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Panama: Political and Economic Conditions and U.S. Relations Through 2012

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Summary

With five successive elected civilian governments, the Central American nation of Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the regime of General Manuel Antonio Noriega from power. Current President Ricardo Martinelli of the center-right Democratic Change (CD) party was elected in May 2009, defeating the ruling center-left Democratic Revolutionary Party (PRD) in a landslide. Martinelli was inaugurated to a five-year term on July 1, 2009. Martinelli's Alliance for Change coalition with the Panameñista Party (PP) also captured a majority of seats in Panama's National Assembly. Panama's service-based economy has been booming in recent years—with a growth rate of 7.6% in 2010 and 10.6% in 2011—largely because of the ongoing Panama Canal expansion project, now slated for completion in early 2015.

The CD's coalition with the PP fell apart at the end of August 2011 when President Martinelli sacked PP leader Juan Carlos Varela as foreign minister. Varela, however, retains his position as vice president. Tensions between the CD and the PP had been growing throughout 2011, largely related to which party would head the coalition's ticket for the 2014 presidential election. Despite the breakup of the coalition, the strength of the CD has grown significantly since 2009 because of defections from the PP and the PRD, and it now has a majority on its own in the legislature. President Martinelli's strong approval rating diminished in the aftermath of his break with the PP in 2011, but has recovered recently. President Martinelli has been criticized by civil society groups and political opponents for taking a heavy-handed approach toward governing and for not being more consultative. At times, strong public protests have resulted in President Martinelli backing away from unpopular policy initiatives. While Panama's next presidential election is not scheduled until May 2014, the country will be gearing up for the race in early 2013. Martinelli is not eligible to run since Panama's Constitution only allows for a president to return to power after two terms (10 years).

U.S. Relations

The United States has close relations with Panama, stemming in large part from the extensive linkages developed when the Canal was under U.S. control and Panama hosted major U.S. military installations. The current relationship is characterized by extensive counternarcotics cooperation; support to promote Panama's economic, political, and social development; and a bilateral free trade agreement (FTA) that entered into force at the end of October 2012. U.S. bilateral assistance amounted to $3 million in FY2011 and an estimated $2.8 million for FY2012 while the FY2013 request is for $3.7 million. This funding does not include health assistance to combat HIV/AIDS and malaria funded under regional programs or assistance allocated to Panama under the Central America Regional Security Initiative (CARSI) that assists countries in their efforts to combat drug trafficking and organized crime. A number of U.S. agencies provide additional support to Panama.

The United States and Panama signed the bilateral FTA in June 2007, and Panama's National Assembly approved the agreement in July 2007. After more than four years, the U.S. Congress considered and approved FTA implementing legislation, H.R. 3079, on October 12, 2011, which President Obama signed into law on October 21, 2011 (P.L. 112-43). U.S. congressional concerns had included Panama's labor rights and tax transparency issues, but the Obama Administration worked with Panama to resolve concerns over these issues. After the FTA was approved by both countries, work began on the implementation of the agreement over the next year. The agreement entered into force on October 31, 2012, after both countries had completed a thorough review of their respective laws and regulations needed for FTA implementation.

For additional information, see: CRS Report RL32540, *The U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck; and CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by Peter J. Meyer and Clare Ribando Seelke.

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Recent Developments

On October 31, 2012, the U.S.-Panama Free Trade Agreement (FTA) entered into force. Both houses of Congress had approved implementing legislation for the FTA in October 2011, and the measure was signed into law by President Obama on October 21, 2011 (H.R. 3079, P.L. 112-43). (See "U.S. Commercial Relations and the Free Trade Agreement" below.)

On October 28, 2012, President Martinelli promulgated legislation repealing a recently enacted law initiated by his administration that would have sold off state-owned land in the Colón Free Zone. Protests against the law resulted in three dead in clashes with the police. (See "Challenges for the Martinelli Government" below.)

From August 6 to 17, 2012, the United States and 16 nations from the region participated in annual PANAMAX defense exercises focused on ensuring the security of the Panