugees and people of concern to UNHCR in Panama live either in Panama City or in the Darien region, a vast and inhospitable jungle that forms the border between the two countries. Among those in the Darien are Colombian indigenous people who have been forced by the violence to leave their territory on the other side of the border.<sup>11</sup>

The benefit of having military bases in the Canal Zone that facilitated the War on Drugs in the 1980s was lost by mid-1999, and ever since, the War on Drugs has been placed on the back burner and is now mainly dealt with via Colombia. Unfortunately, Panama's National Air Service, National Maritime Service, and National Police are ill-equipped to guard against the spillover from guerilla warfare into the Panamanian side of the border. Drug and arms traffickers continue to use Panama as a transit route, and little if anything is being done by the Panamanian special police, who stand miles away from the border in fear of attack. Chapter 5 sheds light on how Panama deals with regional security threats that require negotiations with a neighboring country and the United States. Incidentally, these threats are closely associated with what this case study's last issue area examines. Drug lords are using Panama's unsecured banking sector, relaxed immigration laws, and booming economy as a money-laundering safe haven as well as a center for distribution

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<sup>10</sup> Ibid.

<sup>11</sup> <http://www.unhcr.org/country/col.html> (accessed April 2, 2008).

and operations for their drug “cartelitos.”<sup>12</sup> To complement and expand on the two-above mentioned threats, the following and last issue area looks most closely at economic threats as they relate to Panama’s Colon Free Trade Zone and its banking sector.

### **3) The Colon Free Trade Zone and the Banking Sector**

The third issue area, which focuses on Panama’s economic security, encompasses two of the biggest players in Panama’s service economy: the CFTZ and the banking sector. Foreign investors rely on Panama’s advanced and modern banking sector and the Canal’s port of entry, where merchandise from container ships is freely traded in the region. The CFTZ’s success is due largely to a combination of factors such as its location, the Panama Canal, the U.S. dollar, a large banking sector, and, more specifically, a lack of controls and regulations. Second only to Hong Kong, much of the CFTZ’s imports come from the Far East to be reexported to Latin America and the Caribbean (Venezuela and Colombia being its largest clients). However, with its success comes also its reputation for harboring and even fostering money laundering, and arms and drug trafficking. The CFTZ’s regulations along with those of Panama’s banking sector are seen as too relaxed, forcing the United States to continually pressure Panamanian authorities to take a more active role in guarding against and preventing illicit transactions.

The CFZ is the largest in the western hemisphere and the second largest in the world. Created in 1948, the free zone houses 1,751 merchants, has more than 250,000 visitors yearly and generates exports and re-exports valued at more than

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<sup>12</sup> Dr. Bruce Bagley, chair of the Department of International Studies at the University of Miami, defines “cartelitos” as the newest smaller form of cartel, which, in taking advantage of their more manageable size, can hide more easily and have greater capacity for mobility as well as networking abilities with other cartelitos.

\$11 billion annually. For international firms that wish to improve their Latin American presence, the CFZ offers key advantages including Panama's ideal location for forwarding goods to Central America, South America and the Caribbean. Also, the establishment of a warehouse in the CFZ allows reception of goods and the filling of buyers' orders from a single point and under one invoice. Furthermore, the movement of funds in and out of Panama is not restricted and occurs mainly in US dollars. The net earnings on the re-export operations are exempt from income tax, as well as the dividends declared on such earnings.<sup>13</sup>

At the United States' request, Panama has improved its banking sector's laws, and additional monitoring that guards against money laundering is in place. However, much to the United States' chagrin, bankers avoid fully implementing laws that might discourage foreign investors. Moreover, although the CFTZ is used mainly by Colombians and Venezuelans, a free-trade agreement (FTA) with the United States could compete with some of its services and thus create problems for Panamanian businessmen. Panama's booming economy is regarded as security in itself. The task at hand is to then look at the system's various loopholes, at those who take advantage of them, and at the Panamanian authorities' ability to securitize these threats. In general, president candidates tend to be bankers and, therefore, to have a vested interest in this sector of the Panamanian economy.

While the security issue areas examined in this dissertation are unquestionably areas of concern, they by no means compose an exhaustive list of all the security threats faced by contemporary Panama. Issues of security environment, terrorism, immigration, arms trafficking from Central America, and indigenous groups also constitute potentially significant security problems. However, the three above-mentioned issue areas are most important.

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<sup>13</sup> <http://www.fdimagazine.com/news/fullstory.php/aid/1014/Panama.html> (accessed January 22, 2008).

The time frame chosen for this study starts with the year 2000, which marks Panama's real independence, as it is only then that it assumed complete control of the Canal Zone and the Canal. Other important time frames are 1990 and 2001. The former marks the year Panama began a healthy democracy after the U.S. invasion in 1989, and the latter refers to the events of 9/11 and the changes in national security the world had to make as a result.

### **c) Methodological Techniques, Sources, and Timeframe**

Interviews conducted for this dissertation provided a general historic background and reference in the author's understanding of Panama's national security and Panama's autonomy (or lack thereof). Among the interviewees were the rectors for both Universidad de Panama (state) and Universidad de Santa Maria la Antigua (private); professors; former presidents, ambassadors, mayors, an exterior minister, a minister of housing and development, a minister of justice and government, a minister of commerce and industry, party presidents, legislators of Panama's National Assembly, running candidates for the 2009 presidential elections, journalists, executive secretaries of Consejo de Seguridad Publica y Defensa Nacional, the director of the Department of International Studies of the University of Panama, members of Policia Nacional de Panama, the director of the National Police Department of Intelligence and Investigations (DIIP), a manager director of the Colon Free Trade Zone, the executive director of the City of Knowledge, representatives of NGOs, and others. Sources also included secondary literature collected from interviewees whenever available and from official governmental documents and websites, as well as from textbooks and journals.

Moreover, the 2000–2008 timeframe chosen reflects Panama’s years of operation and administration of the Canal and the lack of a U.S. physical presence in the once-called Canal Zone.

#### **d) Theoretical Approach**

This study also attempts to make a theoretical contribution by furthering international relations (IR) theory on small states. Within the context of autonomy, little has been written to date on how small states adjust to hegemonic influence. Much of IR theory is extremely U.S.- or European-centric. This single case study from the perspective of a small state helps to shed light on the other side of the coin. Its main purpose is to find a niche in IR theory and foreign policy analysis that can expand the scarce literature on how small states adapt and seek to maximize their autonomy within limited circumstances. The Panama case will contribute to the literature by providing a thorough analysis of how a small state handles security. With no manual or guide to follow since the ousting of General Manuel Antonio Noriega in 1989 and the elimination of the military in 1990, elected authorities have had to craft a national defense strategy for the first time. Panamanian leaders faced the task of determining what issues to “securitize” given new security responsibilities and future threats to the Canal. “Security issues are made security issues by acts of securitization.”<sup>14</sup> Barry Buzan, Ole Waever, and Jaap de Wilde’s securitization approach to security studies borrows from both the traditional military- and state-centered approach and from alternatives that widen the sources of threats to new issue areas. Issues of security are defined as threats in the

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<sup>14</sup> Buzan and Waever, *Regions and Powers*, p. 204.

standard materialistic sense of the word and as things that are “seen to be existentially threatened.”<sup>15</sup>

### **e) Organization of Study**

Chapters 4 and 5 identify not only the major threats facing Panama’s national security but also when and why Panamanian authorities do securitize, or desecuritize, them. In order to understand how Panama became an insulator state, it is important to identify how its leaders interpret them and how these in turn relate to Panama as a state; to Panama as being or not being part of an RSC (North America or South America); to Panama as part of a subregional security complex (Central America, the Andean region); to Panama as a U.S. ally; and finally to Panama as part of the Americas. Chapters 4 and 5 thus are key to explaining how Panamanian authorities define, defend, and enhance their national security in the presence of a hegemon. Chapter 4 focuses on a long-standing issue of domestic and regional importance in Panama’s history: its Canal. The first issue area in Chapter 4 addresses a classical security problem of border control, which recently has been very much on the minds of Panamanian authorities and citizens because of increased drug trafficking and violence. The second issue area in Chapter 4 targets economic issues arising from the CFTZ and the banking sector as they form part of Panama’s real socioeconomic fabric. Finally, after a comprehensive analysis of Panama has been presented, the concluding chapter puts forth a political analysis of a small state that is unique to the Western Hemisphere. The concluding chapter presents a detailed

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<sup>15</sup> In Waever et al. 1993, the notion of a referent object was widened to include “any collectivity that defines its survival as threatened in terms of identity (typically, but not only nations).” Cited in Buzan and Waever, *Regions and Powers*, p. 70.

analytical conclusion that responds to how Panama has managed to become relatively autonomous in a political arena with bigger and stronger players possessing richer resources and less hegemonic clout. Panama is the only country with a canal in the Western Hemisphere but not in the world; others such as Egypt and also, to a great extent, countries bordering straits, face similar national security challenges. Furthermore, border disputes and hegemonic control are common to many parts of the world. However, this dissertation highlights Panama's unique insulator-state capacity and provides innovative IR theory for small states that could be used to identify other cases facing similar national security challenges.

## CHAPTER 2: CONTRIBUTIONS FROM INTERNATIONAL RELATIONS THEORY FOR THE STUDY OF SMALL STATES

In order to develop the necessary global and regional perspective on Panama's security problems and policies, this chapter reviews of some key elements of international relations theory. It begins with a review of realism, because realist theory, as the dominant school or paradigm in international relations, continues to shape American foreign policy.<sup>16</sup> In effect, realism posits that the most powerful states lead while the rest follow; hence Panama, as a *weak state*, has no option but to follow the hemisphere's dominant state.<sup>17</sup>

While capturing an important part of Panama's subordinate international position, realist theory does not fully depict the complete range of options available to small or weak states such as Panama. As an alternative or complementary approach (as it is often perceived), liberalism thus provides additional insight, especially regarding the constraint

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<sup>16</sup> The "unifying theme" of many forms of realism (classical realism, structural realism or neorealism, neoclassical realism, and rational choice realism) "is that states find themselves in the shadow of anarchy with the result that their security cannot be taken for granted. In such circumstances, it is rational for states to compete for power and security." Tim Dunne and Brian C. Schmidt, "Realism," in John Baylis and Steve Smith, eds., *The Globalization of World Politics* (Oxford: Oxford University Press, 2001), p. 165. More on realism in Section I.

<sup>17</sup> The word *weak* as used by classical realists is primarily associated with the limited or nonexistent military capabilities of certain states. Adherents of other forms of realism, however, such as neoclassical realists, believe that "states' strength is defined as 'the ability to extract and direct resources from the societies that they rule.'" Ibid., pp. 170–71. A more comprehensive definition of a *weak state* as defined by Bruce M. Bagley "refers not to the type of regime (for example, authoritarian or democratic), or to the form of government (for example, unitary or federalist), or to institutional arrangements (for example, presidential or parliamentary). Rather, it refers to the institutional capacity of the state, whatever its form, to penetrate society, extract resources from it, and regulate conflicts within it. Specifically, the term refers to the ability of state authorities to govern legitimately, to enforce the law systematically, and to administer justice effectively throughout the national territory." Bruce M. Bagley, "Globalization and Transnational Organized Crime: The Russian Mafia in Latin America and the Caribbean," in *The Political Economy of the Drug Industry: Latin America and the International System*, edited by Menno Vellinga (Gainesville: University Press of Florida, 2004), n. 3, p. 287.

of *interdependence* and the relation of international institutions and organizations in channeling and resolving tensions and conflicts.<sup>18</sup> Different from the use of military force present in realism, liberalism offers an economic and institutional argument for security, where states have the capacity to cooperate on a range of issues. Latin American countries have adopted neoliberal foreign policies voiced by the Washington consensus because they believe that greater economic interdependence will lead to progress and to reduced international tensions.<sup>19</sup>

Counterhegemonic coalitions in South America come from and reflect dissatisfaction with neorealist- and neoliberal-based foreign policies.<sup>20</sup> Moreover, the asymmetry of globalization is often blamed on the United States and its foreign policies. Having superpower status means not only having “first-class military-political capabilities . . . [but also] see[ing] themselves, and be[ing] accepted by others in rhetoric and behavior, as having this rank.”<sup>21</sup> Power, defined by Robert A. Dahl as “A has power over B to the extent that he can get B to do something that B would not otherwise do,” means having the ability to get someone to do what you want them to do.<sup>22</sup> Militarily, the

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<sup>18</sup> The various aspects of liberalism have changed over time (democratic peace liberals, liberal idealists of the interwar period and neoliberals). Today, liberal thinkers believe institutions force states to engage in cooperative arrangements that make possible durable patterns of cooperation. Tim Dunne, “Liberalism,” in Baylis and Smith, *The Globalization of World Politics*, pp. 186–95. The term *interdependence* is explained in Section I under “Liberalism.”

<sup>19</sup> Fiscal policies, tax reforms, trade liberalization, openness to foreign direct investment, privatization of state-owned enterprises, deregulation, and property rights are seven of the most popular points promoted by economists of the Washington Consensus (the World Bank, International Monetary Fund, and other Washington-based economic think tanks). “Neo-liberalism is often referred to as neo-liberal institutionalism.” *Ibid.*, p. 203.

<sup>20</sup> The debate between neorealists and neoliberals (the progeny of realism and liberalism, respectively) has dominated mainstream international relations scholarship in the United States since the mid-1980s. For most academics, neorealism refers to Kenneth Waltz’s structural realism. “Yet, most scholars and policymakers use neo-realism to describe a recent or updated version of realism. Recently, in the area of security studies, some scholars use the term offensive and defensive realism when discussing the current versions of realism; or neo-realism.” Steven L. Lamy, *Contemporary Mainstream Approaches: Neo-realism and Neo-Liberalism*, in Baylis and Smith, *The Globalization of World Politics*, p. 207.

<sup>21</sup> Buzan and Waever, *Regions and Powers*, pp. 34–35.

<sup>22</sup> Robert Alan Dahl, “The Concept of Power,” *Behavioral Science* 2 (1957): 202–3.

United States is in a position to exercise power over B; diplomatically speaking, however, it is not. As a result, the U.S. loss of soft power or lack of persuasion is hampering its ability to negotiate with many Latin American leaders who fear that globalization equals Americanization.

The last approach in this chapter delves into the lack of leadership present in the United States as expressed by thin constructivism.<sup>23</sup> Neoliberalism at first recognized that “states might willingly *construct* norms and institutions to regulate their behavior to enhance their long term interests.”<sup>24</sup> Constructivism theory then added that “ideas and norms not only constrain but actually *construct* how states define their interests.”<sup>25</sup> In failing to explain and anticipate the end of the Cold War, new schools of thought in international relations (constructivism being one of them) took more interest in the role played by people in world politics. Thin constructivism gives a panoptic view of world politics by adding to the military, economic, and institutional argument a leadership, ideology, historical, and cultural factor.

Last, it is necessary to address what is meant by *securitization* and under what conditions specific *sectors* and *referent objects* may become *securitized*.<sup>26</sup> Since 9/11, the

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<sup>23</sup> Thin constructivism as opposed to constructivism assigns greater weight to the material realm than the social realm. While there are multiple conceptions of constructivism, in general they share the belief that agents and structures constitute each other. They also see rules as both regulating and constituting political structures. And, most importantly, they reject the dismissing of ideas, values, and norms of the human agent in the explanation of world politics. For more on constructivism, refer to Michael Barnett’s “Social Constructivism,” in Baylis and Smith, *The Globalization of World Politics*, pp. 252–69.

<sup>24</sup> *Ibid.*, p. 253.

<sup>25</sup> *Ibid.*

<sup>26</sup> The use of *sectors*—economic, environmental, military, political and societal—“help[s] to confine the scope of inquiry to more manageable proportions by reducing the number of variables in play. The analytical method of sectors thus starts with desegregation but ends with reassembly. The desegregation is performed only to achieve simplification and clarity. To achieve understanding, it is necessary to reassemble the parts and see how they relate to each other.” Buzan, Wæver, and de Wilde, *Security: A New Framework for Analysis*, pp. 7–8. A *referent object* is that which is to be secured. Buzan and Wæver, *Regions and Powers*, p. 71.

process of securitization has taken on a new meaning that needs to be expanded. Neoliberal policies and economic adjustments sometimes attributed to globalization are said to reduce the security of states and to endanger their sovereignty. Therefore, it is also crucial to examine the evolution of the concept of sovereignty. Its various types and current interpretations are not constant but variable. There has never been absolute sovereignty; no state (no matter how powerful) has complete control, total autonomy, or full recognition of its territory. Panama is permanently engaged in trade-offs between the necessity of accepting external impositions and the desire to maximize national or state autonomy in its efforts to guarantee its government validation and sovereignty as a state.

#### **a) Realism**

Realism posits an international system characterized by anarchy and conflict in which the most powerful states dominate and subordinate the other, weaker states within the system. Before continuing, though, it is important to make clear that there is much debate about how to classify or label all versions of realism. Scholars who have done so chronologically (classical realism, modern realism, and structural or neoliberalism) still fail to distinguish between them each during historical phase. However, they all subscribe to statism (the state is the main actor), survival (the ultimate concern of the state is security), and self-help (in an anarchic environment each state must take care of itself). John Baylis and Steve Smith's taxonomy of realism in *The Globalization of World Politics: An Introduction to International Relations* presents one main distinction between classical realism as it refers to the conditions of human nature and structural

realism as it relates to security competition and interstate conflict in the international system.<sup>27</sup>

Regarding the role of smaller and weaker states in international politics, realist theorists generally conclude that the only viable strategy available to them is some form of *bandwagoning*; the alternative, balancing, is usually seen as too difficult and dangerous.<sup>28</sup> In realist theories of international relations, bandwagoning refers to weaker states joining a stronger power or coalition. Bandwagoning occurs when weaker states decide that the cost of opposing a stronger power exceeds the benefits to be gained from supporting it. A dominant state may offer incentives such as the possibility of territorial gain or trade agreements to induce weaker states to join with it. The current interpretation by Washington of neorealist foreign policy has forced smaller states to reconsider bandwagoning or to consider balancing, as the case may be.

### 1) Balancing or Bandwagoning

For Panama, bandwagoning has paid well, especially after Manuel Noriega's legacy, which left the country without credibility and in economic ruins (1983–1989).<sup>29</sup> Panama needed to clean up its act, gain international recognition, and resurrect its economy. Guillermo Endara's (1990–1994) use of bandwagoning was regarded as typical of a puppet government endorsed by the United States. Ernesto Perez-Balladares (1994–

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<sup>27</sup> Neorealist Joseph Grieco is critical of neoliberal institutionalists who claim states are mainly interested in absolute gains. Instead, Grieco claims, states are interested in both absolute and relative gains: who will gain more if we cooperate as opposed to whether all parties gain from cooperation. Lamy, "Contemporary Mainstream Approaches: Neo-realism and Neo-Liberalism," in Baylis and Smith, *The Globalization of World Politics*, p. 210.

<sup>28</sup> The terms *Bandwagoning* and *balancing* were popularized by neorealist Kenneth N. Waltz's *Theory of International Politics*, 1st ed. (New York: McGraw-Hill, 1979).

<sup>29</sup> Dictatorial authoritarian policies in 1989 led to the U.S. invasion.

1999), the first president to run under Noriega's PRD Party, contrary to what many believed also cooperated with the neoliberal foreign policy of free trade and open markets. More recently, Mireya Moscoso (1999–2004), who started FTA negotiations with the United States, and Martin Torrijos (2004 to present), have continued cooperating with the United States even when it has meant losing some domestic political support.

The Panama Canal Authority (PCA), an independent agency of the Panamanian government that has the task of managing, maintaining, and operating the Canal, has openly cooperated with the U.S. security of the Canal. Moreover, with regard to Colombia, at Washington's request Panama has developed a close relationship with President Alvaro Uribe in Bogota (2002 to present).<sup>30</sup> Proving to be one of the most cooperative states in Latin America, Panama has shied away from countries that are balancing. Bandwagoning is exactly what Panama is doing and exactly what a realist theorist would have predicted. Given that Panama lacks the economic superiority of oil countries and the military capabilities to defend itself, according to the realist literature the limited options available to it as a smaller state force it to remain a hegemon's subordinate. Before concluding the discussion on realist theory, it is vital to highlight the existing U.S. take on the theory's core assumptions.

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<sup>30</sup> In 2004 the Colombian Constitution was modified, allowing for presidential reelection. On May 28, 2006, Alvaro Uribe was reelected to a second four-year term.

## 2) Previous U.S. Administration's Perspective on Realism

The end of the Cold War ended the bipolarity of the international *structure* between the United States and the Soviet Union.<sup>31</sup> Some scholars believe that the United States' unchecked power in this new unipolar structure is being abused. Unilateral offensive realist foreign policies were common to the administration of George W. Bush. Whether one attributes these policies to Bush or to his advisors, "the Vulkans," as labeled by Condoleezza Rice (U.S. National Security Advisor in 2004 and from 2005 to January 2009, U.S. Secretary of State), one cannot overlook what pundits saw as imperialistic actions. Neoconservatism, the term used to describe George W. Bush's administration, is a form of realism that pairs offensive realist foreign policies of preponderance (preemptive) with the messianic desire to civilize and democratize the world by remaking it in the U.S.'s image.<sup>32</sup> Bush's *à la carte* use of international institutions, international organizations, and unilateral security measures upset the international system. In fact, many of the not-so-popular measures of security and balancing taken by smaller states occurred in reaction to the U.S. use of force and disregard for diplomacy.

Hence, neoconservatives are on the retreat, and more defensive realistic foreign policies that trust regional powers, seek cooperation with other states, and take international institutions and organizations into account are making a comeback.<sup>33</sup> The

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<sup>31</sup> The use of the word *structure* by Kenneth Waltz rests on a state-centric argument about power polarity (unipolar, bipolar, or multipolar) in an international system. It relates to the distribution of material power as it determines the global political structure. Buzan and Waever, *Regions and Powers*, p. 6.

<sup>32</sup> Daalder and Lindsay question Bush's disregard for international institutions; however, they do not label Bush a neoconservative. Instead, they see him as an "assertive nationalist." The so-called neoconservatives (neocons) described as "democratic imperialists" are Bush's advisors. Ivo H. Daalder and James M. Lindsay, *America Unbound: The Bush Revolution in Foreign Policy* (Washington, DC: Brookings Institution, 2003).

<sup>33</sup> Unlike offensive realism (associated with John Mearsheimer), defensive realism (associated with Kenneth Waltz) maximizes not force but security. Dunne and Schmidt, "Realism," in Baylis and Smith, *The Globalization of World Politics*, pp. 169–70.

Democratic re-taking of the House and the Senate in the 2006 midterm elections and Donald Rumsfeld's resignation were tangible proof of a significant change in Washington's neoconservative atmosphere.<sup>34</sup> Barack Obama, in year two of his presidency, has backed away from unilateralism, encouraging more dialogue and eschewing U.S. ideological hegemony. The United States knows how expensive it is to police the world and how much more efficient the international community could prove to be at solving its own regional problems. In other words, the use of military might by a strong state has its limits.<sup>35</sup>

### **b) Liberalism**

Since 1989, Latin America has been spared the direct use of force found in U.S. foreign policies as enacted in the Middle East. Somehow, economic development, democratization, and free trade, as preached by neoliberal theory, dominate the agenda of policy makers in the region. Latin America's taste of U.S. military intervention left a void filled by economic liberalization that is attributed to the end of the Cold War. Building upon a realist approach, neoliberalism posits that military subordination is a reality in the international system. However, it offers alternative actions for smaller states, allowing them to ameliorate the bandwagoning dilemma set forth by realism. Anarchy, conflict, hierarchy, and force are basic features of the international system that contemporary

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<sup>34</sup> "In choosing Robert M. Gates as his next defense secretary, President Bush reached back to an earlier era in Republican foreign policy, one marked more by caution and pragmatism than that of the neoconservatives who have shaped the Bush administration's war in Iraq and confrontations with Iran and North Korea." Scott Shane, "Cautious Player from a Past Bush Team," *New York Times*, November 9, 2006.

<sup>35</sup> International community meaning "a human association in which members share common symbols and wish to cooperate to realize common objectives." Andrew Linklater, "Globalization and the Transformation of Political Community," in Baylis and Smith, *The Globalization of World Politics*, p. 713.

neoliberal theory posits can be targeted by promoting free trade (commercial liberalism), democracy (republican liberalism), community-building (sociological liberalism), and integration, even if it means surrendering some sovereignty (institutional liberalism).<sup>36</sup>

Norms, rules, principles, and institutions, not just military differences between states, also constrain states.

### **1) Alliances**

First, Panama can maintain alliances with other Latin American states. Omar Torrijos had an innate ability to bring countries with different views to the same table, and his son Martin appears to have inherited his diplomatic skills. Panama has helped to alleviate tensions between the United States and the North and the South Latin American countries because of growing discontent with U.S. neoconservative foreign policy that has produced a balancing trend (Luis Ignacio Lula in Brazil, Nestor Kirchner in Argentina, Tabare Vazquez in Uruguay, as examples of soft balancing; Hugo Chavez in Venezuela, Evo Morales in Bolivia, and Fidel Castro in Cuba as examples of hard balancing). A November 2, 2006, *New York Times* headline read: “Ending Fight for U.N. Seat, Guatemala and Venezuela Back Panama.” Guatemala (backed by the United States) and Venezuela (secretly backed by Argentina, Brazil, and Uruguay) agreed to withdraw from their race for a nonpermanent member seat on the United Nations Security Council (UNSC) after 47 rounds of voting in which neither attained the two-thirds majority of the 192 members needed for the seat. Both countries and their supporters selected Panama as

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<sup>36</sup> Although neoliberalists take interest in the role played by nonstate actors (transnational actors and international organizations), they still regard states as the principal actors in international relations. Baylis and Smith, *The Globalization of World Politics*, pp. 212–14.

a consensus candidate for the region. On November 7, “Panama received 164 votes in the 192-member General Assembly, more than the 120 needed to win the post that begins on January 1, 2007.”<sup>37</sup>

While Panama, under President Martin Torrijos, favors the United States now more than ever, Torrijos’s visit to Castro in December 2005 showed Torrijos to be a leader who is less subordinate than he at first glance appeared to be. However, Cuba is at an all-time juncture with a grim future as *the* leading antihegemon state. Fidel Castro has been a recruiter to those in the region whose inclinations do not echo hegemon stability. Fidel’s Cuba has been a thorn in the side of the Organization of American States (OAS). Its inactive membership has always reminded the other 34 states of the consequences of balancing.

## **2) Interdependence**

Second, liberalism recognizes that conditions of interdependence can temporarily rule out anarchy. Force is not always a viable option. One of the main properties of interdependence is that states are not the only actors. By opening up its trade, a state increases the linkages among multilateral corporations, transnational social movements, and international organizations. In a situation of interdependence, states do not behave rationally because rather than one single national interest there are many, pulling in

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<sup>37</sup> United Nations News Center, “Ending Deadlock, UN Assembly Elects Panama as New Member of Security Council,” November 7, 2006.

different directions.<sup>38</sup> Economic liberalism foments an interdependence that gives power a new meaning; economic—unlike military—power, is multipolar.<sup>39</sup>

Interdependence can be either symmetric (or complex; that is, occurring between developed countries) or asymmetric (occurring between developed and developing countries). The former category refers to the relationship found between developed countries such as the United States and Canada. There are clear ties and linkages between them that limit their autonomy or ability to impose on or coerce each other with unilateral foreign policy. The latter is a less-used term and refers to more limited forms of interdependence between developed and developing countries.<sup>40</sup> While dominant states are less reluctant to use force or impose themselves on weaker states, a more amicable solution, one that does not disrupt the economic and political connection between the two, is still desired.

The United States and Panama have an asymmetric interdependence relationship that gives the former an upper hand. However, it is in the interest of the United States that Panama enjoy a healthy economy. Therefore, Panama's Canal is important to the United States, and its proper operation relies on economic liberalization and thriving democratic institutions that allow for the free flow of goods, services, and capital.<sup>41</sup> All countries are dependent to different degrees on other countries in the areas of trade, technology,

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<sup>38</sup> A rational actor is one whose interests and preferences are known and fixed and who thus can make strategic choices to best promote his or her interest. Ngaire Woods, "International Political Economy in an Age of Globalization," in Baylis and Smith, *The Globalization of World Politics*, p. 335.

<sup>39</sup> "The expansion of capitalism and the emergence of a global culture lead liberals (often referred to as Pluralists) to recognize a growing interconnectedness in which changes in one part of the system have direct and indirect consequences for the rest of the system. Absolute state autonomy, so keenly entrenched in the minds of state leaders, was being circumscribed by interdependence." Dunne, "Liberalism," in Baylis and Smith, *The Globalization of World Politics*, p. 193.

<sup>40</sup> Bruce Michael Bagley, Professor of International Studies, Department of International Studies, University of Miami, Coral Gables, Florida.

<sup>41</sup> More than 70% of the trade passing through the Canal originates in or is destined for the United States. Data taken from the International Relations Center. <http://www.irc-online.org/>.

markets, communications, migration, and/or transportation. The expansion of capitalism has created an interconnectedness in which changes in one part of the system have direct and indirect consequences for the rest. Interdependence keeps dominant countries from using military power as they see fit. Where the use of force is not feasible, economic power to negotiate comes into play. The Canal gives Panamanians an area of economic leverage too important for the United States to ignore or undermine. Casually speaking, because of the above-mentioned asymmetry between a dominant and a weak country, the chances that the former will use force when economic power does not work are greater.

### **3) International Institutions and Organizations**

Third, the United States benefits from the cooperation of other states, especially during times of growing discontent with U.S. foreign policy on the part of many countries. The United States gains from having Panama's vote in negotiations dealt by international organizations such as the United Nations and the OAS. International institutions and organizations are seen by realists as tampering with a state's sovereignty, but in the case of smaller states, they could do the exact opposite.<sup>42</sup> Some international institutions intrude into a country's sovereignty more than others (e.g., the U.S. opposes the International Criminal Court because it does not want other states trying U.S. citizens). However, for Panama, the use of its vote in the *international society* gives the state recognition and at the same time provides it with lobbying capabilities and the

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<sup>42</sup> International institutions are complexes of norms, rules, and practices that prescribe behavioral roles, constrain activity, and shape expectations. International organizations, such as the United Nations, are physical entities that have a staff, head offices, and letterheads. There are three levels of international institutions: constitutional institutions (sovereignty being one), fundamental institutions (international laws and multilateralism), and issue-specific institutions or regimes (Nuclear Non-Proliferation Treaty, etc.). Christian Reus-Smit, "International Law," in Baylis and Smith, *The Globalization of World Politics*, pp. 351–52.

ability to bargain and negotiate.<sup>43</sup> Membership in the World Trade Organization (WTO) allows smaller states to impose regulations on a hegemon. In joining the WTO in 1997, Panama gained access to a mediating forum where trade injustices can be disputed against stronger states.

Neoliberal theory posits that countries such as Panama have more instruments to preserve their security than realism asserts. Recognition by the international society equals power. However, politicians in smaller states fear neoliberal economic propositions and those who promote and impose them. Neoliberal policies come from dominant capitalist states and are perceived as rules that allow them to exercise imperialist economic domination over weaker states.<sup>44</sup> In relinquishing aspects of their sovereignty to join an international society, smaller states feel they have more to lose than dominant states. As a result, the United States is losing its ability to persuade Latin American states to continue implementing neoliberal policies. The notion of persuasion, as explained by Robert Keohane and Joseph Nye, aids in bridging the materialistic perspective to that of the more socially constructed one found in constructivism.<sup>45</sup>

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<sup>43</sup> The term *international society* “stands for relations between politically organized human groupings, which occupy distinctive territories and enjoy and exercise a measure of independence from each other.” Baylis and Smith, *The Globalization of World Politics*, p. 46.

<sup>44</sup> Michael Hardt and Antonio Negri, *Empire* (Cambridge, MA: Harvard University Press, 2000), p. 8. To learn more about anti-neo-liberalism, refer to world system theory, developed by Immanuel Wallerstein. It derives from neo-Marxist theories such as dependency theory, which was very popular in the 1960s and 1970s among Latin American politicians. Former Brazilian president Fernando Cardoso wrote about dependency theory. Critics of neoliberal theory also fear environmental degradation from development policies that exploit natural resources. Protesters have violently expressed these concerns on many occasions, for example in Seattle against the World Trade Organization (1999); in Washington, DC, against the World Bank and IMF (2000); and in Davos, against the World Economic Forum (2006).

<sup>45</sup> “Materialism is the view that the most fundamental feature of society is the organization of material forces. Material forces include natural resources, geography, military power and technology.” Baylis and Smith, *The Globalization of World Politics*, p. 776.

### c) Constructivism: Soft-Power, Ideological Hegemony, and Leadership

If a state can make its power legitimate in the eyes of others and establish international institutions that encourage others to define their interests in compatible ways, it may not need to expend as many costly traditional economic or military resources.<sup>46</sup>

Military actions and economic incentives are not the only ways that a nation can induce others to do its bidding. American constructivism, or thin constructivism, as expressed by Alexander Wendt, posits an international system characterized by soft power, ideological hegemony, leadership, and other elements of perceived reality as the social construct of the actor(s).<sup>47</sup> Wendt redefines the state of anarchy of the international system as one in which states make of it what they want and will. He portrays states “as perfectly free to create whatever form of anarchy they please. These forms can range from incessant conflict to perpetual peace, from Hobbes through Locke to Kant.”<sup>48</sup> Under Hobbesian anarchy there is a constant state of war; under Lockean anarchy states cooperate because it is in their interest; and under Kantian anarchy there is a collective security that forms part of state identities (U.S. and Canada).<sup>49</sup>

While hard constructivism will not form part of the following dialogue, for comparison purposes it is important to note that hard constructivists see Wendt’s contribution to IR theory “as little more than a minor amendment to liberal

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<sup>46</sup> Robert Keohane and Joseph S. Nye, “Power and Interdependence in the Information Age,” *Foreign Affairs* 77, no. 5 (September/October 1998), p. 86.

<sup>47</sup> Alexander Wendt rejects materialist explanations for the end of the Cold War and, in his *Social Theory in International Politics*, asserts that “Soviet behavior changed because they redefined their interests as a result of having looked at their existing desires and beliefs self-critically.” Quoted in Edward A. Kolodziej, *Security and International Relations* (Cambridge: Cambridge University Press, 2005), p. 286.

<sup>48</sup> Kolodziej, *Security and International Relations*, p. 279.

<sup>49</sup> *Ibid.*, p. 279.

institutionalism theory to explain the Cold War.” Among other things, hard, or heavy, constructivist positions reject Wendt’s materialization of states.<sup>50</sup>

### 1) Soft Power

Wendt believes that military force, because of a state system of increased interdependence, gradually cedes to nonmilitary forces and to what Joseph Nye terms “soft power.” Soft power, as contrasted with hard power (military and economic capability as the measure of a state’s power), is based on the idea of having a culture that is attractive to others because its values are legitimate and can be trusted. “Soft power uses a different type of currency—not force, not money—to engender cooperation. It uses an attraction to shared values and the justness and duty of contributing to the achievement of those values.”<sup>51</sup>

Hilary Benn, the United Kingdom’s Secretary of State for International Development, giving a speech at New York University’s Center on International Cooperation, said, “it would be more beneficial for the United States to use ‘soft power’ of values and ideas as well as military prowess to defeat extremists.”<sup>52</sup> In a study on the popularity of the United States and its image around the world, the Pew Research Center found that “confidence in President Bush, which was already sagging, had dropped further in most countries over the past year. Global distrust of America leadership is reflected in increasing disapproval of the cornerstones of United States foreign policy,

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<sup>50</sup> Nicolas Onuf and Vendulka Kubalkova (a.k.a. the Miami Group) are hard constructivists who believe that “actors act always under conditions of uncertainty and that these actions or practices lead to unintended and unforeseen consequences.” Ibid., pp. 289; 284–89.

<sup>51</sup> Joseph Nye, “The Benefits of Soft Power,” *Compass: A Journal of Leadership* (Spring 2004), p. 7.

<sup>52</sup> Jane Perlez, “Briton Criticizes U.S.’s Use of War on Terror,” *New York Times*, April 17, 2007.

according to the survey report.”<sup>53</sup> Joseph Nye takes a similar position: “it was difficult to think of any single act that would do more to restore than the election of Obama to the presidency.” Soft power, he then goes on to say,

is the ability to obtain the outcomes one wants through attraction rather than using the carrots and sticks of payment or coercion. As I describe in my new book *The Powers to Lead*, in individuals soft power rests on the skills of emotional intelligence, vision, and communication that Obama possesses in abundance. In nations, it rests upon culture (where it is attractive to others), values (when they are applied without hypocrisy), and policies (when they are inclusive and seen as legitimate in the eyes of others).<sup>54</sup>

## 2) Ideological Hegemony

Distrust in hegemonic ideology always exists. Latin American leftist leaders campaign by associating hegemonic dominance with imperialism. However, it is imperative to understand that the former (hegemonic dominance) “rather supervises the relationships between politically independent societies through a combination of hierarchies of control and operation of markets,” and is considered too expensive and self-defeating to be achieved by force (imperialism).<sup>55</sup> There is a willingness of the partners of a hegemon to defer to hegemonic leadership. Therefore, in talking about ideological hegemony, it is important to understand that smaller states in deferring to the hegemon are not necessarily becoming “victims of false consciousness” or betraying their

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<sup>53</sup> “The survey was conducted in April and in May in the Palestinian territories and in 46 countries in Europe, Asia, the Middle East, Africa and the Americas including more than 45,000 respondents.” Meg Bortin, “U.S. Faces More Distrust from World, Poll Shows,” *New York Times*, June 28, 2007.

<sup>54</sup> Joseph Nye, “Barrack Obama and Soft Power,” *Huffington Post*, June 12, 2008, [http://www.huffingtonpost.com/joseph-nye/barack-obama-and-soft-pow\\_b\\_106717.html](http://www.huffingtonpost.com/joseph-nye/barack-obama-and-soft-pow_b_106717.html) (accessed April 6, 2010).

<sup>55</sup> Robert O. Keohane, “Hegemony in the World Political Economy,” in *International Politics: Enduring Concepts and Contemporary Issues*, 8th ed., edited by Robert J. Art and Robert Jervis, pp. 292–93 (New York: Pearson/Longman, 2007).

nation's interests for their own selfish ends.<sup>56</sup> Panama, like many other smaller states, has prospered by accepting U.S. ideology, which has brought economic growth.<sup>57</sup>

Generally speaking, Panama has always been pro-American. However, Panamanians have also resented the way in which they were treated by the U.S. military and the improper use of the Canal Zone. Martyrs Day is a Panamanian holiday that commemorates the January 9, 1964, riots in which twenty-two Panamanian students were killed by U.S. Army units for trying to fly the Panamanian flag alongside the U.S. flag in the Panama Canal Zone. The School of the Americas, now the Western Hemisphere Institute for Security and Cooperation, was based in Panama from 1946 until 1984 and was in charge of training Latin America's military personnel and accused of training members of Latin American governments who were found guilty of abusing human rights (Noriega, Vladimiro Montesinos, and Efraim Rios Montt, to name a few).<sup>58</sup> In violation of the Torrijos-Carter Treaties, the United States trained the Contras (contra-revolucionarios) to fight the spread of communist guerrilla organizations (Sandinistas) in Nicaragua.<sup>59</sup> Also, the tropical environment in the Canal Zone was affected by military experimentation. Chemicals such as DDT, DDD, and DDE were sprayed as pesticides in the Canal Zone even after they were banned in the United States.<sup>60</sup>

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<sup>56</sup> Ibid., p. 293.

<sup>57</sup> It is important to note that economic growth does not always mean less poverty. Many critics of neoliberal policies feel that Latin America's tide of economic growth has failed to lift all boats equally and has widened the gap between the rich and the poor. Florencia Jubany and Judy Meltzer, "The Achilles' Heel of Latin America: The State of the Debate on Inequality," policy paper (Ottawa: FOCAL, Canadian Foundation for the Americas, 2003).

<sup>58</sup> Montesinos was the head of Peru's intelligence service and involved in illegal activities (2000) during President Fujimori's regime; Rios Montt was a former general dictator of Guatemala accused of human rights abuses during his regime (1982–1984).

<sup>59</sup> For more on the role Panama played in helping the U.S. support of the Contras, or the Iran-Contra Affair, refer to John Dinges, *Our Man in Panama: How General Noriega Used the U.S.—And Made Millions in Drugs and Arms* (New York: Random House, 1990).

<sup>60</sup> John Lindsay-Poland, *Emperors in the Jungle: The Hidden History of the U.S. in Panama* (Durham, NC: Duke University Press, 2003).

The U.S. invasion on December 20, 1989, which deposed de facto leader General Manuel Antonio Noriega, “used the ‘maximum’ option, a full-scale air and ground invasion of Panama from U.S. bases on the mainland and in Panama.” During the invasion, more than 26,000 U.S. troops and 300 aircraft were used against 3,000 members of the Panama Defense Forces.<sup>61</sup> The invasion displaced many civilians, and the widespread looting and lawlessness inflicted catastrophic losses on many Panamanian businesses, who received little if any compensation. The United States failed to put in place a military police force once it had destroyed the Panamanian Defense Forces under Noriega. The Organization of American States and the United Nations denounced the invasion but did not try to prevent the United States from using force.

Furthermore, the U.S. perception that the Panamanians could not run the Canal was as invalid as their perception that Iraq had weapons of mass destruction.<sup>62</sup> Moreover, the neoconservatism popular in Washington during Bush’s administration decreased Panama’s acquiescence to U.S. foreign policy and affected the integrity of the U.S. ethos. The plunging of U.S. approval ratings, in terms of confidence in both the propriety and the purpose of U.S. power, was found not only among Europeans and the Muslim world but also among Latin American countries.<sup>63</sup>

U.S. economic and military superiority is not enough to bring about international order. In fact, there is not a clear link between power and leadership. While the presence

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<sup>61</sup> U.S. and Panamanian officials put the death tolls between 270 and 400. Other groups put the number of Panamanian deaths as high as 4,000. Dinges, *Our Man in Panama*, p. 307. Manuel Noriega and Peter Eisner, *The Memoirs of Manuel Noriega: America’s Prisoner* (New York: Random House, 1997), p. 171.

<sup>62</sup> With the exception of the executive branch, the American public and members of Congress believed that Panama could not run the Canal. Ambler Moss, professor, University of Miami Department of International Studies, and ex-Ambassador to Panama from the United States.

<sup>63</sup> Robert Tucker and David C. Hendrickson, “The Sources of American Legitimacy,” *Foreign Affairs*, November/December 2004, pp. 18–32.

of a single dominant power in the international system can induce cooperation among states, it is not enough to bring order to world politics. However, Panama's cooperation with and deference of to the U.S. hegemonic ideology of the past 18 years has given Panama economic and political stability. Domestically, opponents of Panama's deference have not been able to convince "el pueblo" of the loss of national identity or of falling prey to a New International Economic Order from which Panama has more to lose than to gain.

Pundits have said that the election of Barack Obama to the presidency of the United States will not change the nation's world image overnight. But in Latin America, it already has. Obama has a tremendous leg-up in Latin America simply for not being George Bush—or of his ilk. Most believe that the president-elect will at least to some degree turn away from the radical foreign policy of unilateralism and U.S. hegemony in the region.<sup>64</sup>

#### **d) Contemporary National Security in the International System**

Adopting a more socially constructed approach to security studies allows for less marginalized answers to questions about where threats originate and how referent objects are securitized or desecuritized. Omar Torrijos's strategy for restoring the Canal to Panama summoned sovereignty by accusing the United States of "imperialismo Yankee." Martin Torrijos instead detached himself from those anticolonial values and constructed other threats and other referent objects to securitize. How Panama deals with its obsolete notion of sovereignty and new threats surfacing during times of economic liberalization is what concerns this section. Panama is a consumer of security, and the United States is there to provide it. Can Panama regard U.S. security from a consumer's perspective (by

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<sup>64</sup> Laura Carlsen, "Latin America Sends Obama Congratulations—And a Piece of Its Mind," *Americas Programme: A New World of Citizen Actions, Analysis, and Policy Options*, November 7, 2008, <http://americas.irc-online.org/am/5654> (accessed April 6, 2010).

implementing Ricardo's economic principle of comparative advantage) and not as a direct threat to its sovereignty?

In the end, security dilemmas are what states make of them:

Wendt argues that security dilemmas are not given by anarchy or nature; a security dilemma is a social structure composed of intersubjective understandings in which states are so distrustful that they make worst-case assumptions about each others' intentions. Because the security dilemma is created by the states' interactions states can choose policies—for example, reassurance—that would avoid creating it.<sup>65</sup>

The Canal is a material reality. However, in securitizing it what really matters is whether the United States and Panama decide to cooperate with one another and whether both agree on what constitutes a threat and what the referent objects should be.

### 1) Securitization

“Security is the move that takes politics beyond the established rules of the game and frames the issue either as a special kind of politics or as above politics.”<sup>66</sup> Buzan, Waever, and de Wilde define securitization as an existential threat that legitimizes the breaking of rules.

In theory, any public issue can be located on the spectrum ranging from nonpoliticized (meaning the state does not deal with it and it is not in any other way made an issue of public debate and decision) through politicized (meaning the issue is part of public policy, requiring government decision and resource allocations or, more rarely, some other form of communal governance) to securitized (meaning the issue is presented as an existential threat, requiring emergency measures and justifying actions outside the normal bounds of political procedure).<sup>67</sup>

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<sup>65</sup> Charles L. Glaser, “The Security Dilemma Revisited,” *World Politics* 50, no. 1 (1997), pp. 196–97.

<sup>66</sup> Buzan, Waever, and de Wilde, *Security: A New Framework for Analysis*, p. 23.

<sup>67</sup> *Ibid.*, pp. 21–22.

Securitization can be of the economy, culture, religion, the environment, or other aspects as defined by circumstances that vary from state to state, and/or from global to regional or to domestic threats. “Securitization is not fulfilled only by breaking rules (which can take many forms) nor solely by existential threats (which can lead to nothing) but by cases of existential threat that legitimize the breaking of the rules.”<sup>68</sup>

Panama’s current security measures for the Canal and its frontier with Colombia fall more within the category of the politicized and the nonpoliticized than the securitized. Aspects of security of the Canal and Panama’s bordering region with Colombia are not dealt with publicly and are not made issues of public debate and decision. Similarly, U.S. dealings with terrorism before 9/11 fell under the categories of nonpoliticized and politicized. However, the war on terrorism forced the Bush administration, and, currently, the Obama administration, to take action requiring emergency measures and to justify actions outside the normal bounds of political procedures.<sup>69</sup> Equally, Panamanian authorities need to take more drastic security measures.

## **2) Sovereignty**

The concept of Westphalian sovereignty, or the exclusion of external actors within a given territory as the sole criterion of sovereignty, is antiquated and incomplete. The end of the Cold War meant to many the end of states invading other states. Sovereignty, scholars felt, could relax its guard, and neoliberal institutionalism could do its magic. The events of 9/11, however, brought to the world a better understanding of

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<sup>68</sup> Ibid., p. 25.

<sup>69</sup> Ibid., p. 24.

how economic integration might have helped in preventing the use of force among states, but not of nonstate actors.<sup>70</sup> The dynamics of globalization are changing sovereign statehood such that geopolitics (interstate politics) is being replaced by global politics (the politics of states and nonstate actors).<sup>71</sup>

Sovereignty as defined by Stephen D. Krasner can refer to mutual recognition of juridical independence (international legal sovereignty); to the exclusion of external actors within a given territory (Westphalian sovereignty); to the formal organization of political authority within the state and the ability of public authorities to exercise effective control within the borders of their own polity (domestic sovereignty); and to the ability of public authorities to regulate the flow of information, ideas, goods, people, pollutants, or capital across the borders of their state (interdependence sovereignty).<sup>72</sup>

Panama's Westphalian sovereignty increased first in October 1979 with the disappearance of the Canal Zone and later on December 31, 1999, after the Canal changed hands completely. The elimination of U.S. military bases in Panamanian territory was a factor that dictated the concerns expressed in the Torrijos-Carter Treaties. Panama's main arguments for obtaining complete control of the Canal were based mainly on the removal of U.S. coercion and imposition and on gaining recognition, autonomy, and control of its territory. Recognition has been achieved; however, Panama's relative autonomy will need to adapt to new security challenges even if it means bringing back

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<sup>70</sup> A nonstate actor is defined as any actor that is not a government, including transnational actors and international organizations. Baylis and Smith, *The Globalization of World Politics*, p. 426. Donald Snow defines a nonstate actor as "an organization that has neither a permanent territorial base nor loyalty to any particular country but engages in activities that cross state borders." Donald M. Snow, *National Security for a New Era: Globalization and Geopolitics* (New York: Pearson/Longman, 2004), p. 28.

<sup>71</sup> Anthony McGrew, "Globalization and Global Politics," in Baylis and Smith, *The Globalization of World Politics*, p. 38.

<sup>72</sup> The peace of Westphalia in 1648, although not clearly articulated, is used to describe nonintervention in internal affairs where states exist in specific territories, within which domestic political authorities are the sole arbiters of legitimate behavior. Krasner, *Sovereignty: Organized Hypocrisy*, p. 20.

the United States' comparative advantage in terms of security capabilities. The elimination of the military in 1989 and subsequent implementation of neoliberal policies took away Panama's ability to exercise better control of its territory and regulation of its borders. The increased volume in traffic that will result from expanding the Canal will in turn increase the need for better security.

Panama's security is much more susceptible to drug traffickers, money launderers, Colombia's guerrilla movements, arms traffickers, terrorists, and environmental degradation than to the threat of another nation's presence within its territory. Heretofore, sovereignty and security were defined by circumstances that today hold little bearing. Having legitimacy is not synonymous with control of the state. International institutions reduce the sovereignty of states as their recognition increases. Having a better understanding of what is meant by sovereignty and what securitization embodies allows for a better analysis of Panama's constant battle regarding the negotiation of its autonomy in securitizing the state.

### **3) A Multilevel Approach**

Before moving to the next chapter it is crucial to mention Laura Neack's book *The New Foreign Policy: Power Seeking in a Globalized Era*. In it she describes foreign policy as a "nested game" or "multilevel study" in which domestic and international politics are played by national leaders to the best of their advantage. Neack suggests that in using a multilevel approach, we must "critically mix and match our studies, looking for scholars of different orientations that we can assess critically on the path of a more

comprehensive understanding of events.”<sup>73</sup> In other words, realism, liberalism, and constructivism should all be read with a critical mind to understand that every scholar’s orientation leads him or her to choose one sample of variables over others.<sup>74</sup> Neack’s use of multiple levels of analysis is not new. Already in the 1950s Richard C. Snyder, referred to as a behaviorist, was at the forefront of seeking to broaden the study of international relations by integrating insights from other disciplines. His work was expanded by other behaviorists such as H. W. Bruck, Burton Sapin, and James Rosenau. Even though they did not mean to say that all views had equal validity and significance, they approached everyone with respect and displayed willingness to pay attention to different perspectives.<sup>75</sup> Therefore, individual differences, to Laura Neack, are important in understanding how and why different political leaders make different political decisions.

Most important and relevant to this work is Laura Neack’s understanding that differences between a Western and a non-Western state, or between a superpower and less-than-great power states, the type of economic development and dependency, as well as issues of state- and nation-building, were all crucial for international relations scholars to develop more diverse theoretical and conceptual tools to study what she refers to as an “altered reality.” Neack’s *New Foreign Policy* hence is not new per se. While the first and the second generation of foreign-policy scholarship tried to reflect real-world

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<sup>73</sup> Laura Neack, *The New Foreign Policy: Power Seeking in a Globalized Era* (Lanham, MD: Rowman & Littlefield, 2008), p. 14.

<sup>74</sup> Neack describes constructivism as more of a tool than a worldview as in realism, liberalism, and Marxism. “Constructivism can help us understand how certain views of the world have become predominant. But constructivism itself does not offer us an alternative vision of the world and so I choose to include it here as a tool rather than a worldview.” *Ibid.*, p. 19.

<sup>75</sup> Richard C. Snyder, H. W. Bruck, and Burton Sapin, *Foreign Policy Decision-Making (Revisited)* (New York: Palgrave Macmillan, 2002).

politics, her work, which forms part of a third generation, tries to reflect politics in an era of globalization and a new millennium. In short, Neack argues that “some small states are more powerful than others because they have been able to carve out for themselves a special niche in the strategic conceptions, political doctrines, and domestic opinions of their chief ally.”<sup>76</sup> According to Neack, small states are “boxed in” by virtue of their relative weakness, but they are not powerless. According to Neack,

Maria Papadakis and Harvey Starr contend that small states have some power over their foreign policy choices and ultimate fates, but this power is contingent on the opportunities present in the international system and the willingness of the leaders of the small states to take advantage of those opportunities.<sup>77</sup>

In other words, as explained by realism, small states are limited; however, as explained by liberalism, they are not completely limited: they are part of an international system that presents them with a myriad of opportunities that, as constructivists would claim, can be taken advantage of or that they can benefit from as long as their leaders are willing to do so.

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<sup>76</sup> Neack, *The New Foreign Policy*, p. 165.

<sup>77</sup> *Ibid.*, p. 165.

## PART II: THE INSULATOR STATE

Chapter 3 examines Panama's unique characteristics deriving from what Barry Buzan and Ole Weaver call its status as an insulator state. It is important to look at Panama not only as a small state but also in terms of its geographical position in the Americas and, consequently, in terms of its Canal. Straddling the North and the South, Panama has never belonged fully to either region regardless of its history as Colombia's former province or its geographical proximity to Central America.<sup>78</sup> As a result, Chapter 3 looks at how Panamanians' use of diplomacy manages to appease, persuade, convince, and/or satisfy conflicting demands from the North and the South. Moreover, in keeping with the neutrality of the Canal, Panamanian authorities have had to juggle U.S. interests in the region and at the same time keep neighboring countries on Panama's side. Despite its limited capabilities, Panama has been extremely successful at maintaining regional stability. Furthermore, it is important to highlight

Panama's judicious use of the United Nations and other international organizations, in which it consistently punches above its weight. Panama is regularly represented in these forums by highly qualified people and it often has vied successfully for a Security Council seat.<sup>79</sup>

Hence it is important to look at Panama's history of leadership and its use of nationalism in order to understand its ability to break from a realist's subordinate position of that of a small state. How much can Panamanian leaders choose to soft-balance before

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<sup>78</sup> Gabino Gainza y Fernandez liberated Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica and was the first president of the Federal Republic of Central America (1823–1840). As a result, with the exception of Panama, all Central American countries share similar flag patterns. Simon Bolivar liberated Venezuela, Colombia, Ecuador, Peru, Panama, and Bolivia and was the first president of the Great Colombia formed by Colombia, Venezuela, Ecuador, and Panama.

<sup>79</sup> Ambler Moss.

the United States starts tightening its grip? At the same time, how much does Panama's alliance with the United States result in increased credibility and foreign investment? An insulator state maximizes its national security, not by remaining neutral to regional disputes, but by targeting each one of them to the best of its abilities; Panama is that insulator state. Omar Torrijos during his negotiations with Carter famously said: "ni con la izquierda, ni con la derecha, con Panama."<sup>80</sup>

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<sup>80</sup> Torrijos's play-on-words remark, "Nor with the left, nor with the right, with Panama," reinforced Panama's insulator state capacity and how it was used as a foreign policy to protect its national interests.

**CHAPTER 3:**  
**GEOGRAPHY AND PANAMA’S UNIQUENESS: A HISTORICAL AND**  
**CONTEMPORARY PERSPECTIVE**

To identify how Panama, given its limited capabilities, maneuvers within the international system, we must first expand the concept “insulator state.” Geography and history are essential components of Panama’s capacity as an insulator state; however, these are better understood by layering an interregional, a regional, and a domestic level of analysis of U.S. intervention and Panamanian leadership. Therefore, this chapter will selectively look at those moments in history in which U.S. interests considered Panama interchangeable, at times belonging to Central and at others to South America. In addition, it is vital to look at how Panamanian authorities used balancing and/or alliances in order to advance their own agenda. In other words, how many visits to Cuba are too many, how involved with the Contadora Peace Negotiations was Panama supposed to become, and how much of the U.S. war on drugs should concern the Panamanian banking sector? These are but a few of the many instances in which Panama’s leadership has been at the forefront and has formed part of the ongoing bargaining process of the small state’s quest for autonomy.

Interregional and regional dynamics aside, negotiations between Panama and the United States, even after December 1999, revolve primarily around the Canal. Panama emerges as an independent nation in 1903 with its identity shaped by the U.S. occupation and consequently by its ongoing pursuit of sovereignty. Still in effect, the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal (aka the Neutrality Treaty) leaves ample space for interpretation and allows the United States to

continue to maintain a strong voice in Panama's affairs. General Omar Torrijos-Herrera's (1968–1981) leadership, in the name of sovereignty often invoked nationalism in order to gain popularity among Panamanians and neighboring states. His son President Martin Torrijos's (2004–2009) light use of nationalism did not detract potential investors, but did quite the opposite, particularly for those involved in the widening of the Canal.

Nationalism is very much a part of Latin America's lingo, and Panamanians have chosen to use it distinctively depending on how much it can safeguard or advance their national interests. Hence to understand Panama's role as an insulator state it is central to study its geography but, more important, to understand the U.S. presence in the region and the ability of Panamanian authorities to negotiate, mediate, bandwagon, balance, and form alliances with all neighboring states.

#### **a) The Insulator State**

An insulator state is defined by Barry Buzan and Ole Waever as “a state or mini-complex standing between regional security complexes and defining a location where larger regional security dynamics stand back to back.”<sup>81</sup> Buzan and Waever see Panama's case as unusual because it is occasionally defined more precisely by its geographical position between the two regions (what they call an insulator state) than by belonging to one of the two RSCs by which it is surrounded.<sup>82</sup> Panama belongs to neither the North nor the South; thus its security interdependence is less patterned by regionally based clusters or security complexes. Not belonging to any RSC leaves Panama more dependent on U.S. interregional security dynamics with South America. In other words,

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<sup>81</sup> Buzan and Waever, *Regions and Powers*, p. 490.

<sup>82</sup> *Ibid.*, p. 331.

Panama deals with aspects of its national security via the United States even though some of its main national threats originate in the Andean region and Central America. In the end, Panama's capacity as an insulator state is a combination of three factors: its geography, the U.S. years of occupation and interest in the region, and the country's leadership.

Panama's long history of trade started in the 16th century, and the players and the motives changed over time. At first glance, the building of a canal through Panama's narrow width between the Atlantic and the Pacific seemed related to improving trade between the old and the new worlds. However, a more accurate description should refer instead to the development of the west in the United States. European geopolitics since the 16th century had been mainly concerned with an access route between the north and the south seas. American geopolitics of the 19th century instead not only needed a way to bring the west coast closer to the east coast but also better control over the rest of the Western Hemisphere. U.S. President Rutherford Hayes in 1880 said: "An interoceanic canal across the American Isthmus will essentially change the geographical relations between the Atlantic and the Pacific coasts of the United States and the rest of the world."<sup>83</sup>

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<sup>83</sup> President Hayes's message of March 8, 1880. John Bassett Moore, in *Background Documents Relating to The Panama Canal*, prepared for the U. S. Senate Committee on Foreign Relations by Congressional Research Service, Library of Congress (Washington, DC: Government Printing Office, November 1977), p. 15.

**b) U.S. Hegemony in the Western Hemisphere: Negotiating the Terms of Panama's Subordination**

Has the Pax Americana, like the Pax Britannica, ensured an international system of peace and security? Like Great Britain, the United States has created and enforced the rules of a liberal international order. However, these rules have sometimes been imposed on smaller states, bringing more conflict than peace. Hence, it is important to understand the history of U.S. hegemonic ideology in the Americas in order to differentiate cooperation from subordination and the predicament that leaders in smaller states face in linking hegemon ideals to a domestic platform. The United States faced relatively few security threats, and hence issues of national security did not receive priority, before World War II. However, feeling unthreatened by outside forces did not prevent U.S. foreign policies throughout the nation's history from being fraught with intermestic diplomacy. The Roosevelt Corollary to the Monroe Doctrine, largely forgotten for seven decades after it was first issued (1823), gave the United States *carte blanche* in policing the Western Hemisphere.<sup>84</sup> In 1903, Theodore Roosevelt's expression of authority in the region meant assuming control of customs in the Dominican Republic (and later in Nicaragua and Haiti) and, through the Platt Amendment, manipulating Cuba's domestic and foreign affairs along with the acquisition of the naval base of Guantanamo Bay. However, the ultimate example of U.S. supremacy in Latin America in that same year is marked by the role it played in gaining Panama its independence from Colombia and constructing the Panama Canal. It is no secret that assisting Panama in its independence from Colombia had the sole purpose of securing for the United States the rights to build

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<sup>84</sup> Daalder and Lindsay, *America Unbound*, pp. 1–17.

and operate an interoceanic Canal that would “facilitate its own shipping and naval movement.”<sup>85</sup> While it is true that Panama banked on its geographical position by negotiating with a stronger state capable of giving it enough sovereignty to debut in 1903 as a new addition to the international system, Panamanians *per se* had little say in the perpetual treaty that was signed, just a few weeks after its independence from Colombia, by a Frenchman acting on behalf of Panama. Furthermore, whenever the United States tried to appease the Panamanian people, it did so unilaterally and with little consultation with the Panamanian government. One perfect example was the so-called Taft Agreement, in which Secretary of War William H. Taft wrote an executive order to calm mainly Panamanian businessmen who were protesting of being discriminated against by a monopoly in commerce enjoyed only by Americans in the Canal Zone. The United States wrote the order and gave the Panamanian authorities 11 days to receive what Taft called an “expression of approval” before formally signing the order and making it effective. The Taft Agreement was intended to appease Panamanians who felt their sovereignty was being violated by U.S. maritime regulations at the ports of entries, and control over customs and tariffs in general. Panamanians were appalled by what they saw as an imposition rather than a mutual agreement.

It was not until 1934 that aspects of the Roosevelt Corollary to the Monroe Doctrine’s “big stick” diplomacy and portions of the Platt Amendment were abrogated as part of Franklin Delano Roosevelt’s “Good Neighbor Policy” toward Latin America. In fact, the first time that the 1903 Hay-Bunau-Varilla Treaty was rewritten as in 1936, with what was called the Treaty of Friendship and Cooperation Between Panama and the

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<sup>85</sup> Buzan and Waeber, *Regions and Powers*, p. 264.

United States (Hull-Alfaro Treaty), or the Arias-Roosevelt Treaty, signed in 1936 and ratified by the United States in 1939.<sup>86</sup> This new treaty ended U.S. rights to intervene in Panama's domestic affairs, and it also restricted U.S. use of land and water, which, considered essential to the Canal, were taken as needed. The treaty also gave the United States rights to construct a third set of locks without the need of another treaty, as part of the Americans' obligation to maintain the Canal; construction of the third set of locks began in 1940 but was abandoned because of World War II. In the 1930s, the United States experienced what is referred to as the Great Depression. Economic hardship hurt developed countries the most, in particular the United States, resulting in low self-esteem and weaker military and economic power, which contributed to the U.S. hegemonic retreat from the international arena. Ironically, World War II ended the Depression and greatly increased U.S. influence in Latin America. "As the war broke out in Europe, the U.S. government stepped up its recruiting of military and political allies in Latin America" (Getulio Vargas in Brazil, Rafael Trujillo in Dominican Republic, Fulgencio Batista in Cuba, Anastasio Somoza in Nicaragua).<sup>87</sup>

During the Cold War, Panama proved to be of great benefit to the United States. A bipolar international system threatened Latin America with communism, and U.S. military bases in the Canal Zone allowed it to strategize against the Soviet Union's position in the region. As a result, Panama enjoyed negotiating powers with the United States that gave it leverage to rewrite its 1903 Canal treaty once again before abrogating

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<sup>86</sup> Panama's president at the time of signing the treaty, in 1936, was Harmodio Arias Madrid (1932–1936) and not Ricardo J. Alfaro (1931–1932), president during the times of initial negotiations but minister at the time of signing. In Panama, after Hay-Bunau-Varilla, all treaties had to carry the names of presidents or heads of state at the time of signing, with the exception of agreements leading to negotiations of treaties, in which case the names of plenipotentiary ministers could be used.

<sup>87</sup> Thomas E. Skidmore and Peter H. Smith, *Modern Latin America*, 5th ed. (New York: Oxford University Press, 2001), p. 368.

it for good. The second revision of the Hay-Bunau-Varilla Treaty, under the Remon-Eisenhower Treaty of 1955, introduced economic measures that allowed Panamanian businesses to benefit and ended racial discrimination against Panamanian laborers in the Canal Zone.<sup>88</sup> In the midst of the Cold War, Panama sought to increase its Westphalian sovereignty by denouncing the U.S. military's presence and complete ownership of the Canal.

In March 1973, Panama went to the United Nations Security Council (UNSC) to request a meeting in Panama with the intention of pressuring the United States to negotiate a "just and equitable treaty." The UNSC actually held its meeting in Panama, a unique event for the UN. Although the United States did not concede to the UN resolution, Panama gained momentum and international support. Omar Torrijos is reported to have said, "The U.S. vetoed the resolution, but the world would veto the U.S." Panamanian authorities' use of balancing was soft enough to create a coalition that brought international recognition to their situation without upsetting the country's continued alignment with the United States. U.S. President Jimmy Carter and Panamanian Chief of Government General Omar Torrijos Herrera signed the Panama Canal Treaty and Neutrality Treaty on September 7, 1977.

During the 1980s, the cocaine boom in Latin America forced U.S. narcopolitics to get tougher with those regimes implicated in the illicit trade of drugs.<sup>89</sup> President Ronald

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<sup>88</sup> This information was taken from a forthcoming article by historian Juan Antonio Tack, who as Minister of Foreign Affairs negotiated the 8 Tack-Kissinger Points used as the foundations for the negotiation of the new treaties of 1977.

<sup>89</sup> "The State Department historically served as the principal agency for U.S. involvement in drug control overseas. But the Justice Department and the Defense Department also had early roles that later served as the basis for growing involvement as the war on drugs gained momentum. . . . During the second half of the 1980s—as crack cocaine appeared, with devastating consequences for depressed U.S. urban areas—Reagan administration officials revived the phrase 'war on drugs.' Illicit drugs were presented as the new primary threat to U.S. national security." Adam Isacson, "The U.S. Military in the War on Drugs," in *Drugs and*

Reagan renewed President Richard's Nixon's war on drugs by doubling funding and concentrating on Latin America rather than Asia. The Reagan administration focused on three governments in particular: those of Bolivia's Luis Garcia Meza (1980–1981), Paraguay's Alfredo Stroessner (1954–1989), and Panama's Manuel Antonio Noriega (1983–1989). President Reagan wanted to stop Latin American caudillos from getting away with drug trafficking even if it meant disrupting a friendship honored by previous administrations pursuing hidden agendas. Noriega's illicit negotiations went unquestioned by the Drug Enforcement Administration (DEA) in exchange for his assistance with drugs busts, which incidentally granted him a monopoly in drugs and arms trafficking by eliminating his biggest competitors.<sup>90</sup> Because Noriega was also a big help to the United States in its illegal financing of the Contras in Nicaragua, he believed he was immune to Reagan's crusade against drug lords. The following years were permeated by heated confrontations between the United States and Central America's communist regimes threatening the region. Dictator Noriega played an important role in this part of history; however, his toying with the United States and his involvement in drug trafficking stopped with the end of the Cold War.

In short, during the Iran-Contra Affair, Panama, acting as a go-between, became an important U.S. ally, thereby forming a critical part of Central rather than South America.<sup>91</sup> Panama became involved with regional security in Central America when it hosted the Contadora Peace Negotiations held on the archipelago of Las Perlas. Military

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*Democracy in Latin America: The Impact of U.S. Policy*, edited by Coletta A. Youngers and Eileen Rosin (Boulder, CO: Lynne Rienner, 2005), pp.18, 22.

<sup>90</sup> Noriega's "antinarcotics unit was an integral part of an operation described [by the DEA] as 'nothing less than the largest and most successful undercover investigation in federal drug law enforcement history.'" Dinges, *Our Man in Panama*, pp. 256–57.

<sup>91</sup> John Dinges calls Panama "the Casablanca of Central America" (p. 100) in *Our Man in Panama*: .

conflicts in Nicaragua, Guatemala, and El Salvador that threatened to destabilize the region led the governments of Venezuela, Colombia, Mexico, and Panama to form the Contadora Group, which met on the island of Contadora, Panama, in 1983. The United States boycotted the negotiations because they did not approve of unilateral U.S. military intervention in the area. Panama's insulator capacity was put to the test by, on the one hand, U.S. training of the Contras in neighboring countries, which was supported from the U.S. bases in Panama (banned already by the Torrijos-Carter Treaties and the Boland Amendment), and, on the other hand, its hosting of the peace negotiations of the Contadora Group.<sup>92</sup> Noriega was assisting the U.S. military training of the Contras in the Canal Zone, while Panama's President Ricardo de la Espriella (1982–1984) was behind the Contadora Group effort for peace.

At the end of the Cold War, problems related to drug trafficking became the quid pro quo of the U.S. presence in the region and forced Panama to join and develop into a division of South as opposed to Central America. In fact, Panama is not a member of the Central America Free Trade Agreement (CAFTA).<sup>93</sup> Most recently, a prime example supporting Buzan and Waever's labeling of Panama as an insulator state wedged between two regions was its appointment to the UNSC in order to break a deadlock between the North and South and their respective first choices of Guatemala and Venezuela. Following 48 rounds of voting, both nations decided to withdraw their candidacy and resolve the matter by nominating Panama instead.<sup>94</sup>

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<sup>92</sup> Although the Panama Canal Zone expired in October 1979 in accordance with the Panama Canal Treaty, U.S. military bases remained until the very end in 1999.

<sup>93</sup> In 2004, the Dominican Republic joined CAFTA, and the treaty was renamed DR-CAFTA.

<sup>94</sup> Panama received 164 ballots of the 190 total cast, far more than the 120 ballots needed to achieve a two-thirds majority.

In choosing between hegemonic, regional, and domestic demands, Panamanian leaders have not always realized the Panamanian people's best interests. However, for the most part, they have been successful in using Panama's insulator-state capacity to balance all forces at play, maintaining neutrality while defending and enhancing Panama's national security. Since the elimination of the military forces in 1990, Panamanian leaders have been crafting a security agenda that focuses mainly on neoliberal measures that have provided Panama with a strong economy. However, scholars, politicians, and Panamanian authorities fear these measures are too limiting. To an extent, they believe that economic solutions as such may even be conducive to furthering problems such as street violence due to unequal income distribution, increased drug use, environmental degradation, and lack of border/port-of-entry control, among other things. Stanley Muschett believes that when it comes to national security, externally speaking, Panama has maintained a low profile to avoid antagonism and provocation and instead has promoted itself as an investment haven and tourist destination offering economic security. Panamanian leaders have avoided being part of the so called nonaligned states as an international policy. Instead, they prefer Panama to play a neutral role that allows it to act as a buffer of situations seeking controversies among countries in the region. Internally speaking, however, he sees the lack of socioeconomic development and the disintegration of the middle class and well-being as one of the most important threats to Panama's security.<sup>95</sup> In fact, the 2009 elections reflected these pressing matters: the candidates offered platforms promoting actions that complemented

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<sup>95</sup> From a December 6, 2007, author interview with Dr. Stanley Muschett, businessman, Manager of Executive Administration of the Panama Canal Authority in 2006, Director of Panama's Justice and Peace Commission in 2002, and Rector of Universidad de Santa Maria la Antigua in 1993.

neoliberal policies in guarding against what many considered side effects of the global economy.<sup>96</sup>

### c) Leadership in the 21st Century

Even though the U.S. military intervention in Panama against Noriega was done in response to what the United States saw as a violation of the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, the invasion of Panama in December 1989 signaled the priority of the antidrug issue for the United States.<sup>97</sup> One could view the U.S. attack on Panamanian territory as symptomatic of U.S. unilateral foreign policies. However, with the Canal handed over to Panama at midday on December 31, 1999, along with the closure of bases and transfer of most assets to Puerto Rico, Panama became symbolic of a change in regional security patterns to come. Nonetheless, post–Cold War neoliberal policies that avoid military intervention soon took a turn. As expressed by the journalist George Will, September 11, 2001, marked “the end of a holiday from history.”<sup>98</sup>

Like the political scientist Graham T. Allison Jr.’s comparison of the end of the Cold War to a “tectonic shift” in the structure of international relations, 9/11 represents a

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<sup>96</sup> “Trade and development are not synonymous.” Joy Olson and Vicki Gass, “Trade is Not a Development Strategy,” written for a series of opinion pieces by leading commentators on the region, *Perspective on the Americas*, Center for Hemispheric Policy, University of Miami, July 12, 2007. Joy Olson is an Executive Director and Vicki Gass a Senior Associate for Rights and Development for the Washington Office on Latin America (WOLA).

<sup>97</sup> Buzan and Waeber, *Regions and Powers*, p. 290.

<sup>98</sup> George Will alludes to Francis Fukuyama’s famous article “The End of History?,” written for the *National Interest Journal* in 1989, which celebrated the triumph of liberalism and peace in the international system. Quoted in Daalder and Lindsay, *America Unbound*, p. 81. Francis Fukuyama no longer adheres to the neoconservative movement he once promoted. Paul Berman, “Neo No More,” review of *America at the Crossroads: Democracy, Power and the Neoconservative Legacy*, by Francis Fukuyama, *New York Times*, March 26, 2006.

traumatic event that altered the environment and required adjustment.<sup>99</sup> The Panamanian government has been late in adapting and adjusting to new circumstances that call for the securitization of Panama's *vital interests*.<sup>100</sup> Cooperation with the United States and Colombia is crucial in fighting narcoterrorism and other nonstate-actor-related threats to the state. Panamanian authorities should use to their advantage their current alignment with Washington and revisit military security talks with the United States that have been kept in abeyance.

Panama's commitment to democracy since 1990 has created an environment of trust in the international community that has in turn fostered foreign investment in its local economy. Part of Panama's success is attributed to its excellent management of the Canal. Panama is also a regional leader when it comes to having a

good relationship with the U.S. without overly compromising its interdependence of actions in the diplomatic arena. As it did pre-Noriega, Panama has a strong ability to maneuver in the diplomatic areas regionally and internationally; Panama has no enemies and knows how to avoid polarizations.<sup>101</sup>

However, some Panamanians worry that now that the Americans are gone, Colombians are retaking what once belonged to them. Six hundred of Panama's biggest corporations are in the hands of Colombians, who have invested close to 2 billion dollars in Panama's industrial, financial, and even educational sectors.<sup>102</sup> How many of these investments are legal? The U.S. efforts on the war on drugs in the region are lacking, and

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<sup>99</sup> Donald M. Snow, *National Security for a New Era: Globalization and Geopolitics* (New York: Pearson/Longman, 2004), pp. 5–16.

<sup>100</sup> Vital interests are defined by Donald Snow as having properties and conditions in which states will not willingly compromise. "Vital interests are matters whose outcomes are too important to be submitted to any superior authority and which must be guarded to the full extent of the state's ability to do so. Some analysts would add that a vital interest is any interest that is sufficiently important that the state will use force to ensure its realization." Ibid., pp. 51–52.

<sup>101</sup> From Ambler Moss's notes regarding Panama's greatest assets.

<sup>102</sup> Remarks made by Jorge Hernan Nieto-Botero, Executive Director of the Columbia-Panama Chamber of Commerce, to journalist Doris Hubbart Castillo of *La Estrella de Panama*, May 22, 2006.

drug production has increased. Panama has seen an increase in drug and arms trafficking by Colombians who can own concessions on islands off its coast and who operate undeterred by the prospect of apprehension. In September 2007, Panamanians were surprised to learn that the island next to Contadora, Chapera, was purchased for 12 million dollars by a Colombian drug lord who managed to obtain Panamanian residency and ID cards and opened bank accounts without being noticed by authorities. Leadership in the 21st century requires a more active role in the war on drugs, arms trafficking, money laundering, and other illicit activities that are affecting the quality of the continued Panamanian economic boom.

#### **d) Nationalism: The Two Torrijos**

Nationalism serves as an essential component of state-building and the formation of a common identity and consciousness in many countries, and most certainly in Panama.<sup>103</sup> The nationalism General Omar Torrijos-Herrera instilled in Panamanians was crucial in generating the political platform he needed to negotiate with the United States. Through the creation of a new political party (the Partido Revolucionario Democrático–PRD), national music and jingles, folkloric parades and famous quotes that spoke to the people, he fomented values that Panamanians were proud to have and share.<sup>104</sup> What is more, Panama’s national identity was built not just on the use of national symbols; with tangible actions, Torrijos improved remote areas of the country. The existence of Panama’s middle class is attributed to Torrijos’s development efforts in education, health,

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<sup>103</sup> Fred Halliday, “Nationalism,” in Baylis and Smith, *Globalization of World Politics*, p. 528.

<sup>104</sup> General Torrijos-Herrera’s famous quote made him extremely popular: “Lo que quiero para mis hijos lo quiero para mi pueblo; No quiero entrar en la historia sino en la Zona del Canal; De pie o muertos pero nunca de rodilla.” [“What I want for my children, I want for my people; I do not want to enter into history I want to enter into the Canal Zone; On our feet or dead but never on our knees.”]

public housing, infrastructure, and sports. The conscription of Panamanians into the National Guard produced a sense of national identity and purpose. Torrijos used the National Guard to reach and recruit peasants to form part of the PRD and to foment civic participation and national unity. The esprit de corps that existed in the National Guard prior to Torrijos helped bring loyalty to his cause and improve their morale.<sup>105</sup> As a result, Panamanians acquired a new sense of pride and even ownership over what they started to see as their Canal.

Noriega, as a leader, failed to maintain unity among Torrijos's middle class and did not retire in 1984 after the May presidential elections as he had agreed. Many believed Omar Torrijos, had he lived, would have brought full democracy to Panama.<sup>106</sup> Although it was the United States that ultimately ended the dictatorship, the middle class had organized under "La Cruzada Civilista" (Civic Crusade), armed with pots, pans, and white handkerchiefs and, taking to the streets, chanted and stripped Noriega of his rank as a caudillo. Noriega denounced "La Cruzada Civilista" as representing the interests of the elite, which to an extent was true; however, he underestimated their power in uniting the nation. Democracy now had an ally: the middle class.

Since 1990 Panama has had a healthy democracy and has implemented neoliberal policies that securitize the economy by promoting trade, jobs, and foreign investment. Military-political security had been abused, and all Panamanian leaders, including those belonging to the PRD, agreed that economic security needed to be at the forefront of

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<sup>105</sup> The National Guard's esprit de corps was lost and not an aspect of the Defense Forces (Fuerzas de Defensas Panamenas), says Federico Boyd, ex-council of Panama to Washington, DC, during the Perez-Balladares administration and Lieutenant-Colonel in the National Guard prior to Torrijos's coup d'etat in 1968. The change in the National Guard to Defense Forces was encouraged by the Pentagon, which counted on Noriega to "set in motion an elaborate plan to restructure the National Guard into a more professional fighting force, renaming it the Panama Defense Forces." Dinges, *Our Man in Panama*, p. 161.

<sup>106</sup> Omar Torrijos was killed in an airplane crash in Panama on July 31, 1981.

Panama's national security. A more global approach to security has been the norm among Panamanian authorities. Although this study focuses primarily on the state as the main "referent object" in need of securitization, it is important to acknowledge that the concept of security can encompass other sectors, and is not always just of the state. Since 1990, all Panamanian presidents have been concerned with the security of the liberal international economy, which can be looked at as the referent object as proposed by *securitizing actors* who feel it has a right to survive.<sup>107</sup> In other words, instead of asking what constitutes a threat, it is better to focus on when and under what conditions a securitizing actor securitizes what.<sup>108</sup> "Policy officials may be compelled to choose between domestic rewards at international cost or international rewards at domestic cost."<sup>109</sup> Panamanian politicians have chosen the latter for the past 17 years. Free trade, democratic institutions, cooperation, and interdependence have been at the center of the United States–Panama relationship. Now more than ever, the United States continues to be one of the main securitizing actors in the international system. U.S. perception of the security of Latin America relies on the survival of an open economy. Equally, Panamanian authorities' perception of state security concentrates on economic liberalization.

Panama, thus far, has joined forces with the United States to guard a global economy and to protect it from those leaders who prefer not to defer to hegemonic stability. Globalization is associated with Americanization, and many Latin American

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<sup>107</sup> "Securitizing actors are those who make claims about what needs to be secured." Buzan and Waever, *Regions and Powers*, p. 71.

<sup>108</sup> *Ibid.*

<sup>109</sup> David Skidmore and Valerie M. Hudson, "Establishing the Limits of State Autonomy: Contending Approaches to the Study of State-Society Relations and Foreign Policy-Making," in *The Limits of State Autonomy: Societal Groups and Foreign Policy Formulation*, edited by David Skidmore and Valerie M. Hudson (Boulder, CO: Westview Press: 1993), p. 2.

leaders label it as such in order to use it as a political platform against U.S. open-oriented integration policies. Economic nationalism is being fueled not only by hegemonic unilateral foreign policies that incidentally disregard institutions, but also by neoliberal policies that are associated with *asymmetric globalization*.<sup>110</sup> Neoliberal policies are also said to reduce the welfare state and social rights, which are especially needed during times of market transitions forced by the opening-up of economies.<sup>111</sup> Latin America, caught up in the midst of economic and democratic recovery, has failed to implement reforms that can maximize state security in sectors other than those pertaining to the global economy.

Panama's capacity to act as an insulator state has never been better. Panama is a haven for Venezuelans, Colombians, and Americans, among others who look for a stable country to invest in and migrate to:

So you have to look at the confluence of factors, which are very casual, very casuistic, one by one weight them against our interests. For example, we do not have to be enemies of Chavez, nor do we have to be allies of Chavez. If Chavez has interests in Panama, well, as long as there is no conflict with our national interests, no problem. . . . we do not deport Cubans out of the country because they are enemies of the United States. So that is the Panamanian policy that has allowed us to be, in a sense, waterproofed.<sup>112</sup>

Martin Torrijos maintained friendship with Cuba without upsetting the United States, just as he was astute in keeping close to both Uribe and Chavez. Panama passed a law requiring the mandatory teaching of Mandarin in all public high schools in order to

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<sup>110</sup> “Asymmetric globalization describes the way in which contemporary globalization is unequally experienced across the world and among different social groups in such a way that it produces a distinctive geography of inclusion in, and exclusion from, the global system.” Baylis and Smith, *The Globalization of World Politics*, p. 769.

<sup>111</sup> Guillermo O'Donnell, *Counterpoints: Selected Essays on Authoritarianism and Democratization* (Notre Dame, IN: University of Notre Dame Press, 1999).

<sup>112</sup> From a September 19, 2007, author interview with Erenesto “Toro” Perez-Balladares, former president and then running 2009 presidential candidate.

prepare for a global economy in which English might not be the preferred business language. With the expansion of the Canal, Panama is luring foreign investment from all parts of the world, and the closing-up of its economy, or the taking of a more “Chavez” stand, is not in the foreseeable future. On the contrary, Panama is taking advantage of its insulator-state capacity to become involved without having to form part in any of the more recent leftist trends recently experienced by many Latin American countries. Security should be on Panama’s main agenda precisely because of its open economy. The following chapters look at how Panama’s authorities use its insulator-state capacity to securitize the Panama Canal, its frontier with Colombia, and the Colon Free Trade Zone from nonstate actors.

**PART III:**  
**THE 8TH WONDER OF THE WORLD: U.S. HEGEMONY AND THE**  
**PANAMANIAN CANAL**

The Panama Canal is the most important strategic asset of the Panamanian people and its government. The Canal continues to generate more jobs, contracts, and governmental revenues than any other single source in the nation. It contributes more than ten percent of the nation's GDP, and its expansion, to be completed in 2014 at a cost of US\$5.3 billion, accounts for 30% of Panama's current GDP.<sup>113</sup> The United States retains a vital interest in the Canal and for many years has been profoundly concerned about its security, as reflected in 1977 negotiations by the Torrijos and Carter administrations of the still-in-effect Neutrality Treaty.

Furthermore, according to a 2008 U.S. Department of Commerce press release,

Today, the United States is the top Canal user in the world. Roughly 15 percent of all U.S. trade, and five percent of global trade, passes through the Panama Canal. Nearly 70 percent of the cargo and more than 50 percent of the vessels that cross the Canal have a U.S. origin or destination.<sup>114</sup>

This chapter therefore examines the security issues surrounding the Canal from the perspectives of the United States and Panama and seeks to clarify the tactics used by Panamanian leaders to protect Panama's sovereignty and autonomy vis-à-vis the United States. The United States has the capability to utilize hard power in Panama; however, it has not done so since 1989, when, in reaffirming the Neutrality Treaty, Washington felt it

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<sup>113</sup> [http://encarta.msn.com/encyclopedia\\_761577478\\_4/panama.html](http://encarta.msn.com/encyclopedia_761577478_4/panama.html), January 15, 2009

<sup>114</sup> U.S. Department of Commerce, "Secretary of Commerce Carlos M. Gutierrez Remarks to the U.S.-Panama Business Council, Panama Week, Washington, DC," [press release], October 23, 2008, [http://www.commerce.gov/NewsRoom/SecretarySpeeches/PROD01\\_007424](http://www.commerce.gov/NewsRoom/SecretarySpeeches/PROD01_007424) (accessed February 12, 2009).

had to protect the Canal against Panama's own government by invading the country to remove General Manuel Antonio Noriega from power.<sup>115</sup> In place of hard power, the United States has normally opted for the use of soft power, or its capacity to persuade Panama to act in concert with perceived U.S. interests in Washington. It is impossible to disassociate Panama the country from its identity forged around the Canal. This chapter therefore blends a constructivist approach with realism in order to clarify the Canal's role in solidifying Panamanian identity. On the one hand, realism can be used to interpret the canal as a strategic asset, and on the other, constructivism can be used to explain solidarity and Panamanian national identity.

Understanding the history of U.S.-Panama relations in and around the Canal requires, in effect, analyzing the origins of Panamanian independence and nationalism. Hence, Chapter 4 starts with a brief history of U.S. involvement in the region. In 1826, the U.S. produced the first of the many letters, documents, agreements, and treaties that would transpire before it could secure complete rights to the Panama Canal, a moment in history that shows how the United States started securing its future as the dominant power of the Americas. Chapter 4 enumerates first how the United States helped Panama gain its independence from Colombia, followed by the construction of the Canal, which began in 1904 and ended in 1914; but most importantly it analyzes in detail how in acquiring complete rights for the building and the ownership of Panama's Canal, Panama gained not only its independence but also a canal-based identity defined as incomplete or compromised by a hegemon that would not leave for many years to come. While there

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<sup>115</sup> It was not just to protect the Canal but also to oust drug lord Noriega, who had been defying the former director of the CIA, and President of the United States, George H. W. Bush (January 20, 1989–January 20, 1993).

were many attempts to gain autonomy of the Canal, it was not until General Omar Torrijos entered negotiations with the United States in 1968 that ended in 1977 with the signing of the Torrijos-Carter Treaties, that Panama was assured recovery of its Canal, in 2000. After highlighting the history of these negotiations, the U.S. invasion of Panama in 1989, and the subsequent years prior to 2000, Chapter 4 then looks at Panama's present identity and at what its democratic governments have done in the past nine years to protect and improve the security of its Canal. It is important to comprehend how the Panamanian government has managed to successfully operate the Canal since taking control in January 2000. Panamanians have enjoyed a healthy democracy that in part is due to a smooth transition between governments and to a continuation of policies that reflect the common interest of guarding the Canal. More specifically, this chapter examines the governments of presidents Ernesto Perez-Balladares (1994–1999), Mireya Moscoso (1999–2004), and Martin Torrijos (2004–2009) and their capacity to equally view the Canal as Panama's most important asset. To conclude, this chapter highlights policies that have improved the operation and security of the Canal as well as Panama's new effort to "re-construct" an identity that is not defined by its Canal alone.

**CHAPTER 4:**  
**A COMPROMISED NATIONAL IDENTITY:**  
**PANAMA AND ITS HEGEMONIC CLOUT**

The forging of any nation-state revolves around three basic components: 1) a territory, 2) the creation of institutions, and 3) a sense of identity. This approach, which includes both realism and constructivism, provides the necessary bond to explain Panama as a nation-state: a) Panama's construction of its national identity in 1903 after it acquired its independence from Colombia and as forged by the building of a Canal; b) the long process of "re-constructing" Panama's national identity, which gained momentum with General Omar Torrijos-Herrera, whose quest for sovereignty was equated with Panama's ability to own its Canal and have complete autonomy over its territory; and c) Panama after the year 1999, defined not only by a Canal but also the desire to rebuild a Canal that can allow for more trade and thus comply with "post-modern states" to open up without jeopardizing its identity.<sup>116</sup> "Buzan makes a distinction between, on the one hand ideas which give states and governments their legitimacy and, on the other hand, ideas 'that identify individuals as a member of a social group,' for example a nation."<sup>117</sup> While a discussion of what constitutes a nation-state does not concern this chapter, it is important to understand when and how these two notions (nation and state) have managed to coincide throughout Panama's history and how malleable they are depending on how its leaders construct their policies and on how these are perceived by the parties involved. In

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<sup>116</sup> Buzan and Waever, *Regions and Powers*, pp. 22–24.

<sup>117</sup> Inga Brandell, *State Frontiers: Borders and Boundaries in the Middle East* (London: IB Tauris, 2006), p. 103.

short, Buzan's marrying of realism to constructivism is the perfect match to spell out how Panama securitizes its Canal in the presence of a hegemon.

### **a) The Royal Road: Origins of a Canal Dream**

Plans and dreams for the building of a Canal began in the 16th century with the fourth voyage, in 1502, of Christopher Columbus, who, by then "embittered and sickly, sailed all along Panama's northern coast, obsessively searching every tiny cove for a hidden strait. In fact, in 1507, the first map ever printed of the New World optimistically showed an open strait about where the Isthmus of Panama is located"<sup>118</sup> Vasco Núñez de Balboa, as the leader of Santa María la Antigua del Darién (one of the first European colonies of the Americas located in what is now Colombia), and following stories told by Indians of a Great Ocean across the mountains, put together an expedition that on September 29, 1513, found what he called the "South Sea."<sup>119</sup> Soon after, the Royal Road, or "Camino Real," which went from the Atlantic to the Pacific, became

the most important thoroughfare in the Spanish empire, and the Isthmus became the key to the Spanish commercial and defense system in the New World. Panama City quickly became one of the three richest centers in the Americas, outshone only by Lima and Mexico City.<sup>120</sup>

### **1) Early U.S. Involvement in the Region: Guardian of Neutrality**

For centuries to come, many desired to have access to and control of Panama's fortuitous geographical position, and many studied the possibility of building a canal.

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<sup>118</sup> Mathew Parker, *Panama Fever: The Epic Story of One of the Greatest Human Achievements of All Time—The Building of the Panama Canal*, (New York: Doubleday, 2007), p. 3.

<sup>119</sup> *Ibid.*, p. 5.

<sup>120</sup> *Ibid.*, p. 7.

Spanish, Scots, English, French, and Americans, and those brought as slaves or hired from neighboring Caribbean countries, Africa, and even China, were among the many involved in a dream that resulted in one of the most amazing human creations of the world. Before August 14, 1914, the date the Panama Canal opened its locks to the world, there was a long journey taken not only by geographers, surveyors, explorers, and engineers but also by lawyers, politicians, merchants, investors, and speculators who wanted a piece of Panama. In trying to maintain the neutrality of a Canal yet to be built, Spain, France, England, and the United States, among others, executed a series of treaties and agreements that would assure everyone equal access. The United States, however, felt a special connection with Latin America; due not only to its geographical proximity but also to its equal desire to break away from Europe. The United States' "fatherly like" policy of the Americas was established in December 2, 1823, when President James Monroe (1817–1825) delivered to Congress his famous doctrine outlining that the "American continent was henceforth not to be considered a subject for future colonization by any European Power."<sup>121</sup>

Beginning in the 1820s, U.S. interest in building a Canal through the Panamanian isthmus produced treaties, agreements, and protocols with language that emphasized neutrality and sovereignty. The first recorded document of a U.S.–Panama Canal negotiation dates back to May 8, 1826, in which U.S. Secretary of State Henry Clay (1825–1829) declared to U.S. representatives to the Panama Congress that

if the work should ever be executed so as to admit of the passage of sea vessels from ocean to ocean, the benefits of it ought not to be exclusively appropriated to

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<sup>121</sup> Ibid., p. 13.

any one nation, but should be extended to all parts of the globe upon the payment of a just compensation or reasonable tolls.<sup>122</sup>

The Congress of Panama (also known as the Amphictyonic Congress) took place in Panama City from June 22 to July 15, 1826, and was attended by representatives of Mexico, the Central Republic (Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica), Gran Colombia (Colombia, Panama, Venezuela, and Ecuador), and Peru; the one U.S. representative who survived the trip (John Sergeant) set out to discuss the building of Panama Canal but did not arrive in time to participate. The Congress's main objective was about Simon Bolivar's (1783–1830) dream of uniting the Americas rather than the building of a Canal, and the United States' lack of interest in and endorsement of this attempt has always been open to interpretation. Even today the so-called Bolivarian Revolution of Venezuelan President Hugo Chavez Frias (1999 to present), based on anti-U.S. political propaganda, has nothing to do with Bolivar's initial dream as reflected in the Panamanian Amphictyonic Congress. Simon Bolivar (1783–1830) helped Venezuela (1811), Colombia (1819), Peru (1821), Ecuador (1822), Bolivia (1825), and Panama (1821) gain their independence from Spain. As a result, Panama's shared history with Bolivarian countries adds to its South American heritage and capacity for negotiation.

In 1835 and in 1839, the U.S. Congress passed resolutions requesting that the president continue negotiations on the building of a Canal and, most important, on “securing forever, by suitable treaty stipulations, the free and equal right of navigating such canal to all nations.”<sup>123</sup> Sovereignty, the United States felt, had its duties as well as

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<sup>122</sup> *Background Documents Relating to the Panama Canal*, prepared for the U.S. Senate Committee on Foreign Relations by Congressional Research Service, Library of Congress, (Washington, DC: Government Printing Office, November 1977), p. 3.

<sup>123</sup> *Ibid.*, pp. 4–5. This resolution was unanimously agreed to by the House.

its rights, and no local government was allowed to close a Canal or to claim that the trade that passed through it belonged to them, thereby preventing world trade. Consequently, the Canal, according to the United States, must benefit all equally. The United States became the Canal's neutrality-keeper first through the General Treaty of Peace, Amity, Navigation, and Commerce between the United States and the Republic of New Granada, also known as the Mallarino-Bidlack Treaty, which gave the United States the right to guard the Isthmus's neutrality as well as free-trade benefits.<sup>124</sup> With this treaty the United States gained benefits similar to those the citizens of New Granada had in the territory denominated as the Isthmus of Panama. That is, it granted the United States

all exemptions, privileges and immunities, concerning commerce and navigation, which are now, or may hereafter be enjoyed by the Granadian citizens, their vessels and merchandize; and [stated] that this equality of favours shall be made to extend to the passengers, correspondence and merchandize of the United States in their transit across said territory, from one sea to the other.<sup>125</sup>

Furthermore, this treaty also granted to the United States the role of guardian of neutrality and sovereignty over the Panamanian Isthmus when in one of its clauses the U.S. would

guarantee positively and efficaciously to New Granada, by the present stipulation, the perfect neutrality of the before mentioned Isthmus, with the view that the free transit from one to the other sea, may not be interrupted or embarrassed in any future time while this Treaty exists. . . . and in consequence, [ . . . ] also guarantee, in the same manner, the rights of sovereignty and property which New Granada has and possesses over the said territory.<sup>126</sup>

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<sup>124</sup> “Gran Colombia consisted of modern-day Panama, Colombia, Venezuela, and Ecuador. This federation dissolved in 1830, with the latter two becoming independent and the remainder renamed the Republic of New Granada, which became Colombia in 1863.” Parker, *Panama Fever*, p. 11.

<sup>125</sup> Article 35 of a General Treaty of Peace, Amity, Navigation and Commerce between the United States of America and the Republic of New Granada (Colombia), December 12, 1846. *Background Documents Relating to the Panama Canal*, p. 8.

<sup>126</sup> *Ibid.*, p. 9.

## **2) The Gold Rush and the Panama Railroad Company**

Landing with both feet on the Isthmus of Panama, the United States then proceeded in 1848 to establish the Panama Railroad Company, a privilege first granted to France but rescinded after France failed to gather the needed capital. In 1855, as a result of the California Gold Rush (1848–1855), the first transcontinental railroad opened. Soon after, on January 27, 1855, the first passenger train connecting the two oceans by railroad traversed the Isthmus. Gold again was the motivating factor; but this time it originated in California. The French tried in vain to gain rights to the proposed enterprise, but in the end the Americans won and negotiated a contract with the government of New Granada. In 1858, when New Granada was dissolved, new treaties were signed between the United States and Colombia giving the former exclusive rights to the Panama Railroad Company and, at the same time, granting to the International Interoceanic Canal Association of France exclusive privileges of constructing and operating a canal for a total of 99 years.

There was much friction between the Americans and the Panamanians, who felt left out by the U.S.-owned Panamanian Railroad Company. In April 16, 1856, an American refusing to pay for a piece of watermelon was the initial cause for what is known as the Watermelon War, in which 15 Americans died. As a result, on September 19, 1856, 160 U.S. soldiers took possession of the railway station for three days. In 1867, the United States of Colombia and the Panama Railroad Company signed a 99-year contract. The Panama Railroad Company had the right to “regulate and direct the use of the ports, embarking and disembarking places, wharves, anchorage grounds, etc., at the termini of the railroad, and to establish agents with power to carry into effect the

regulations.”<sup>127</sup> On March 8, 1880, the U.S. effort to acquire exclusive control of the French Isthmian Canal continued when President Hayes stated to Congress, “The policy of this country is a canal under American control. The United States cannot consent to the surrender of this control to any European power, or to any combination of European powers.”<sup>128</sup> The United States set the tone, and through diplomacy and sometimes plain military power, it dealt with La Gran Colombia, the Republic of New Granada, and Colombia before helping Panama gain its independence and perennial rights to the Panama Canal.

### 3) Treaties: Constructing Panama’s Identity

By the 1850s, U.S. politics in the region involved having treaties and conventions with Nicaragua on one side and with New Granada on the other. As a result, the United States and Great Britain signed a convention agreeing

that neither the one nor the other will ever obtain or maintain for itself any exclusive control over the said Ship Canal; agreeing, that neither will ever erect or maintain any fortifications commanding the same, or in the vicinity thereof, or occupy, or fortify, or colonize, or assume, or exercise any dominion over Nicaragua, Costa Rica, the Mosquito Coast, or any part of Central America.<sup>129</sup>

In other words, in guarding the Canal’s neutrality, the United States set the stage for a Panama that belonged to neither of the two neighboring RSCs.

The treaties that took place before the United States was granted the rights to build a canal after helping Panama gain its independence from Colombia (Hay-Bunau-Varilla Treaty in 1903–1904), were many and took place between the United States and many

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<sup>127</sup> *Background Documents Relating to the Panama Canal*, p. 35.

<sup>128</sup> *Ibid.*

<sup>129</sup> Convention Between the United States of America and Her Britannic Majesty, signed April 19, 1850.

different parties: with New Granada (Mallarino-Bidlack Treaty in 1846), with Great Britain (Clayton-Bulwer Treaty in 1850), with Nicaragua (Frelinghuysen-Zavala Treaty in 1884), with Great Britain (Hay-Pauncefote Treaty in 1901), with Costa Rica (protocol of an agreement with regard to an interoceanic canal by way of Lake Nicaragua in 1900), and with Colombia (Hay-Concha Protocol in 1902 and the Hay-Herran Treaty in 1903), among others. All countries and parties involved wanted exclusive control, or wished to at least prevent others from having privileges and/or special ownership rights; hence, in the name of commerce, there was always a strong emphasis on safeguarding sovereignty and maintaining neutrality.

In the end the significance of all these historical events is that the Isthmus of Panama, whether under the jurisdiction of la Gran Colombia (1819–1831), New Granada (1831–1858), the Granadine Confederation (1858–1863), the United States of Colombia (1863–1886) or, later, the Republic of Colombia (1886 to present), became a territory that had a hegemon guarding its sovereignty and its neutrality, preventing Panama from forming strong alliances with any other country. Panama's insulator-state capacity as well as its Canal-forged identity were born of hegemonic influence in the region and Panama's desire to guard its economy from the possible interruption in commerce other countries might have inflicted on the United States had they been the ones building and operating the Canal. The United States puts Panama on the map, and the two countries have, in guarding the neutrality of the Canal—and with the occasional fight, of course—enjoyed a long-term relationship. The U.S. role of peacekeeper, however, was not always well-implemented, nor were its intentions well understood and assimilated by the region.

### b) 1903–1914: Speak Softly and Carry a Big Stick

In opposing European action in the Western Hemisphere, Roosevelt revisited the Monroe Doctrine and his “Big Stick” policy, or what is known as the Roosevelt Corollary to the Monroe Doctrine, which emerged as soon as he took office. “Not only was the United States committed to excluding European powers from the hemisphere, but it was also taking on the role of the ‘international police power’ intervening in cases of ‘chronic wrongdoing’ or ‘incompetence.’”<sup>130</sup> The United States threw its weight around the region, and in February 1903 a naval base was established at Guantanamo Bay in Cuba to guard the Windward Passage.<sup>131</sup> Colombia disliked the United States’ new position and saw Roosevelt’s Big Stick policy as a threat. The Bogota paper *El Porvenir* noted:

It is the conviction of his irresistible superiority and vigor that makes the Yankee, from Roosevelt to the rag-picker, treat the turbulent republics of Latin America with haughtiness and contempt . . . as though the great nation had received from some universal power the mission to put in order those who live in disorder.<sup>132</sup>

Roosevelt’s Big Stick diplomacy did not agree with Colombia. The Hay-Herran Treaty, which would have given the United States a 99-year lease on a 6-mile land strip along what would become the Panama Canal, and which had already been approved by the U.S. Senate on January 22, 1903, was not ratified by Colombia.

Roosevelt’s choices were to either convince Colombians to ratify the treaty, opt for a Canal via Nicaragua as mandated by the Spooner Act, let Congress decide, or talk softly and carry a stick.<sup>133</sup> The Spooner Act of June 28, 1902, authorized the President of the United States to acquire, at a cost not exceeding forty million dollars, all the rights

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<sup>130</sup> Parker, *Panama Fever*, pp. 222–23.

<sup>131</sup> *Ibid.*, p. 222. The Windward Passage is the strait in the Caribbean Sea between Cuba and Haiti.

<sup>132</sup> *Ibid.*, p. 223.

<sup>133</sup> *Ibid.*, pp. 226–27.

and privileges owned by the New Panama Canal Company.<sup>134</sup> “Should the President be unable to obtain a satisfactory title to the property of the New Panama Canal Company and the control of the necessary territory of the Republic of Colombia . . . . then the President should opt for the Nicaraguan route.”<sup>135</sup> Roosevelt, who was pressed for time and who wanted a solution to be found before the 1904 elections, knew that Colombia was in no position to haggle. The Colombia civil war, also known as the Thousand Days War between the conservative and the liberals, left more than 100,000 dead, many of young age and from the province of Panama. Ironically, Colombia’s civil war ended on the deck of U.S. warship *Wisconsin* on November 21, 1902.<sup>136</sup> Similarly, Panama’s independence from Colombia was settled by the U.S. gunboat *Nashville*, which anchored in the bay of Panama City, preventing Colombians from attacking and thus giving Roosevelt a new government to deal with. Geopolitical problems aside, Roosevelt had one more battle to fight.

Receiving the rights to the land where the Canal was going to be built was half the fight. Finding a cure for, or at least the source of, yellow fever as well as malaria was the other half. It took scientists more than 20 years to understand the nature and source of these diseases. Carlos Finlay and Walter Reed had already suggested that both were transmitted by mosquitoes. At the same time, some experiments with this idea were carried out in Cuba as early as 1881, and the development of the theory was to come 20 years later.<sup>137</sup> Those with a vested interest in promoting the construction of the Canal either hid or denied the existence of malaria in the Isthmus. When rumors reached

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<sup>134</sup> *Background Documents Relating to the Panama Canal*, pp. 178–79.

<sup>135</sup> *Ibid.*, p. 179.

<sup>136</sup> <http://latinamericanhistory.about.com/od/historyofsouthamerica/p/1000dayswar.htm>.

<sup>137</sup> Parker, *Panama Fever*, p. 110.

Europe, Ferdinand de Lesseps, developer of the Suez Canal and thus chosen to build the Panama Canal in the 1880s, addressing a Geographical Congress at Vienna in October of 1881, insisted that “No epidemic or maladie had manifested itself at Panama. Only a few cases of yellow fever had appeared, and these had been imported from abroad.”<sup>138</sup>

Although it was a matter of time, it was the Spanish-American War of 1898 that provided the pressure to find a cure when army medical scientist Walter Reed was sent to Cuba to help Carlos Finlay and William Crawford Gorgas clean up the city.

Coincidentally, Theodore Roosevelt, as assistant secretary to the navy, was also sent to Cuba to put into practice the Monroe Doctrine and was crucial in helping the United States gain ownership of Spain’s remaining overseas territories, Cuba, Puerto Rico, and the Philippines. Yellow fever, however, was the single greatest threat to U.S. expansion in the tropics.<sup>139</sup>

Mostly whites were affected by the diseases, and it became increasingly difficult to find engineers willing to live and consequently lose their families to yellow fever on the Isthmus of Panama. In the end, Gorgas succeeded in converting scientists and U.S. government officials to the “mosquito theory.” Fumigation in place and all receptacles carrying water—the perfect breeding habitat for mosquito (*aedes aegyptis*)—taken care of, Roosevelt won his second war, and nothing stood in his way: neither his reelection as president nor the completion of the Panama Canal.

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<sup>138</sup> Ibid., p. 111.

<sup>139</sup> Ibid., p. 287.

### c) The United States and Panama—The Perfect Marriage?

As mentioned in Chapter 3, section b), “U.S. Hegemony in the Western Hemisphere: Negotiating the Terms of Panama’s Subordination,” the Great Depression, the Good Neighbor policy, War World II, the Cold War, and later its end, were all defining moments in history that either reduced or increased U.S. influence on the rest of the world. In the case of Panama, however, it was understood that regardless of those moments in history when the United States had a frail grip on the world, Panama, a small state, could not escape from its reality: it was a subordinate state with a treaty giving complete and permanent rights to the United States over its Canal and parts of its territory. The Panamanian people, however, did not give up, and as has already been stated, there were many attempts to establish Panama’s national identity and to gain its autonomy.

In light of 2009 economic challenges, U.S. President Barack Obama’s foreign policies were different from those of the Bushes’ use of hard power. During the Great Depression, the United States was forced to retreat from the international arena:

The economic morass that confronted Franklin D. Roosevelt 76 years ago was undeniably deeper and more ominous than the trouble President Obama is facing. Yet, according to economists and historians, there are also some telling similarities and cautionary lessons to be drawn from the experiences of the Roosevelt years in the 1930s.<sup>140</sup>

The Great Depression was a time of reflection and change for the United States, a challenge undertaken by another Roosevelt with an agenda that tried to undo his great uncle Theodore Roosevelt’s Big Stick diplomacy. Franklin Delano Roosevelt (FDR), in office from 1933 to 1945, wanted the United States to be perceived by the Americas more

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<sup>140</sup> Steve Lohr, “Something to Fear, After All,” *New York Times*, January 27, 2009.

as a friend and less as a superpower conducting unpopular military interventions. The Good Neighbor policy of FDR was in essence nothing other than the use of soft power to gain regional support during times of economic hardship and later war. Panama benefited from this new policy and, as stated in Chapter 3, the first change to Panama's 1903 Hay-Bunau-Varilla Treaty took place in 1936 in which the U.S. agreed to stop intervening in Panama's domestic affairs. In reaching out, Panamanians found a platform that allowed them to gain a bit of autonomy by denouncing U.S. intervention as a violation of their sovereignty.

World War II ended the Depression, and these new dynamics greatly increased U.S. influence in Latin America. Better ties with the Americas helped the United States find support among its neighboring nations. The Cold War that followed polarized the world and allowed small states to negotiate their fate accordingly. Panama saw a new opportunity to gain greater autonomy. With more latitude for dialogue and better disposed toward the United States, Panama was able, once again in 1955, under the Remon-Eisenhower Treaty, to negotiate more rights for Panamanian laborers and to obtain access to Canal-related economic gains. During the Cold War, the United States supported and recruited Latin American military governments to side with its war against communism. Even if doing so meant financing their campaigns, the United States could not afford another Cuba in the Americas and was not about to even allow balancing small states to exist. In 1968, following the trend of military regimes in the Americas, Omar Torrijos-Herrera assumed control of Panama in a coup d'état against Arnulfo Arias, which lasted until his accidental death in 1981.<sup>141</sup> The United States did not like the fact

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<sup>141</sup> Arnulfo Arias was president of Panama on three occasions: 1940–1941, 1949–1951, and in 1968.

that Arnulfo Arias was seen as a fascist or that he had expressed sympathy with the Axis powers during World War II.

Omar Torrijos, in the midst of the Cold War, managed to push for progressive measures without identifying himself as a communist. Running a military regime nonetheless, Omar Torrijos had one goal: to end perennial U.S. rights to a Canal he saw as belonging to the Panamanians, even if this meant waging an anti-U.S. campaign. Torrijos knew how to straddle a polar political system and to take advantage of Panama's insulator-state regional capacity in order to gain support from both sides: those within the United States who shunned perceived American imperialist behavior and those within less developed countries who felt oppressed by a superpower. In doing so, Torrijos was also able to leave capitalism and communism out of the equation, a rhetorical platform commonly used by political leaders of the time. Instead, Torrijos knew Panamanians needed to redefine their national identity, which was forged on a Canal the world knew did not belong to them. As outlined in Chapter 3, Torrijos gained support within the Jimmy Carter administration and, on September 7, 1977, signed the Torrijos-Carter Treaties over the Panama Canal. Panama then entered a new era of national identity, "reconstruction." Torrijos's accidental death left his work unfinished, and new leaders were unable to follow in his footsteps. Many say Torrijos had always planned to step down as head of the government once his work was finished. His work, aside from securing control of the Canal for Panama, also included the creation of a middle class that could blur the lines between the rich and the poor. He funded schools, hospitals, housing, roads, renewable energy, and infrastructure in general. He left Panama with all the right ingredients to start a democracy, with a nation-state in tandem with an identity and a

government. However, he was ahead of his time, and it was probably too soon for it to work. In fact, the status of Torrijos's death in 1981 as accidental has been questioned, and some blame the United States, and others General Manuel Antonio Noriega, of orchestrating a plot to assassinate him.

As an important result, Panama's period of "reconstruction" suffered. It was not until the end of the Cold War and the ousting of Noriega in 1989 that democracy was fully implemented. Since 1990, Panama has had democratically elected presidents whose first job was to clear the image of corrupted drug trafficking, racketeering, and money-laundering leaders left by Noriega. Ten years before Panama could assume full control of the Canal, the governments that followed Noriega had to demonstrate to the United States, to the Panamanian people, and to the rest of the world that it was within their hands to properly run the Canal. All odds were against them, but somehow Panama more than vindicated itself. It has managed to erase its image as a dictator-infested state by running its Canal efficiently and creating a new identity of being more than just a Canal. Instituting neoliberal policies, having an open economy, embracing globalization, adhering to free-trade agreements, and belonging to international organizations such as the World Trade Organization (WTO) and other institutions are some of the measures that have allowed a small state such as Panama to gain the trust of its economic partners and a voice in the international arena.

#### **d) International Relations:**

##### **Endara, Perez-Balladares, Moscoso, and Torrijos (1990–2008)**

Between 1990 and 2008 Panama adopted multilateral instruments to guard itself against transnational threats such as terrorism and its financing, as well as organized crime. Panamanian leaders, sometimes without complete support from their constituents, have had to signed bilateral agreements with the United States in the area of national security that many have felt violated the essence of the Torrijos-Carter Treaties. Guillermo Endara (1990–1995) helped pass the Arias Calderon–Hinton Agreement, according to which the U.S. National Coast Guard is allowed to assist Panama’s Maritime National Service in its war against drugs. Perez-Balladares failed to move forward the negotiation of a Multilateral Anti-Drug Center (Centro Multilateral Antidroga) that would have promoted the American military presence after 1999. Mireya Moscoso evaded having to deal with such a sensitive issue by signing an agreement with the United States that exempts Americans from charges filed with the International Criminal Court. After 9/11, Moscoso showed the United States support by signing other security agreements such as Salas-Becker and Escalona-Bolton. The first allows the United States, jointly with Panama, to fly over Panamanian territory and to patrol Panamanian waters to prevent drug trafficking, among other illicit activities. The second agreement allows the United States to board ships traversing the Canal or those in waters under Panamanian jurisdiction. Panama under Moscoso also joined the “Coalition of the Willing,” who support the United States in its war against Iraq. Torrijos has honored intact all of the signed security agreements created by his predecessors. In fact, in 2005 the United States and Panama, under Torrijos, orchestrated PANAMAX 2005, a U.S.

event in which 15 countries participated (Argentina, Chile, Colombia, Dominican Republic, Ecuador, Honduras, Panama, Peru, and the United States—along with observers from Canada, Costa Rica, El Salvador, France, Mexico, and Uruguay) to conduct training in the detection, monitoring, and interdiction of threats to the safety of the Panama Canal. The events of 9/11 gave the United States reason to once again utilize Panama's Canal Zone as a training facility for antiterrorism tactics to protect against attacks on the Canal and the rest of the hemisphere.<sup>142</sup> However, the Panamanian opposition has expressed concern over Martin Torrijos's alignment with the United States and the liberty he has granted U.S. authorities to peruse Panama's internal affairs.

U.S. advanced technology provides Panama with some of the intelligence needed to conduct border and maritime patrol. Complete military cooperation with the United States is difficult to achieve out of fear of losing national sovereignty. South America's existing antihegemonic propaganda plays well among those missing out on the global boom brought in by foreign investors (such as farmers and local manufacturers). Panamanian diplomats also fear that allowing the United States to have domain over the security of the country can backfire by turning the Canal into a terrorist target. In short, Panamanian leaders are using, to the best of their ability, diplomacy to comply with the United States without affecting Panama's ability to negotiate with other countries that are less inclined to accommodate U.S. intermestic demands. At the same time, all four administrations since 1990 have used Panama's institutions to construct and maintain

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<sup>142</sup> The United States Southern Command (Southcom), responsible for U.S. military activities in Central America, South America, and the Caribbean (Northcom is responsible for Cuba and Puerto Rico), was located in Panama until it was relocated in 1997 to Miami, Florida. The Western Hemisphere Institute for Security and Cooperation (Torrijos's and Noriega's alma mater) had been in charge of training Latin America military personnel in Panama since 1946 when in 1984 it was relocated to Columbus, Georgia.

similar agendas that better comply with their new national identity as more than just a Canal.

### **e) A Contemporary Perspective**

Since 1990 the U.S. application of soft power in Panama has yielded positive results from the U.S. perspective. Cooperation between both nations has maintained a secure and productive Canal, and at the same time has attracted an economic boom to a nation that is viewed by many as a safe regional economic haven for investment and relocation. Even though the United States has had its hands full with Afghanistan and Iran and the fate of the FTA remains uncertain, Panamanians have been able to strengthen their country's relationship with a hegemonic power that just 20 years ago used hard power on its soil. Panama is also benefiting from Barack Obama's conciliatory multilateral soft-power approach, which is very different from the preemptive-war foreign policies attributed to the so-called Bush Doctrine.

Panama's economy, culture, and politics have been viewed as U.S.-dominated ever since the completion of the Canal in 1914. First, the country was born out of the U.S. desire to build an interoceanic canal. Second, the Canal was owned and operated solely by Americans until eight years ago. Third, Panama, a small state, had little choice but to adhere to U.S. doctrine in the region. Currently in the hands of the Panamanians, the Canal operates more efficiently than it did under U.S. control. The wait time for ships to enter the Canal is shorter, and they pass through faster than they did during the period of U.S. operation. The Canal expansion, approved in a referendum on October 22, 2006, by 76.8% of the votes, demonstrated unity among all parties (for the most part) as well as

among voting citizens. “Modernizing the Canal in order to keep up with globalization” was the phrase used by political leaders promoting a “yes” vote on the referendum. Panamanians feared that what the Americans gave away was an obsolete Canal with little value given its size and aging locks. As of this writing, Panamax ships (965 feet long and 106 feet wide) are the largest ships allowed to cross the Canal, and after the expansion is complete, in 2014, post-Panamax ships (1200 feet long and 160 feet wide) and those that surpass Panamax dimensions will be capable of making the trip. Until now, only those ships with so-called Panamax dimensions were able to fit in the Panamax locks, which are 1000 feet long and 110 feet wide. Post-Panamax dimensions for the new locks will increase the length to 1400 feet and the width to 180 feet. Already, the decision to expand the Canal has ignited the construction of more than 100 new post-Panamax-dimension cargo ships in shipyards across the world, adding to the 573 currently in use. By 2012 the cargo fleet is expected to have more than 1050 post-Panamax ships.<sup>143</sup>

Moreover, studies show that a recession in the United States or in the world economy does not necessarily affect the economic security of the Panama Canal. There is no correlation between the Canal’s productivity, measured by the weight of cargo that passes through it, and a U.S. or world economic recession resulting from episodes in history such as World War I (1914–1918), the Great Depression (1929–1934), World War II (1939–1945), the Korean War (1950–1953), the Vietnam War (1958–1975), the Closing of the Suez Canal because of the Arab-Israeli War (1967–1975), the oil crises of 1973 and 1979, the Gulf War (1990–1991), the Asian Crisis (1997–1998), or the Iraq

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<sup>143</sup> Most of the shipyards are in Asia, more specifically in South Korea, Japan, and China. “A Todo Vapor: Panama y el Canal no se Detienen” [“At Full Steam: Panama and the Canal Will Not Stop”], *El Faro: Revista Informativa de la Autoridad del Canal de Panama (ACP)* [*The Lighthouse: A Panama Canal Authority’s Informative Publication*], March 2008.

invasion in 2003. On the one hand, World War I had little impact on trade going through the Canal. World War II, on the other hand, did affect it noticeably. Similarly, while the first oil crisis, of 1973, affected the amount of cargo that went through the Canal, during the second oil crisis, of 1979, the expected decrease was offset by a new flux of oil from Alaska to the northeast U.S. coast. During the recession of 1991, the Gulf War increased the volume of cargo that passed through the Canal because of a detour that ships with original routes through the Suez Canal had to make. Moreover, the United States is not the only big player; China's increased demand for grain has helped Panama counteract the Asian Crisis and the latest U.S. recession affecting the real estate market.<sup>144</sup> In sum, the expression "when the U.S. sneezes the world gets the flu" does not entirely apply. Trade has continued to grow and, as a result, cargo measured in net tons (one net ton = 2000 lbs.) has steadily increased throughout the 94 years of the Canal's operation. It currently serves over 300 million net tons passing through on a yearly basis. "In fiscal year 2008, 14,702 vessels passed through the waterway carrying a total of 309.6 million Panama Canal/Universal Measurement System (PC/UMS) tons."<sup>145</sup>

While it is true that the Panama Canal has been able to weather world crises and that Panama has excelled at operating the Canal on its own, 86 years of the 94 years were under U.S. control. The region is more peaceful today than it was during the Cold War and during Latin America's era of dictators and militarization. Besides, some might say that eight years is not a long time and there is still much left to be seen. The United States helped pave the road for Panamanians to run the Canal by using a timetable that eased the transition, and making certain people were trained before a complete handover took

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<sup>144</sup> Ibid.

<sup>145</sup> [http://www.cargobusinessnews.com/Feb10/gateway\\_panama.html](http://www.cargobusinessnews.com/Feb10/gateway_panama.html).

place. The first step taken, allowing the Panamanian flag to fly alongside the American flag in the Canal Zone, although symbolic in nature, was significant for all Panamanians. The flying of a flag, a sore subject with the Panamanians because of the January 9, 1964, riots (mentioned in Chapter 2) during which 22 students were killed, was an issue of sovereignty. On October 1, 1979, the Canal Zone, an area of 553 square miles inside of Panama's territory, was eliminated and all Panamanians were allowed in. Again merely symbolic, this event meant the end of colonialism for many Panamanians who resented not having access to what they saw as their territory. The next step was the elimination of the American bases, which one by one were removed until 1999, when the last trace of military presence left the country for good. Most important, throughout the whole process of changing hands, Panamanians were trained and taught by Americans to operate the Canal in order to assure a seamless change once Panama was on its own at the beginning of 2000. Panamanian presidents of the new millennium have had to deal with the Canal as part of Panama's identity, as a strategic asset, and as a source of economic wealth.

#### **f) Is Panama Just a Canal?**

Despite extreme economic conditions in the United States in the last quarter of 2008 affecting the growth rate of the volume of merchandise transported through the Canal, the United States remains one of the Panama Canal's main clients, transporting high volumes of intercoastal trade. U.S.-Panama bilateral trade totaled US\$4.1 billion in 2007, up from US\$3.1 billion in 2006. The United States represents 30 percent of Panama's import market. At the same time, Panama's number-one export market is the

United States; 36 percent of its total exports are shipped there.<sup>146</sup> According to the Panama Canal Authority (PCA), the Canal's income reached a record high of 2 billion U.S. dollars in the 2008 fiscal year ending on September 30. This figure represents a growth of 14 percent from 1.76 billion U.S. dollars in fiscal year 2007. The PCA has reported that the Canal has performed well despite the world financial crisis. Passenger-vessel transit also increased from 205 to 241, up 17.6 percent, according to Vice President of Canal Operation Manuel Benites.<sup>147</sup> In other words, Panama appears to be able to weather the storm.<sup>148</sup> In fact, in the last three years, Panama seems to have broken away from following U.S. economic behavior by increasing its global trade, building its economic ties with Latin American countries (mainly Colombia and Venezuela), giving fiscal incentives to its construction sector, and redeveloping its international banking sector.<sup>149</sup> Panama's GDP (real growth rate) grew by 11.2 percent last year, making it one of the world's fastest-growing economies. Panama's dollarized economy rests primarily on a well-developed services sector that accounts for two-thirds of GDP. Services include operating the Panama Canal, banking, the Colon Free Trade Zone, insurance, container ports, flagship registry, and tourism. Moreover, economic growth will be bolstered by the Panama Canal expansion project that began in 2007 and that should be completed by 2014 at a cost of \$5.3 billion (about 30% of current GDP).<sup>150</sup>

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<sup>146</sup> U.S. Department of Commerce, "Secretary of Commerce Carlos M. Gutierrez's Remarks to the U.S.-Panama Business Council, Panama Week," Washington, DC, October 23, 2008, [http://www.commerce.gov/NewsRoom/SecretarySpeeches/PROD01\\_007424](http://www.commerce.gov/NewsRoom/SecretarySpeeches/PROD01_007424).

<sup>147</sup> "Panama Canal Revenue Hits Record High in Fiscal Year 2008," *Crienglish.com*, August 25, 2008, <http://english.cri.cn/3130/2008/10/25/1601s417922.htm>.

<sup>148</sup> China was the Canal's second-most important client in 2007. "As Panama Records Spectacular Growth in Q3, Is It Recession Proof?" *Global Insight*, report printed on 17 December 200; retrieved from <http://www.globalinsight.com>.

<sup>149</sup> *Ibid.*

<sup>150</sup> *CIA—The World FactBook on Panama*, <https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html#Econ>, updated December 18, 2008.

The recession and the housing bust in the United States coincided with the approved megaproject expansion of the Panama Canal, which is bound to generate thousands of jobs and offset the global financial crisis. As a result of a superheated real estate market, a growing banking sector, and windfalls from the Panama Canal, in the past five years Panama has rapidly become a regional economic powerhouse. According to a *Statesman* article reposted on the *Panama Today* website, “The unemployment rate in Panama fell from 14 percent in 2004 to 6.5 percent last year.” According to the article, the Minister of Economy, Hector Alexander, believes the global crisis arrived at a moment when Panamanians find themselves “stronger than ever.”<sup>151</sup> Dr. Juan de Dianous, former general manager of Banco Nacional de Panama, in talking about Panama’s real estate boom, believes that “Panama has become a very interesting country to the world, particularly to the baby boomers in the U.S. who are presently retiring and people who are fleeing from Colombia and Venezuela because they see Panama as a safe country.”<sup>152</sup>

The *Panama Today* article continues:

But the nation hasn’t been immune to the global recession. Its real estate market might be heading for a sharp downturn.

Matt Landau, a New Jersey native and Panama City investment consultant, said real estate sales have declined precipitously in recent months, especially among the U.S. and European buyers who largely fueled the boom.

“When I first got here (about four years ago), people were buying (properties) for \$200,000 and then flipping them for double or more in six to 12 months,” he said. “That was happening even up to a year and a half ago.”

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<sup>151</sup> Jeremy Schwartz, “Panama Hopes to Beat the Global Financial Crisis: Central American Nation Expects Economic Growth and Budget Surplus in 2009,” Reposted at *Panama Today*, March 15, 2009, <http://panamatodayblog.com/?p=719> (accessed April 6, 2010).

<sup>152</sup> From a December 6, 2007, author interview with Dr. Juan de Dianous, General Manager of Banco Nacional de Panama.

Now, Landau said, Panama City is bracing for a glut of high-priced condominiums.<sup>153</sup>

Chapter 5 looks at how much of Panama's economic boom could be nothing but a bubble fueled by increased illicit transactions by drug lords who find Panama's real estate market easy to penetrate. Kidnappings, homicides, and armed robberies have all surged in the past five years, and Panamanian authorities fear they are directly linked to Panama's so-called economic boom. An increase in bank accounts, the number of businesses opening in Colon's Free Trade Zone, and in new construction might be the result of organized crime, practitioners of which find Panama's money-laundering laws lacking or easy to violate. The first section of Chapter 5 explores the extent to which Panama's border with Colombia is vulnerable and, most importantly, that in the end most of the threats that are still Colombian-derived bypass the Darien region and go straight to Panama's unprotected economic and legal institutions. Three consecutive Panamanian governments have shown leadership in guarding the Panama Canal by adhering to similar security measures. Realists might claim that this is Panama's only choice if the use of hard power by the United States is to be avoided. Liberals instead might give institutions such as the Panama Canal Authority more credit than for merely following orders. Finally, constructivists might instead emphasize leadership, a factor found in all three governments, which—under hegemonic influence or not—understood what needed to be done to increase and enhance Panama's national security. Hence, Chapter 5 examines how well Panamanian leaders are able to securitize, after the Canal, two of the most

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<sup>153</sup> Schwartz, "Panama Hopes to Beat the Global Financial Crisis."

important areas that, if ignored, might represent the greatest threat to the Panamanian society and economy.

**PART IV:**  
**FAILED CASES OF SECURITIZATION**

Invoking realism, liberalism, and constructivism, Chapter 2 established that the Panama Canal is a high-priority state security issue characterized by high degrees of continuity from one government to another. All four democratically elected governments since the ouster of dictator Manuel Noriega in 1989 have designed and implemented policies that 1) guaranteed a smooth transition of Canal operations from 2000 onward, 2) exhibited professional administration; 3) produced steady improvement in Canal efficiency by reducing average canal water time, and 4) pursued the modernization of a progressively more obsolete Canal infrastructure. All four administrations understood the need to cooperate and viewed the Canal as belonging to the Panamanian nation regardless of their political ideologies. In short, the transition between successive governments has continuously maintained the “securitization” of the Canal as a state policy.

In contrast, Chapter 5 looks at two issue areas where no real policy consensus has emerged. The first of these involves the Panamanian border with Colombia. The second involves the economic dimension of Panamanian security, specifically the Colon Free Trade Zone (CFTZ), and the financial institutions located in Panama City, both mainstays of Panama’s economy. The consensus found among Panamanian authorities concerning the securitization of the Panama Canal is clearly absent regarding both the Panama’s border with Colombia and the CFTZ and the banking sectors. Thus these two issue areas are examples of failed efforts at securitization by the Panamanian authorities.

Chapter 5 looks at national security through the lens of realism (i.e., Panama's physical proximity to Colombia, limitations and constraints resulting from U.S. policies in the region, states' interactions and respective geopolitical consequences) and also through those of liberalism (i.e., economic security as it relates to the lack of control within Panama's financial sector, and the apparent consensus by Panamanian authorities determined to maintain the status quo). Finally, the lens of constructivism is added to shed light on how a small state constructs strategies according to which it chooses to not securitize or to desecuritize, or to navigate, sometimes against hegemonic flow, balancing with neighboring RSCs (Central and South America) and/or instead chooses to meander through alliances or bandwagoning, as the case may be.

Threats to Panama's border with Colombia and the CFTZ for the most part arise from drug and arms trafficking, organized crime, and narcoterrorism.<sup>154</sup> In both cases Panama has been pressured by the United States to undertake more drastic measures and to develop a more cohesive security strategy. The first issue in Chapter 5 focuses on the basic loss of border control with regard to drug and arms trafficking; the illicit movement of people, or trafficking of persons; and the disruption of the lives of indigenous peoples within Panama. The state has little effective sovereignty over the territory, and the actors involved are primarily nonstate actors including guerrillas, paramilitary troops, narcoterrorists, and organized criminal groups. At the same time, this issue involves state actors external to Panama (Colombia and the U.S.) as a result largely of geopolitical interest that these countries have either in Panama's border itself or what goes on inside of Panama.

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<sup>154</sup> Narcoterrorism is a polemical term mostly used by President Uribe's administration to describe what before 9/11 were referred to as the activities of guerillas, insurgents, or drug traffickers.

With regard to borders, this is a classical realist problem of a state's control over its national territory. One might anticipate that Panamanian authorities of whatever ideological persuasion would be concerned about maintaining the integrity of Panama's border and control over its national territory. This case study demonstrates that Panamanian authorities do not have a consensus perspective that allows for an effective securitization of the Colombian-Panamanian border. Indeed, they have shied away from it, despite external pressure from both Colombia and the United States.

Beyond realism, the second issue looks at a question of Panama's economic security that is fundamentally a liberal conceptual problem. Panama serves as a free-trade zone in the Colon area and as a major banking center. External pressures, particularly from the United States but also from international bodies such as the Caribbean Financial Action Task Force (CFATF) and the General Financial Action Task Force, have pressured Panama to improve its banking regulations. Colombia has also pressured Panamanian authorities to toughen their stance on money-laundering activities that take place in the Canal Zone and on those businesses that sell chemical inputs to illegal drugs. But the Panamanians have steadfastly refused to securitize the issue. The Panamanian authorities have made some reforms but have shied away from securitizing it: first, because it is an important part of their economy; second, because they do not want to lose the business; and third, because they have no alternative to replace it with (no substantial manufacturing or agricultural sector). In other words, they have actually desecuritized it. Hence, the issue areas in this dissertation are three different approaches to Panama's security dilemma: Chapter 4 deals with a case of securitization (the Panama Canal); and

Chapter 5 deals first with a case of failed securitization (the border with Colombia) and Chapter 6 with a case of desecuritization (the CFZT and the banking sector).

The first part of Chapter 5 concentrates on Panama's border with Colombia, beginning with a brief historical introduction to the region. It then describes why Panamanian authorities have paid little attention to border controls even when pressured by the United States and Colombia. It concludes by stating that because Panamanian authorities do not regard the border with Colombia as a major threat to Panama's national security, securitization of the area is unlikely to be achieved.

The second part of Chapter 5 looks at the CFTZ, a key element of economic security in Panama. This section of Chapter 5 begins with a brief history of the origins of the CFTZ and how it functions. It then examines the security challenges for Panama that emanate from the zone. In contrast with the border with Colombia, where Panamanian authorities' interest in the region is lacking, when it comes to the CFTZ, the opposite is taking place. By agreement, political authorities choose the desecuritization of the CFTZ. The chapter concludes with a comparison of the security failures of these two areas versus that of Chapter 4, where there is consensus among Panamanian authorities. Chapter 5 shows that in dealing with the displacement of indigenous groups, money laundering, and arms and drug trafficking, Panamanian elites have failed to implement a prospective strategy with long-term solutions as well as more immediate answers to rising levels of violence and crime in both the border with Colombia and Panama City.

## CHAPTER 5: COLOMBIA'S BORDER: A HISTORY OF NEGLECT

Darien's reputation for having a "cork like" dense and impenetrable rainforest dates back to the early 16th century. Discovered in 1501, it was home to the first European colony in South America, "Santa Maria la Antigua del Darien," and from this town Vasco Nunez de Balboa made his march to the Pacific in 1513. Attacked and burned in 1524 by indigenous groups, it was abandoned; and it was not until 1698 that the Scots, in trying to improve their economic conditions, established what was called "New Caledonia" in the Darien area in hopes of establishing trade with the Far East. "Agriculture proved to be difficult and the local tribes although friendly refused to buy combs and trinkets offered by the colonists. Only 300 hundreds of the 1200 settlers survived and one ship managed to return to Scotland."<sup>155</sup> Ironically, not much has changed since that time: hot, humid, heavily forested, and sparsely populated, Darien is Panama's largest and poorest province.<sup>156</sup> It is divided into two districts (Pinogana and Chepigana) that have a total population of 40,284. The region houses three Indian reserves: Embera, Kuna de Wargandi, and Kuna Yala. To the north bordering Panama, the Darien Province, and Colombia is the Kuna Yala, formerly known as San Blas. The Kuna de Wargandi and Yala reserves have a population of 36,487 and a total of 49 communities. The Embera reserve has a population of 8,246 and is divided into two districts (Cemaco and Sambu). All three reserves' economies, affected by the spillover from Colombia's drug warfare, primarily consist of fishing, tourism, and agriculture.

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<sup>155</sup> [http://www.nms.ac.uk/our\\_collections/collection\\_highlights/the\\_darien\\_chest.aspx](http://www.nms.ac.uk/our_collections/collection_highlights/the_darien_chest.aspx).

<sup>156</sup> *Panama Poverty Assessment: Priorities and Strategies for Poverty Reduction*, A World Bank Country Report (Washington, DC: The World Bank, 2000).

### a) Post-Demilitarization

Why has the Panamanian government failed to implement a strategy with a vision as effective as the one used to securitize the Canal? First, while elites recognize that the Canal is essential for the fiscal well-being of Panama, the minor economic importance of the affected region results in different ideologies and accordingly different policies for how to proceed. Second, Panamanian elites have blamed the lack of support from the United States, whose interest in the region has shifted since 9/11 from the war on drugs to the war on terrorism. In fact, the Plan Colombia could be not just regarded as eradicating drugs in the region but also used as a tool to help the United States strengthen its military presence in what could be viewed as the hostile political environment of neighboring countries. It was precisely the fear of relinquishing sovereignty, and hence Panama's capacity as an insulator state to negotiate with the rest of the hemisphere, that prevented Panama from allowing the United States to keep its military presence in the Canal Zone even if its official mission was to help Panama protect its border with Colombia. Relations between Colombia and Venezuela have deteriorated because of U.S. intentions to increase its military presence in seven of Colombia's bases.<sup>157</sup>

Third, Panama-Colombia cooperation has been limited to a few presidential efforts that have been lost in translation. The 54-mile rainforest break of the Pan-American Highway is more the result of the impenetrable minds of politicians on both sides of the border than of the actual cost of paving the final gap. People do cross the so-called impenetrable rainforest, and trade has been taking place regardless. That is, the

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<sup>157</sup> "President Hugo Chavez said Tuesday that he was preparing to break off diplomatic relations with Colombia over its decision to grant the United States military access to seven Colombian bases. He spoke a day before a meeting in Argentina at which South American leaders will discuss the accord between Colombia and the United States." "Venezuela: Chavez Threatens to Cut Colombia Ties," *New York Times*, August 26, 2009, World Briefing/The Americas section.

primary result of the indecision about completing the road is security breaches at the border and a lack of regulatory measures to control the movement of people and goods across it. However, opening the border is a policy no Panamanian politician is able to advance among his or her constituents, who fear that the lack of security in the country would be aggravated by granting drug lords and criminals easier access to the country. After all, the area in question, also known as the Darien Gap, “is subject to the presence and activities of three Colombian rebel groups. These include the United Self-Defense Forces of Colombia (AUC), a right-wing paramilitary group formerly headed by Carlos Castaño Gil, and both left-wing National Liberation Army (ELN) and Revolutionary Armed Forces of Colombia (FARC). All three groups have committed human rights violations.”<sup>158</sup>

Last but not least, Panama’s demilitarization might have helped with the governability of the state and the improvement of its image as a political stable country, but not with its national and public security. Governments have shied away from encouraging a more centralized, cohesive, and strong police force, which, to begin with, is already composed of former military personnel, because in theory it could return the country to military rule. Instead, neoliberalists policies fomenting institutional liberalism, economic security, free trade, and foreign investment have filled the vacuum left by a more realist approach to national security. While it might be true that no state actor will invade Panama in the near or distant future, especially with a Neutrality Treaty with the United States in place, nonstate actors are difficult to fight without well-structured armed

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<sup>158</sup> [http://www.absoluteastronomy.com/topics/Darién\\_Gap](http://www.absoluteastronomy.com/topics/Darién_Gap) (accessed July 19, 2010).

forces. Subsequently, that Panamanians agreed to the demilitarization of Panama's national defense system does not mean they knew what to replace it with:

If we are going to eliminate the military forces through constitutional means we should have at least made guarantees for our border protection, but indicators show we are not doing it properly and it is not a guarantee of our borders' security and our sovereignty.<sup>159</sup>

Many believe Panama needs “an adequate border patrol and an adequate structure to defend Panama's national territories.”<sup>160</sup> The following section looks at the restructuring of Panama's national defense and its enforcing actors, by the various administrations since 1990.

### **b) 1990–2000: Four Administrations, One Strategy?**

Without the U.S. military bases and after the elimination of the military forces, Panama's second biggest challenge, after securitizing the Canal, is containing guerrilla movements and preventing the paramilitaries from bringing their drug wars into the Darien area. Indigenous groups from the community of Anachucuna in the Kuna Yala Comarca, among others, are not just being displaced but are forced to assist them in their various illicit activities, as their lives and those of their loved ones are at stake.

Guerrillas of the Revolutionary Armed Forces of Colombia (FARC) are not only in the border towns of Panama, but they also have armed camps they use as rear guard positions to escape their enemies. Guerrillas have forced the indigenous communities of the border towns to help them realize illegal activities such as drug trafficking, control routes of transportation of illicit substances, and to

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<sup>159</sup> From a December 6, 2007, author interview with Dr. Stanley Muschett, businessman, Manager of Executive Administration of the Panama Canal Authority in 2006, Director of Panama's Justice and Peace Commission in 2002, and Rector of Universidad de Santa Maria la Antigua in 1993.

<sup>160</sup> Ibid.

negotiate the acquisition of weapons and war fighting materials from Central American countries.<sup>161</sup>

The various administrations in power since Panama's democracy was restored in 1990 had little experience and almost no strategy in mind to guard the country's frontier with Colombia.

The 1990s were marked by a renewed interest in protecting Panama's vulnerable border with Colombia. Much was written by the international media about Panama's exposure to its neighboring war-ridden country and about Panama's inability to contain any spillover without the help of the United States. Many campaigned to keep the military bases after 2000 and pushed for the approval of the above-mentioned Multilateral Anti-Drug Center. Perez-Balladares, a member of Omar Torrijos's "Partido Revolucionario Democrático" (Revolutionary Democratic Party), would have gone against its party lines but failed to gain support from Panamanians who feared the center would have violated the Torrijos-Carter treaty. Symbolic in nature or not, seeing the U.S. military bases leave even at the cost of desecuritizing Panama's border with Colombia and, thus, drug trafficking, money laundering, the displacement of indigenous groups, and so forth, was imperative to the Panamanian people. A complete change of hands for the Canal in 2000 had to take place as resolved by the United States and Panama before any President could bring U.S. military forces back to Panamanian territory. The steadily increasing U.S. presence in Panamanian territory has been criticized by many who blame Panamanian leaders for giving in to U.S. demands that allow them to have too much control over and say in state matters. Critics allude to a lack of transparency when it

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<sup>161</sup> Massiel Arosemena and Georgina Damian, "Intelligence Report Indicates FARC Has Rest Camps in Panama," *Panama America*, May 9, 2009.

comes to U.S. involvement in the region and question U.S. intentions, especially when these are not in Panama's best interests. Panama's national security strategy after 1989 started from scratch, and the tools to implement it as well as the actors involved changed according to the administration and legislature in place. The following describes the progression that Panama has seen in its Public Forces and other organs in charge of defining, designing, and implementing a national security strategy.

From 1990 to 2008, all democratically elected presidents implemented, contributed to, or added to policy intended to fill the gap left by both the United States and the loss of Panama's military capabilities. Since the invasion in 1989, changes made to Panama's armed forces start with President Endara, who through the use of an executive decree, Law 20, dissolved the Defense Forces as they were known under Noriega. In 1991, Endara created the Maritime Services and the Air Services along with a National Police and a Technical National Police, all of which fell under the jurisdiction of the Ministry of Government and Justice. At the same time under the Executive Ministry he created a Service for Institutional Protection composed of the Presidential Guard. Also, mirroring U.S. national defense structure, under the Executive Ministry, a Security Council of Public and National Defense was created. Moreover, President Endara also promoted the creation of a Good Neighbor Bi-National Commission to promote collaboration with Colombia.

The next step was to change the constitution to reflect the demilitarization that had taken place. There are only two ways to do so: through a referendum, and through two separate legislature periods. In 1993 there was a referendum to try to abolish the military, but it did not pass. Later, during the Perez-Balladares administration, a second

legislature period (1994–1999), the first being during the Endara administration (1989–1994), the constitution was changed to abolish the creation of military forces. Eight years after the National Police force was formed, Perez-Balladares on June 3, 1998, through Organic Law 18 of the National Police, established its rights and duties and prohibited its director from being a member of the National Police. Moreover, incursions by guerrilla movements, paramilitary groups, and the displacement of indigenous groups forced Perez-Balladares to adopt preventive measures to guarantee safety to those living near the border.

President Mireya Moscoso increased the amount of border patrolling in the area as well as the number of check points and established the Panama Bi-national Frontier Commission (COMBIFRON) as a mechanism to coordinate and interchange information between Panama and Colombia; as a result the noticeable decrease in incidents in the Darien region was attributed to these actions taken by the previous administrations. However, incidents at the border have begun to increase in the past two years. In December 2007, Panamanian border police killed a FARC guerilla and captured another in a shootout a few miles west of the border.

The new emphasis on overland drug routes is unleashing bloody struggles for control among competing drug traffickers for the Panamanian corridors, authorities say. Homicides in the capital are up by 40% in recent years, due in part to the booming drug trade, officials say. In 2007 and '08, cocaine seizures in Panama totaled 120 tons, a big increase from previous years. In April, two suspected members of Colombia's so-called Office of Envigado cartel were abducted as they left Panama City's swank Metro Plaza shopping mall. Their decapitated bodies were found outside the city. Authorities suspect Mexican drug traffickers with the Sinaloa cartel were responsible. The drug trade has spawned a new generation of gangs in the capital that are paid "in kind" with cocaine by the FARC and other traffickers for doing their legwork. A recent census revealed the presence of 108 gangs in the country, a revelation to authorities who thought Panama was immune to a problem that has spawned crime waves in Guatemala,

El Salvador, and Honduras. Many of the gangs are thought to have links to the FARC.<sup>162</sup>

According to the United Nations Development Programme, one fourth of young people in Latin America are neither in school nor working, which could well present a security time bomb, given the recruiting age for gang members.<sup>163</sup> “In reaction, the U.S. Embassy has launched a \$4 million antigang program that is funded by the Merida Initiative, the antidrug aid package passed by Congress mainly to help Mexico fight cartels.”<sup>164</sup>

Moreover, increased levels of organized crime, drug trafficking, and money laundering have permeated down to the streets in Panama.<sup>165</sup> As a result, the most daring change, which brought fear among the people of remilitarizing and of returning to Noriega’s time, took place in 2008. The government of Martin Torrijos, on August 8, 2008, in an effort to protect the Canal from possible terrorist attacks, reformed its security forces by blending the National Maritime Services and the National Air Services into a new, coastguard-like National Aero-Naval Service (SENAN). Torrijos went on to reform the National Security Council by renaming it the National Intelligence and Security

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<sup>162</sup> Chris Kraul, “Panama Could Become Next Narco Battleground,” *Los Angeles Times*, May 24, 2009. <http://articles.latimes.com/2009/may/24/world/fg-panama-drugs24/2> (accessed July 19, 2010).

<sup>163</sup> Kevin Casas-Zamora, “Four Reflections on the Political Consequences of the Economic Crisis in Latin America,” *Perspectives on the Americas: A Series of Opinion Pieces by Leading Commentators on the Region* (Center for Hemispheric Policy, University of Miami, June 25, 2009).

<sup>164</sup> The Sinaloa Cartel is a drug trafficking criminal organization, also known as the Guzman-Loera Organization and/or the Pacific Cartel from the State of Sinaloa and other bordering areas, which traffics Colombian cocaine. Kraul, “Panama Could Become Next Narco Battleground.”

<sup>165</sup> Panama City, with a population of 813,097 recorded 248 murders in 2006, 70% of the nation’s total (354). Statistics recorded by the Technical Judicial Police (PTJ) show high levels of crime reflecting a 32% increase during the first two quarters of 2007. Retrieved from <http://www.paidigital.com.pa//archive/08132007/ciudad02.shtml>. “Crime in Panama City is increasing and the Department of State recently increased its evaluation to ‘High’ for purposes of providing increased resources to protect Embassy employees housed in Panama City. The increase in violent crime is primarily related to narco-trafficking related violence. The city of Colon is also a high crime area.” *U.S. Department of State*, <http://www.travel.state.gov> (accessed January 25, 2010).

Service (SENIS). Many feared the creation of SENIS would allow a concentration of power in the hands of an intelligence agency that could threaten the present democratic system; President Martinelli mentioned its dissolution as part of his political campaign. Martinelli claimed SENIS violated the constitutional rights of all Panamanians who did not form part of the decision-making process to establish it in the first place.<sup>166</sup>

According to a 2008 U.S. Department of State report on terrorism in Panama,

The reform made it possible for uniformed officials to lead all these services, something previously prohibited by law. Furthermore, out of the “Policia Nacional de Panama” (PNP), Martin Torrijos also created the National Frontier Services (SENAFRONT), comprised of 2000 police force in order to strengthen existing mechanisms for cooperation like the one mentioned above (Good Neighbor Bi-national Commission created by Endara and COMBIFRON by Moscoso). The creation of the SENAFRONT was publicly justified by the need to keep a police force permanently deployed at the border to protect against drug traffickers.<sup>167</sup>

And according to a 2008 U.S. Department of State report on human rights in Panama,

The country has no army, although civilians, the media, and political opponents of the government claimed that SENAFRONT would become a mini-military. The PNP and SENAFRONT are under civilian authority of the Ministry of Government and Justice. Martin also created a Vice-Ministry of Public Security in charge of the PNP, the SENAFRONT, and SENAN. There are 14,682 police officers in PNP and SENAFRONT altogether. The Government of Justice law includes specific guidelines for the use of force, including deadly force; requires that police officers respect human rights; prohibits torture, cruelty, or other inhuman or degrading behavior.<sup>168</sup>

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<sup>166</sup> “Martinelli Dice que Derrogara Decreto-Ley que Creo el SENIS” [“Martinelli Will Abolish Law Created by SENIS”], *La Prensa*, August 10, 2009, <http://mensual.prensa.com/mensual/contenido/2009/08/10/hoy/panorama/1881702.asp> (accessed August 23, 2009).

<sup>167</sup> U.S. Department of State, *Country Reports on Terrorism 2008—Panama*, February 25, 2009, <http://www.unhcr.org/refworld/docid/49fac6b528.html> (accessed June 26, 2009).

<sup>168</sup> U.S. Department of State, *2008 Human Rights Report: Panama*, February 25, 2009, <http://www.state.gov/g/drl/rls/hrrpt/2008/wha/119168.htm> (accessed June 27, 2009).

However, voters, more than being worried about the renewed violence along Panama's border with Colombia, fear the rising violence in Panama City as it was reflected during the presidential elections held in May 2009, according to pollsters. Supermarket magnate Ricardo Martinelli won the elections in part because his campaign promise to get tough on crime resonated with voters. In 2008, the national murder rate jumped 47%. "It has nearly doubled from 11 homicides per 100,000 inhabitants in 2005 to 19 in 2008. According to local opinion polls, 47% of the Panamanian population regards crime and insecurity as the country's top concern, more than twice the figure for any other issue."<sup>169</sup> In highlighting Panama's foreign policy agenda, Martinelli emphasized the neoliberal policies of previous governments. "As President I will use all my resources at hand to advance the ideals of a free economy, challenging the ideological pendulum in Latin America." Aside from measures of economic security, Martinelli talked about regional insecurity and "promised to make Panama a more secure place by enhancing the rule of law, strengthening local law and intelligence enforcement units with more resources as well as increasing cooperation initiatives with Panama's neighbors." In terms of cooperation with other countries, Martinelli, President of Colombia Alvaro Uribe, and President of Mexico Felipe Calderon announced that the three countries have agreed to a great alliance to more actively combat narco-trafficking and organized crime: "We are going to be an active partner with Mexico and Colombia in the battle against the narco-terrorists, who have invaded our country, bringing crime, mourning and desperation to our innocent population." The strategic partnership

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<sup>169</sup> Kevin Casas-Zamora, "Panama at the Polls: A Study in Political Weakness," May 4, 2009, *Brookings Institution*, [http://www.brookings.edu/opinions/2009/0428\\_panama\\_casaszamora.aspx](http://www.brookings.edu/opinions/2009/0428_panama_casaszamora.aspx) (accessed May 4, 1009).

represents a major step in Panama's efforts to play a leading role in tackling the issue of insecurity in the region.<sup>170</sup>

### **c) What's Next: US-Panamanian Security Relations Beyond the Canal**

The United States is the most important player in the area, and it has the resources to fight organized crime, narcotrafficking, cartels, cartelitos, gangs, and guerilla and paramilitary movements. At the same time, the Panamanian elite was not ready to increase the U.S. military presence by allowing them to lease some of the facilities they held in the Canal Zone prior to the complete handover of the Canal. However, if drastic actions to increase national and public security are not taken, Panama could end up with levels of violence as high as those in Mexico. How to strengthen the National Police without turning it into a military force, how to involve the United States without losing sovereignty, and how to support Colombia without losing Panama's capacity to negotiate with other neighboring countries are President Martinelli's current dilemmas. Panama is losing the war against drugs not just at the border but at home as well. Its praised economic growth and security is directly related to the CFTZ, a dollarized economy, and a booming real estate market, which in turn have improved regional integration and foreign direct investments (FDIs) from neighboring countries. However, this "economic growth" comes with too many strings attached. The following section looks at how money laundering, organized crime, violence, drug and arms trafficking, and narcoterrorism are as intrusive to Panama's sovereignty as having U.S. military bases, on

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<sup>170</sup> Quoted material from inaugural address of Ricardo Martinelli, posted by Lee on July 8, 2009, <http://www.boqueteguide.com/?p=4198> (accessed July 19, 2010).

the one side, and as detrimental to the state as having armed forces with the potential of abusing their power, on the other.

## CHAPTER 6: THE COLON FREE TRADE ZONE AND THE BANKING SECTOR

The CFTZ, which covers 450 hectares, is home to 2,500 companies that generate US\$16 billion in imports and reexports each year and employ 28,000 people. Furthermore, deposits made in the banking sector of Panama in 2009 totaled US\$578 million, and credit supplied by the banking sector to CFTZ's companies represented US\$1,024 million.<sup>171</sup> However, while many regard the CFTZ as a symbol of Panamanian prosperity and economic strength, for others it represents its biggest security problem. The majority of money-laundering activity in Panama is drug-related or the result of transshipment or smuggled, pirated, and counterfeit goods through Panama's CFTZ. At the same time, "Panama is an offshore financial center that includes offshore banks and various forms of shell companies that have been used by a wide range of criminal groups globally for money laundering."<sup>172</sup> While Panama's border with Colombia represents a classical sovereignty problem of security and territorial integrity, the CFTZ instead poses an economic security problem.<sup>173</sup> Barry Buzan and other academic security analysts clearly recognize that the military dimension of security is not the only relevant sector that can be securitized. Beyond the issues of the Panama Canal, which is central to

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<sup>171</sup> <http://www.colonfreezone.com/info/features.asp> (accessed January 25, 2010).

<sup>172</sup> <http://www.citizen.typepad.com/eyesontrade/2009/03/model-citizen-zero-discipline.html> (accessed January 25, 2010).

<sup>173</sup> Barry Buzan's use of different sectors brings a more diversified agenda in which issues of economic, societal, and environmental security play alongside military and political ones. "One way of looking at sectors is to see them as identifying specific types of interaction. In this view, the military sector is about relationships of forceful coercion; the political sector is about relationships of authority, governing status and recognition; the economic sector is about relationships of trade, production, and finance; the societal sector is about relationships of collective identity; and the environmental sector is about relationships between human activity and planetary biosphere." Buzan, Waeber, and Wilde, *Security: A New Framework for Analysis*, p. 7.

Panamanian security, and its border, which is a classic issue of sovereignty, the question of economic security in Panama is also subject to considerable political discussion and debate. The CFTZ is a particularly controversial area because it has often been used for both chemical inputs to the drug industry in various Latin American countries, including Colombia, and because it has been a key money-laundering area. The following section examines a dimension of economic security in Panama to compare and contrast with the issues of territorial integrity and military security.

#### **a) Atlantic Gateway**

The city of Colon, like that of St Louis, Missouri, served as a gateway, in this case, to the south sea or the Pacific Ocean. Portobelo, founded in 1597, was Colon's silver exporting port and was used by the Spanish treasure fleet. Its security at that time consisted of forts that could prevent pirates such as Henry Morgan in 1668 from stripping its wealth, or protect its citizens during the War of Jenkin's Ear in 1739 between Spain and England, when it was attacked and captured for three weeks and its fortifications and warehouses were destroyed. Its strategic importance and geographic capacity continue to the present. The CFTZ is the new Portobelo and, similarly, it is guarded by a wall or fort-like structure. Its security includes advanced modern surveillance technology with cameras that continually record all of its streets and alleys. However, like Portobelo, it is as vulnerable to pirates as it was in the 16th and 17th centuries.<sup>174</sup> The threats it faces are not new, but the actors involved have been able to increase their reach with the help of new and sophisticated technology.

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<sup>174</sup> <http://asisbiz.com/Panama/Portobelo-Fort/pages/Portobelo-Fort-Colon-Province-Panama-canons-Jun-2004-00.html> (accessed July 19, 2010).

The CFTZ, administered as an autonomous institution of the Panamanian government, was created in 1948 during Dr. Enrique Jimenez's administration. It is the second largest such zone in the world and the largest in the Americas. Taking advantage of its access port on the Atlantic and the Pacific, it consists mainly of reexporting goods from all over the world. It houses 1,751 merchants; receives annually more than 250,000 visitors, mainly from Colombia and Venezuela; and generates more than US\$6.5 billion in exports. It sits in the poor neighborhood of Colon, which was created to house the Panama Railroad terminal on the Atlantic side in the 1850s during the California gold rush. Little has been done to improve the city of Colon's infrastructure since the massive fire of 1915. Many still remember its golden years and long for what was considered Panama's second city. Although its 600 acres are fenced in by a wall, its local residents benefit from the CFTZ's commercial activity. "The intense commercial activity that develops in this emporium has an enormous impact in the local economy, which is reflected in the contribution to the national internal product of 7.5% reason why it is considered one of the largest pillars in the Panamanian economy."<sup>175</sup> "The products most often imported in the CFZ are electric appliances, clothing, watches, perfumes and cosmetics, textiles, gold jewelry, liquors and cigarettes. Its largest client is Venezuela, followed by Colombia, and the largest importer is Honk Kong."<sup>176</sup>

According to "Investing in Panama / Colon Free Trade Zone":

The CFZ success is due to a combination of factors such as the geographical location of Panama at the crossroads of the world, the Panama Canal, the fact that the US dollar is legal tender, a large banking center on its doorstep, a developed insurance and reinsurance industry, several state-of-the-art container ports and not very onerous business requirements. The CFZ offers free movement of goods and

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<sup>175</sup> [http://www.businesspanama.com/investing/why\\_invest/trade\\_zone.php](http://www.businesspanama.com/investing/why_invest/trade_zone.php) (accessed July 19, 2010).

<sup>176</sup> <http://www.businesspanama.com/investing/opportunities/cfz.php> (accessed September 15, 2009).

complete exemption from tax on imports and re exports. There are no taxes on the export of capital or the payment of dividends. In addition, there are reduced income tax rates on earnings from re-export sales. Furthermore, firms located in the CFZ are exempt from import duties as well as from guarantees, licensing, and other requirements and limitations on imports. Due to its geographic location, the CFZ is a major factor in channeling goods from large industrialized countries to consumer markets in Latin America.<sup>177</sup>

Its relaxed laws and poor regulations are its *raison d'être*, and are thus difficult to change. Its “gated” structure does not prevent organized crime from finding a hiding place that provides not only a gateway to the Pacific but also access to a dollarized economy with modern financial institutions from all over the world. In sum, the CFTZ is victim to transnational threats. Terrorist groups work with organized crime in conducting their illicit activities. Sometimes different actors converge to mutate into new organizations such as the FARC whose new purpose is merely criminal and drug-related. These new transnational criminal actors and threats thrive under weak states. The next section looks at how Panamanian authorities perceive and choose to securitize or desecuritize these so-called new transnational threats.

### **b) The Lesser of Two Evils**

Political leaders from different administrations agree that Panama's autonomy, to a great extent, depends on maintaining the status quo of sectors of the economy that they see as responsible not only for attracting FDIs but also for providing Panamanians with secure jobs in the banking sector, the CFTZ, and the booming real estate market. All three thriving sectors of Panama's economy have brought criminals into Panama with ease. One of the main reasons the Pan-American Highway to Colombia has never been

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<sup>177</sup> Ibid. (accessed September 14, 2009).

finished is that its incompleteness hinders the spread of crime and violence into not just the Darien area but also the rest of Panama. However, the rainforest, no matter how dense, has not been able to prevent this from occurring; taking an airplane to Panama is not just easier, but also faster and cheaper, than driving. In fact, access to new information and communication technology gives criminals ubiquity and virtual presence in the CFTZ and its banking sector. Panama has all the right ingredients to allow transnational criminals to hide and flourish.

Illicit activities along the physical border with Colombia and the amount of seized cocaine in transit to other countries form only part of Panama's current drug crisis. The other half attacks Panama's economic centers, as reflected in the number of new accounts and businesses Colombians and Venezuelans are opening in Panama City and Colon. Of the 15,000 new savings accounts opened in 2008, only half were by nationalized Panamanians. Authorities are also aware how little is known about Panama's often-praised real estate boom, which in the past five years has resulted in more construction of new buildings than Miami has seen in the past ten. How much of this economic growth can be sustained, and how much is related to money laundering, is what most Panamanians are starting to ask. Scams perpetrated by those taking advantage of relaxed laws and regulations have also increased and have stripped many of their lifelong savings. Pyramid schemes are one of the many structures used by drug lords and paramilitary groups to launder their money.<sup>178</sup> DMG Grupo Holding S.A. Director David Murcia, using a pyramid scheme acquiring over 3.5 million dollars in cash and assets,

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<sup>178</sup> Data taken from Dr. Carla Pousa's presentation at the University of Miami, during a Colombian Conference in 2008.

was arrested in November 2008 and extradited to Colombia for laundering money for drug lords.

The *Panama News* reported that

Murcia Guzman . . . is now reported in Colombia media to have been a money laundering scheme for at least 1 billion of ill-gotten funds amassed by the AUC paramilitary organization and its drug running partners in the Valle del Norte Cartel. Murcia Guzman, nabbed in Panama and quickly expelled as an undesirable alien, now lives in a Bogota prison. The scandal swirling around him has touched Colombian judges, governors, senators, deputies and mayors, for the most part President Alvaro Uribe's political faction.<sup>179</sup>

In other words, Murcia found in Panamanian and Colombian politicians a place to hide Colombian drug money.<sup>180</sup> On November 15, 2008, in Panama's design district, the lawyer for DMG, Jorge Alexis Garrido, was shot in the mouth outside his nightclub, Kaos. "What's alarming to many local businesspeople is the appearance that the shooting on Calle Uruguay represents the importation of Colombian business methods into Panama."<sup>181</sup>

### c) Throwing the Baby Out With the Bath Water

Utilizing its insulator-state position, Panama has been able to provide not only a place to hide or escape to developing countries' migrants, but also refuge to those in the developed world. Americans also seek refuge in a country they see as having a

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<sup>179</sup> Erik Jackson, "Keep Colombian Death Squat Money out of Panama's Politics," *Panama News: Panama's online English-Spanish Newspaper*, December 5, 2008, [http://www.thepanamanews.com/pn/v\\_14/issue\\_23/opinion\\_02.html](http://www.thepanamanews.com/pn/v_14/issue_23/opinion_02.html) (accessed June 30, 2009).

<sup>180</sup> "Where to Hide All this Colombian Drug Money?," *Eyes on Trade: Public Citizen's Blog on Globalization and Trade*, February 26, 2009, <http://www.typepad.com/services/trackback/6a00d83452507269e20111689805b5970c> (accessed June 30, 2009).

<sup>181</sup> "Scam Attorney Shot in Nightclub District," *Panama News: Panama's online English-Spanish Newspaper*, November 18, 2008, [http://www.thepanamanews.com/pn/v\\_14/issue\\_23/opinion\\_02.html](http://www.thepanamanews.com/pn/v_14/issue_23/opinion_02.html) (accessed June 30, 2009).

compatible format due to their many years of shared history, among other things. Having the same currency, compatriots already settled in from generations that can go as far back as Panama's conception in 1903, a mostly bilingual population, not to mention an economy that allows them to stretch their retirement funds, allowing for beach-front properties and ocean vistas, are but a few of the many reasons for north-to-south migration. In other words, criminal activities are not regionally biased; evasion of taxes is mostly attributed to those coming from the developed world—different circumstances but illegal nonetheless.

It has been difficult for the U.S. government to penalize wealthy Americans and corporations who conceal their fortunes in off-shore bank accounts in countries with privacy laws that prevent them from taking more drastic actions against them. The United States has continually forced Panama to adopt more transparent banking laws.

Panama has a reputation for being a business-oriented country; however, as a result, political leaders find themselves in a tug of war, adjusting, changing, and fiddling with laws and regulations that can lure foreign investment. The problem in creating the perfect business climate is that it also attracts companies wishing to avoid taxes and strict labor regulations, one of the main reasons why the FTA with the United States remains to be signed. Not only has Panama benefited from its Colon Free Trade Zone, but in 1992, it passed legislation that established export processing zones (EPZs) throughout the country. EPZs, like free-trade zones, according to the Business Dictionary website, are “set up generally in developing countries by their governments to promote industrial and commercial exports. In addition to providing the benefits of a FTZ these zones offer other

incentives such exemptions from certain taxes and business regulations.”<sup>182</sup> Like the CFTZ, EPZs can be used to cloak financial transparency. More specifically, EPZs’ labor and environmental laws are more favorable to foreign companies than to local Panamanian investors. Incidentally, Panamanians have been fighting new legislation—passed in June 2010, during Martinelli’s administration—that frees foreign companies from environmental restrictions provided their investment is a development project that benefits the public and is done in cooperation with the government of Panama. In short, because it is free from restrictive national labor and immigration standards and exempt from all taxation on imports, capital assets, exports, and sales; because of its existing banking secrecy laws and now exemption from environmental laws, Panama is a leading tax haven. Mary Tharin, of the Center on Hemispheric Affairs, a *Public Citizen* report released in April 2009 noted that it came as “no surprise that over 350,000 foreign-registered companies nominally operate from Panama, and \$25 billion of U.S. investment already has been sunk into the country, according to the U.S. State Department.”<sup>183</sup>

“In addition to tax incentives,” wrote Tharin,

Panamanian law also makes it easy for multinational corporations to “cook the books.” According to the Public Citizen report, Panama has one of the world’s most restrictive information exchange regimes, which allows the country to withhold information even within the framework of a criminal investigation. Moreover, extremely strict slander laws known as “Calumnia e Injuria” rules can be used to arrest journalists for reporting facts and figures, if they do not reflect well on business interests. This lack of transparency, coupled with a lenient regulatory system governing the country’s banking and financial sectors, enables

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<sup>182</sup> <http://www.businessdictionary.com/definition/export-processing-zone-EPZ.html> (accessed July 24, 2010).

<sup>183</sup> Mary Tharin, “Free Trade with Panama: Some Winners and Some Losers,” *Center on Hemispheric Affairs*, May 27, 2009. <http://www.coha.org/the-panama-free-trade-agreement-separating-fact-from-fiction-and-the-good-from-the-bad/> (accessed June 6, 2009).

corporations to “conceal their financial losses and engage in off-balance sheet activities.”<sup>184</sup>

Hence not only corporations and foreign investors bank (no pun intended) on Panama’s so-called perfect business climate; drug lords who use the CFTZ and EPZs to traffic illicit substances and related money laundering do as well.

Many measures have been established to prevent and detect money laundering and other crimes against the financial system. By decree, Perez-Balladares in 1998 created the Superintendency of Banks of Panama (SBP) with the mission to “regulate and oversee Panama’s International Banking Center and the trusts companies . . . contributing to the country’s economic development, through the compliance with international regulation and transparency standards.”<sup>185</sup> At the same time, Panama belongs to the Caribbean Financial Task Force (CFATF), in charge of providing member countries with mechanisms for prevention and apprehension of criminal money laundering. “The CFATF is an inter-governmental policy-making body whose purpose is to establish international standards, and develop and promote policies, both at national and international levels, to combat money laundering and terrorist financing.”<sup>186</sup> In 2000 Panama amended the penal code, expanding it to include money laundering and not just narcotics trafficking. In 2002 Panama established criminal penalties for financial crimes such as illicit transfers of money and insider trading. In 2003 Panama’s Banking Association, the Inter-American Development Bank, the Panamanian government, and the United States financed an education program related to the prevention of money

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<sup>184</sup> Ibid.

<sup>185</sup> [http://www.superbancos.gob.pa/aspec\\_institu/mision\\_eng.asp](http://www.superbancos.gob.pa/aspec_institu/mision_eng.asp)

<sup>186</sup> In October 2001, the FATF expanded its mandate to incorporate efforts to combat terrorist financing, in addition to money laundering. [http://www.fatf-gafi.org/pages/0,3417,en\\_32250379\\_32236846\\_1\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/pages/0,3417,en_32250379_32236846_1_1_1_1_1,00.html)

laundering and terrorism financing.<sup>187</sup> The general manager of Panama's only state-owned bank, Banco Nacional de Panama, stated that Panama

has laws that prevent money laundering. Panama's financial system is overseen by the Superintendence of Banks and there is regulation and laws and manuals which are very clear and which all banks have and must follow. There is an entire process known as 'due diligence' and 'know your customer' which is followed rigorously, particularly by this bank, since it has an important presence all over the nation.<sup>188</sup>

All in all, the U.S. government does not feel Panama is doing enough and will continue pushing for more transparency for all financial institutions before it will consider signing the still-pending free-trade agreement.

#### **d) Bilateral and Multilateral Free-Trade Agreements**

Panamanian authorities in general were in essence protectionist and viewed trade agreements with caution. On December 13, 1960, Panama refused, even though it had received a formal invitation, to join the Central American Common Market. Similarly, in 1969 Panama opted to not be part of the Andean Community nor in 1973 of the Caribbean Common Market (CARICOM). In addition, Panama's private sector was forced to stay out of possible ventures because of strict military restrictions on the administrative and operational use of the Canal. In the 1970s, however, Panamanian authorities began forming bilateral trade agreements, starting with El Salvador (1970), Honduras (1973), Nicaragua (1973), Guatemala (1974), and Costa Rica (1993). Bilateral

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<sup>187</sup> "U.S. State Department Country Report on Money Laundering and Financial Crimes for Panama," *Panama News* 11, no. 8 (April 17–May 7, 2005), [http://www.thepanamanews.com/pn/v\\_11/issue\\_08/opinion\\_08.html](http://www.thepanamanews.com/pn/v_11/issue_08/opinion_08.html) (accessed June 26, 2009).

<sup>188</sup> From a December 6, 2007, author interview with Dr. Juan de Dianous, the general manager of Banco Nacional de Panama.

and multilateral trade agreements between Panama and neighboring countries began to take form after the transfer of the Canal Zone.

Once Panama had access to the Canal Zone it had a comparative advantage over the big players already forming part of the global economy. After the signing of the Torrijos-Carter Treaties on September 7, 1977, Panama began the slow process of open-trade negotiations with the region that did not fully materialize until 2000. It was not until 1996 that Panama became a member of the World Trade Organization (WTO). The formation of Panama's free-trade advocacy began with the acquisition of the reverted areas, the Canal Zone's infrastructures, the Canal, and the privatization of its ports. Conversations with the U.S. to study the possibility of an FTA started with Mireya Moscoso in November 2003.<sup>189</sup>

Most likely, the U.S.-Panama FTA will continue suffering delays based on the lack of regulations banks enjoy, which U.S. citizens and corporations use to avoid paying taxes. Fifty-four U.S. Congressmen wrote a letter to President Obama stating that “no FTA should go into effect with Panama until that country eliminates its excessive banking secrecy practices, re-regulates its financial sector and forces banks and multinational subsidiaries to pay their fair share of taxes.”<sup>190</sup> The Democrat Representative from Maine, Mike Michaud, and his group of fellow Democrat representatives, said in their letter that “Panama is not an appropriate FTA partner, because a Government Accountability Office study identified it as one of only eight

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<sup>189</sup> Juan Antonio Tack, *El Tratado de Libre Comercio Entre Panama y los Estados Unidos de Norte America (TLC): Mitos y Realidades* [Free Trade Agreement Between Panama and the United States: Myth and Realities], Departamento de Estudios Internacionales, Instituto del Canal de Panama y Estudios Internacionales, Universidad de Panama [Department of International Studies, Panama Canal Institute and International Studies, University of Panama], August 2006.

<sup>190</sup> Marijulia Pujol Lloyd, “Still on the Blacklist: U.S. Law Makers Rally Against PANAMA's FTA,” *La Estrella de Panama*, March 4, 2009. <http://www.bilaterals.org>.

countries and the only current or prospective FTA partner that was listed on all of the major tax-haven watchdog lists.”<sup>191</sup> The FTA, without transparency that would offer a level playing field, helps big businesses especially because of the lack of controls on the banking system currently in place, which allows for money laundering and tax evasion. A far larger portion of the population could lose out under the FTA, including those who benefit from these protections, such as workers in both countries, poverty-stricken Panamanian farmers, and American taxpayers. As a battle between corporate interests and civil society ensues in the U.S. Congress, a parallel struggle to sway public opinion is taking place in the media. However, whichever way the decision falls, a lasting solution to global economic ills is unlikely without a fundamental shift in the way the United States conducts business in developing countries.<sup>192</sup> Panamanian leaders, pushing for more neoliberal policies, believe that growth will increase with the passage of the still-pending U.S.-Panama FTA. The question is how much Panamanian bankers can get away with and still appease the United States without eliminating the banking sector’s appeal for foreign investors. Panama has been able to avoid increased restrictions suggested by the United States because the Panama Canal Authority (PCA) and the past four administrations have been successful in running the Canal. However, an unprotected CFTZ and banking sector, aside from tampering with a successful FTA, will become Panama’s Achilles heel and result in a fragmented society.

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<sup>191</sup> Ibid.

<sup>192</sup> Tharin, “Free Trade with Panama: Some Winners and Some Losers.”

### e) Public Security: Opinion, Perceptions, and Constructed Security

Would economic security and state institutions alone be able to contain, much less reduce, the current increase in homicide, kidnapping, robberies, and arms and drugs trafficking that Panama has been experiencing in the past 18 years? Crime and violence in the past 5 years have escalated alarmingly, and many associate them with Panama's so-called economic boom. The removal of Noriega specifically, or better yet, the absence of any dictator, has allowed Panamanian leaders to sell an image to the world of a secure place in which to live and invest. South Americans, mostly Colombians and Venezuelans escaping either violence and crime or an oppressive government, have been relocating to a small state that has learned to market itself as having the right ingredients to succeed in a global economy while also offering an excellent quality of life.

However, violence in Panama City is no longer as unheard of as it once was, and Colombians are the first to be blamed. Many even go so far as to say they long for the secure times of Noriega's regime. The campaign of Panama's new president, Ricardo Martinelli (2009–2014), centered on security. Other Latin American presidents, faced with similar or harsher threats to their national security, echo similar concerns, as they see these interfering with their relatively young democracies. "President Felipe Calderon [noted] that the future of democracy in Mexico was at stake in the government's fight against official corruption and organized crime."<sup>193</sup> The breach of Mexico's security probably began as it has in Panama. For many years, Mr. Calderon said at a conference on security, "crime was allowed to grow expand and penetrate . . . perhaps people

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<sup>193</sup> "Crime Threatens Democracy, Mexico's President Warns," *New York Times*, Thursday, June 25, 2009, international section.

thought it was a manageable thing. What is at stake today is . . . the future of democracy, of representative institution.”<sup>194</sup>

Panamanians, especially younger Panamanians, question Panama’s ability to protect their interests:

Unsurprisingly, levels of social trust in political institutions are dramatically low. According to a regional opinion survey (Latinbarometro, 2008), 84% of the Panamanian population believes that the country is run by a few groups for their own benefit, one of the highest figures in Latin America.<sup>195</sup>

According to another report:

For older generations, which lived through a long authoritarian nightmare, democracy was something to strive for. This does not seem to be the case for the young in Latin America. They know democracy and what they see they do not like. They have grown to believe that all politicians are corrupt, that elections change very little, that parties and leaders come and go, and that glaring inequalities and limited opportunities stay the same, while crime and violence get even worse.<sup>196</sup>

Kidnapping, extortion, blackmailing, torture, murder, and other human rights violations of indigenous groups on the border with Colombia, by both paramilitaries and guerilla movements forcing them out of their land in the Darien region, occur more frequently than the Colombian and the Panamanian governments care to admit. On the one hand is a hegemonic state halting FTA negotiations to force Panama’s leaders to generate stricter banking regulations, among other things, and on the other hand is a small state trying to maintain its autonomy in sectors (CFTZ and banking) whose success lies in its current status of more relaxed rules, tax benefits, and privacy laws.

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<sup>194</sup> Ibid.

<sup>195</sup> Casas-Zamora, “Panama at the Polls: A Study in Political Weakness.”

<sup>196</sup> Casas-Zamora, “Four Reflections on the Political Consequences of the Economic Crisis in Latin America.”

### **f) To Desecuritize, or Not to Securitize**

To understand what is going on in Panama one needs to go beyond realism to a liberal and constructivist understanding of the economic and political values and the perceptions of the Panamanian elites and authorities as well as those of the rest of the population. Panamanians in general believe that by securitizing the Canal they have fulfilled their obligation and have appeased the United States. Most Panamanian authorities do not perceive the FARC to be a terrorist threat and consider illicit CFTZ incidents to be side effects related to the nature of the beast. In Panama economic as well as political interests prevent consensus around securitization. Although presidents do discuss how to solve some of these issues such as money laundering, drug trafficking, and guerilla movements in the Darien region; results are achieved only when something serious happens.

As a result, they have failed to develop a strategy to prevent drugs and arms trafficking through the Darien region and, at the same time, traffickers from hiding behind the walls of the CFTZ and Panama City's relaxed banking and real estate laws. Drug lords regard Panama's financial institutions to be as unprotected as the country's border with Colombia. They see Panama as their hub to the Americas. Drugs and arms are not only being smuggled into Panama; they are being shipped to the rest of the hemisphere, and profits from these illicit transactions are being laundered and safely kept thanks to the privacy laws of Panama's financial institutions. Worst of all, Panama's financial institutions provide criminal elements the ability to harbor their transactions, granting incentives to abuse the system.

**CONCLUSION:**  
**PANAMA IS MORE THAN JUST A CANAL**

Since the 1989 invasion the Panamanian people have understood that to restore Panama to a post–Cold War dictator-free era, it needed to bring not just democracy back but also confidence from an international system that emerged in a global economy. With only ten years to acquire full control of the Canal, Panama’s political and economic institutions were destroyed both internally by Noriega and externally by hegemonic force. The image of Noriega waving a machete screaming at the top of his lungs on national television “not one step back” reached millions of people throughout the world. Similarly, and probably as difficult an image to erase from people’s minds, was the U.S. military’s “Operation Just Cause” to oust him. That Panama could take over the Canal, much less operate it singlehandedly and successfully, was never contemplated seriously by either the Panamanians themselves or U.S. officials; not in ten years, not in twenty, not ever. Twenty years after democracy was restored, however, Panama showed itself and the world not only that could it operate its Canal but also that it could do so autonomously.

This dissertation applied three main schools of thought drawn from international relations theory (realism, liberalism, and constructivism) to interpret and explain the three key issue areas of securitization detailed in Chapter 4 and Chapter 5: 1) Panama’s success in managing the Canal, 2) Panama’s failure to prevent illicit activities from penetrating the Panama-Colombia border, and 3) the selling of inputs for manufacturing cocaine, arms and drug trafficking, and money laundering in the Colon Free Trade Zone as well as

the lack of stricter regulations in Panama's thriving banking sector. The first issue area is an example of full securitization as explained by realism, liberalism, and constructivism. U.S. and Panama's core interests as well as military, economic, and national identity concerns are all addressed with consensus and attended to. The other two, on the other hand, after being examined under the lenses of all three IR theories, are examples of partial securitization and desecuritization, respectively. In looking at Panama, as a case study of the securitization of a small state, it is essential to go beyond realism and its military, or national-defense, areas of concern. The economy and national identity of a small state are important components of analysis that should not be overlooked. Comparing the military capabilities of a small state vis-à-vis hegemony is a reality that needs to be accounted for. However, it is only a parsimonious account of a scenario that omits leadership as an important human factor in the construction of a small state's national security.

### **Theoretical Insights, Hypothesis Implications, and Politics of Security Policies**

#### **The Case of the Panama Canal: Full Securitization**

Realism provides some insight into Panama's behavior regarding the securitization of its Canal, considered by all to be the country's most important security asset. Realists would claim that Panama, a small state, in the shadow of U.S. hegemony, previously occupied by the United States with full independence in its management of the Canal as recent as December 31, 1999, clearly must subordinate its security to the concerns of the United States. However, although Panama adheres to U.S. demands, it has done so while exercising full control over the Canal. It has managed it professionally

and efficiently, thereby insulating itself from direct U.S. intervention. This demonstrates, even from a realist point of view, that a small state can increase its relative autonomy vis-à-vis a hegemony, if it attends to the latter's security priority, which for the United States is the Canal. Indeed, its management has been so effective that the Canal's administration has received international endorsement for the construction of a third set of locks.

Besides placing supreme importance on the military defense of the Canal, Panamanian officials and authorities have also been strongly motivated by core economic concerns in its management. Hence, liberalism clearly provides a second level, or layer of explanation, to Panama's administrative success and consensus on the Canal's well-being. Given the centrality of the Canal to the Panamanian economy and to the money it contributes to the government's national investment budget (\$489 million in 2005), the management of the Canal under Panamanian control is not just a security issue but an economic one as well.<sup>197</sup> Liberalism focuses on this issue much more fully than does realism. Last but not least, in looking at Panama's success in securitizing the Canal it is essential to understand national identity and the people's evolved notion of sovereignty. Simply put, the Canal is clearly identified as a point of national unity. In addition to a military-defense perspective and an economic one, a constructivist approach is added to understand how crucial identity and nationalism have been for the Panamanian people to demonstrate leadership, consensus, and continuity throughout the various administrations since 1990.

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<sup>197</sup> Ashley Dalman, "Expanding the Panama Canal: A Wider Canal or More Governmental Payola?," *Council on Hemispheric Affairs*, August 8, 2006, <http://www.coha.org/expanding-the-panama-canal-a-wider-canal-or-more-government-payola/>.

When these three theories are invoked or applied to the Panamanian case, it is highly likely that there will be a circumspect and professional management of this key asset. Thus all three IR theories point in the same direction for different reasons and take into account different elements: realism looks at military defense, liberalism at economic well-being, and constructivism at national identity and nationalism. All three suggest that Panamanian officials will be highly motivated to take care of the Canal as best as they can; hence the present continuity of government consensus on securitizing the Canal on all three levels. At the same time, this consensus conforms well to U.S. core priorities as well as to international support for the construction of a third set of locks to expand the Canal, thus adjusting to modern commerce of the 21st century. This implies that the theories are complementary as opposed to contradictory. They coincide from different perspectives in signaling the overriding importance of the Panama Canal and its proficient management and securitization. As a result, when all three theories are found to provide useful explanations, it is highly probable that the policy implications coincide with policy consensus that allows for full securitization.

In the realm of high U.S. core security interests, Panama has very little autonomy. Hence, a continued professional behavior and permanent concern with the security of the Canal is expected. As long as Panamanian authorities are able to maintain the Canal's high level of security, they do not have to worry about the United States invading or using force against them. The Canal remains the jewel in the crown. Panama made the Canal Zone its top priority and has implemented impeccable management and security measures, demonstrating, in key areas, that it is able to operate on its own. It is the most important factor in Panama's perceived well-being and continuity in terms of both the

preservation of its securitization as well as its expansion in order to keep it technologically up to date for the 21st century. More important, this perceived notion of autonomy allows Panama's government to boost investment and its credit rating. "The Panama Canal, entirely in Panamanian hands since 2000, has been hugely successful. Since the turnover, it has experienced increased revenues, added to daily ship transits and maintained a low maritime accident rate."<sup>198</sup> "For that reason, Panama was able to raise 5.25 billion in private capital market to expand the canal, while offering no government guarantees. This is impressive for a country of 3.4 million people."<sup>199</sup> The meaning of sovereignty before the 1990s was constructed on ideals completely different from those shared by Panamanians today. Panamanians gave up their military force in order to rely fully on the United States to safeguard the Canal's free access and neutrality. In fact, Panama has set sovereignty aside to allow more than 20 countries to collectively participate in military exercises geared toward protecting the Canal in the event of a terrorist act. As long as Panama maintains this direction, the United States will stand behind it and will only give it a slap on the wrist regarding other, less securitized areas.

The Canal will remain a high priority of Panama's security policies, and securitization will continue to remain in place. These policies are essential if Panama wants to maintain its current autonomy, keep the U.S. away from its intermestic policies, and maintain the successful expansion of the canal, a healthy economy, and a sense of Panamanian national unity. This evident consensus among the various administrations will continue regardless of the type of administration to come, whether conservative or

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<sup>198</sup> "From the time the ACP assumed control of the Canal, it has steadily reduced the number of maritime accidents, from 29 in fiscal year 2000, to only 10 in 2006 and 2007." "Safety Record," *Panama Canal Authority (ACP)*, <http://www.acp.gob.pa/eng/general/record-de-seguridad.html>.

<sup>199</sup> Ambler H. Moss, quoted in "What Would an Investment Grade Rating Mean for Panama?" *Inter-American Dialogue: Latin America Advisor*, February 19, 2010, p. 4.

liberal (Endara, Perez-Balladares, Mireya, Martin, or Martnelli). Any new administration that fails to view the Canal as a source of important national, economic, and identity security would lose the consensus of the elite and the political support of the Panamanian people.

### **The Border: Partial Securitization**

On the other hand, when these three theories do not align, the likelihood that securitization will be successful is slim. Realism suggests that Panama should securitize its border with Colombia. However, Panamanian authorities, for economic and national identity reasons, have not been willing to reach consensus on this issue, even while being pressured by the U.S. and Colombian governments. First, Panama lacks the necessary manpower and economic resources to efficiently protect the border. “After the invasion we were left without the intelligence institutions to handle properly the security of our borders, it is the military that should cover these areas, what is in place is absolutely inefficient, to not say nonexistent”<sup>200</sup> It had been the job of the United States to securitize the area. The end of the Cold War was followed by a momentary U.S. interest in the war on drugs, reflected in the ousting of Noriega in 1989, which gave Panamanian authorities a major source of help. However, this interest was moved to the back burner when Panamanian nationalism got in the way of a treaty that would have prevented the U.S. Southern Command, once based on Panamanian soil precisely to defend the Canal and to counter drug operations, from moving to Miami, Florida, in 1997. In 2001, 9/11 also

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<sup>200</sup> From a June 19, 2007, author interview with Dr. Jilma Noriega de Jurado, former mayor of Panama City, member of Intellectual Women Circle of Panama, member of Panamanian Authority Circle Didactic Works (CAPOD), and a prolific writer and winner of the Ricardo Miro literature prize for her novel *Y Cayo Sobre Nosotros el Encuentro de la Muerte*.

contributed to a move from the war on drugs to the war on terrorism. Furthermore, attempts to finish the Pan-American Highway between Panama and Colombia as a solution to improve control of the border have met with much resistance from the Panamanian people, who prefer the status quo in order to prevent further Colombian immigration. Even at Uribe's strong request or as a symbol of hemispheric integration, Panamanians remain skeptical of what closing the Darien Gap could do to the region and the country. To most Panamanians, maintaining this separation symbolizes 107 years of independence from Colombia. While illegal immigration was not studied as a separate issue area per se, in looking at Panama's border with Colombia, most political leaders and pundits on the subject saw it as one of the threats to Panama's national security:

“The largest threat, I think, regarding national security right now would be control over illegal immigrants . . . which has worsened with the presence of Colombians in large quantities. To a certain extent, the level of violence associated with drug trafficking, money laundering and hired assassins as imminent danger to the integrity of the nation has been raised due to new types of crimes that these illegal immigrants are experiencing with which include the so called ‘express kidnapping’ and contract killing. I believe that this is the greatest weakness that we have right now.”<sup>201</sup>

Panamanians fear opening up the border could bring more crime and drug trafficking into the region than development.

Unlike with the securitization of the Canal, the Panamanians are not as concerned with illicit activities at the border. For Panamanians, the area is too distant from Panama City to present a real problem, it is too hostile a territory to actually try to guard or develop, and the incursions across the border are too sporadic to warrant much attention. However, the Panamanian government has taken certain steps to securitize the area.

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<sup>201</sup> From an June 18, 2007, author interview with Mario Rognoni, journalist, former legislator, and ex-minister of commerce and industry.

Authorities have strengthened border patrols, COMBIFRON has established communications and intelligence sharing between the two countries, and the Panamanian state remains wary and sensitive about its border. Panama does not want refugees going across the border; it does not want guerrilla movement marauding through Panama, or paramilitaries setting up camps at the border; and it does not want to become the epicenter of drug trafficking. Therefore, the realists' hypothesis suggesting that the border along with the Canal is fundamental is still relatively supported but is attenuated or diluted because of the area's lack of economic importance and a nationalistic desire to stay out of the region. This incompletely constructed form of securitization is a reflection of the elite's and the people's lack of concern. The Panamanian people do not want to pay taxes to create a border patrol that can be regarded as a return to the military era of Noriega, unless there is a major crisis. If the FARC sets up a camp in the Darien region or Panama loses territory and there is a gradual penetration of violent elements from Colombia that require tighter border control, then securitizing the border will find greater consensus among Panamanian authorities and result in greater pressure from the United States to do so.

With regard to the border, it is unlikely that Panama's policy is going to change unless there is a crisis, given the economic costs and the common belief that national security is not being threatened. In other words, business will continue as usual. Although Panama's relative economic well-being vis-à-vis the rest of the region has attracted illegal immigration and, as a result, city violence and illicit activities that have triggered a renewed interest in border controls, taking its borders seriously is not imminent. Panama is vulnerable to various FARC scenarios but still does not perceive the border as a

priority area in need of securitization. Aside from being too costly to protect, Panama's border with Colombia has yet to present a major threat to the stability of the state.

### **The CFTZ and the Banking Sector: Desecuritization**

The use of realism in explaining the securitization of the Panama Canal is apt. When it comes to explaining the securitization of the Panama-Canal border, the realist approach is still relevant but a little less appropriate, especially when major threats are nonstate actors. However, unless U.S. full hegemonic force were to be imposed on Panamanian authorities, when it comes to explaining Panama's CFTZ and the banking sector's securitization approach, realism is most lacking. According to realism, a small country such as Panama would have to do what the U.S. tells it to do; yet the Panamanians have been reluctant to do so. Panamanian authorities are conflicted about securitizing this third issue area. Instead, liberalism and constructivism provide useful approaches to understanding how the desecuritization of these two sectors might instead be desirable. First, the Panamanians do not see it as a threat to their national security. Second, from a liberal point of view, the CFTZ and the banking sector are major providers of employment and of competitive advantage vis-à-vis the Caribbean off-shore banking industry. Third, politicians do not want to lose votes, banks and merchants do not want to lose business, and, last but not least; Panamanians do not want to lose their jobs. Hence the Panamanian people have a different social construction of national security than that of the United States when it comes to securitizing the CFTZ and the banking sector, despite the pending FTA. Panamanians feel the CFTZ and the banking sector of Panama are to Latin America what Switzerland's banking sector is to Europe, or

what the Shanghai and Hong Kong trade markets are to Asia. Changing the structure of these two strong sectors of the economy would be like changing part of Panama's alluring identity as a haven for trade and commerce.

Maintenance of Panama's service economy, as liberalism suggests, is critical to the nation's healthy economic future. The United States has pressured Panamanian authorities to take more drastic measures; however, even within the United States there seems to be a lack of consensus on this issue. In fact, aside from not signing the FTA, the United States has not threatened Panamanian authorities with more drastic measures. The CFTZ, second largest in the world, and the banking sector that largely benefits from it, are also two of the most important components of Panamanian nationalism. Trade in Panama is symbiotic with the country's geographical position; therefore, these two sectors are part of Panama's identity and the Panamanian elite's right for autonomy in its policy-making decisions. As long as the United States does not force Panamanian authorities to take stricter measures, realism does not provide a useful guide.

However, a more conservative president such as Ricardo Martinelli (2009–present) might equate nationalism with tighter laws and better money-laundering controls.<sup>202</sup> The lack of consensus is not static, and what was true ten years ago might not be true today; especially if it is in the people's interest to correct Panama's identity as a tax haven, as having excessively relaxed banking regulations, and as harboring drug lords. Martinelli could find consensus and thus securitize this area. However, it is still difficult to speculate on what could well be based only on the need to please the United

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<sup>202</sup> Two of Martinelli's cousins, detained in Mexico, were charged with money laundering, at times using the president's supermarket stores and other businesses. Carlos Salazar, "Primos del Presidente Comprometen al Gobierno de Panama: Entre los detenidos en Mexico hay dos primos de Martinelli Berrocal" ["Cousins of the President Involve the Government of Panama: Among the Detainees in Mexico There Are Two Cousins of Martinelli-Berrocal"], *El Pais*, May 18, 2010.

States in order to receive FTA approval. On the one hand, Panama's strong economic growth has been praised by banks, financial institutions, and rating agencies; on the other hand, the lack of regulatory measures in these two sectors will continue to bring friction with the United States. While Martinelli might like to improve Panama's CFTZ and the banking sector image to reflect complete honesty and transparency, the Panamanian business community might not want to foreclose on economic alternatives either.

### **Panama's Regional Leadership in the 21st Century**

To conclude, it is important to highlight that realism has its explanatory power; hence, it is not rejected as a theory to be used in this dissertation. The United States invaded Panama when its government failed to comply with U.S. guidelines. However, this part of Panama's history was marked by dictatorship, and extreme actions outside the realm of diplomacy were taken. This does not mean that were Panama to put the Canal's neutrality or its free access in jeopardy, the United States would sit back. Furthermore, realism is still important to understanding hegemonic influence in the region. The United States continues to have a strong say in what to securitize, that is, communism, drugs, or terrorism. Nevertheless, a small state has more options than just to bandwagon, that is, to join, accommodate, and give exclusive cooperation to a hegemonic bloc. Simply put, in applying liberalism and constructivism to realism, this dissertation establishes a richer and more complex explanation with different points of emphasis, each adding additional layers.

Therefore, realism is not sufficient to explain Panama's security dilemma. Realism would suggest that a small country lacking resources and military capability is

better off under a hegemonic umbrella like that of the United States. Instead, this dissertation suggests that a realist framework for studying subordinate or subalternated states within the Western Hemisphere does not provide a sufficiently nuanced explanation for how it solves its security dilemma. World trade without the Canal is difficult to imagine. Economic interdependence increases cooperation among states. Interest in the Panama Canal comes not only from Panamanians but from all who benefit from it. Similarly, international institutions aid in these international relations between states. Small states, as members of international organizations, gain a voice in the international community. Treaties, free-trade agreements, conventions, international agreements, and protocols help Panama to solidify its democratic institutions and reinsert itself as a free-market capitalist state. Economic security is Panama's first priority for the well-being of its society, as well as for the rebuilding of its social fabric, the security of the Canal, its infrastructure, its free-trade zones, and its banking sector and financial institutions. Panama needed to convince others it is capable of establishing a strong economy that could attract foreign investment. Instead of military power, Panamanian authorities understood the power of diplomacy and persuasion. The ambassador of Panama to the United States Jaime Aleman, referring to Panama's possible investment grade rating by Standard and Poor's (S&P), said: "The achievement of investment grade would signify the culmination of a painstaking and lengthy process begun in the 1990's to establish a solid macroeconomic framework for the country."<sup>203</sup> However, this "painstaking and lengthy process" was not the work of one man or one administration or one party line; instead it was that of five very different administrations, some of which even belonged to Noriega's PRD party. In

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<sup>203</sup> Jaime Aleman, Ambassador of Panama to the U.S., quoted in "What Would an Investment Grade Rating Mean for Panama?," p. 1.

other words, leadership on the part of different presidents played an important role in achieving continuity. Therefore, the human factor, better explained by constructivism, is an important element of this dissertation. Perceptions and experiences helped Panamanian authorities construct an objective shared by many.

This dissertation confirms that realism does provide some explanatory power with regard to security issues in Panama. It is most powerful when one thinks about the core interests of both Panama and the United States, in this case the Canal itself. Panama has been attentive to the security of the Canal, as realists would suggest. From a realist perspective, the state security concern of Panama coincides with the state security concerns of the United States. The first case study of the Panama Canal confirms this. Panama has done everything that it can to secure the Canal. Furthermore, for Panama the Canal is more than just a national security concern; it is also an economic concern, and one that constructs Panama's identity. Hence what liberalism and constructivism add to the realist hypothesis is that the state's security concern is not just defending the Canal from foreigners; it is defending the economic lifeblood of the country as well as defending Panama's sense of nationalism and autonomy.

In small states where all the theories do not suggest a rush toward securitization, it is unlikely that full securitization will take place. It is important to look at securitization from multiple perspectives. Each of the theories gives us some insight. When military defense concerns are at the forefront, realism is by far the most powerful; where economic concerns come into play, liberalism is essential; and where questions of identity and nationalism arise, one cannot omit a constructivist approach. Realism is not sufficiently nuanced or detailed to interpret effectively what is going on in Panama with

regard to how it constructs its national security. Panama does have some room to exercise autonomy with regard to its security as long as it fulfills the core hegemonic requirements of securitizing its Canal. In other words, a basic conclusion of this dissertation is that a multilayered or eclectic theoretical approach is needed to understand the security dilemma and its resolution on the part of a small state.

Panamanians are fighting to be regarded as more than just a Canal. Panama's political stability, strong economy, increased FDI, and success in managing the Canal are all the result of constructed policies by various administrations that have found relative consensus and demonstrated leadership in moving the country forward. After all, surviving a worldwide economic recession is not an easy task. However, the lack of security at the Colombian border, the CFTZ, and the banking sector luring illicit activities such as arms and drug trafficking and money laundering are good examples of why Panama will need to do more if it wants to make that final leap. The possible creation of new ministry of defense or the merging of the National Air and Naval Service (SENAN) as new institutions to better target these threats must be linked to good leadership.

I am of the opinion that the manager of an institution imprints his/her own character and personality to it. It is not a legal or administrative issue, nor is it a bureaucratic issue. You can create a vice-ministry and you could still have the problems it was created to solve. The solution is not the creation of more institutions but the creation of proper security policies and the people capable enough to carry them through effectively, vice-ministry or no vice-ministry.<sup>204</sup>

While the glass may appear to many to be half full, the escalating illegal migration, city violence, and drug abuse are some of the numerous threats holding the

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<sup>204</sup> Taken from a September 19, 2007, author interview with former President and then 2009 presidential candidate Ernesto "Toro" Perez-Balladares.

country back. Issues such as these and others will need to be studied and addressed before the world can regard Panama as more than just a Canal.

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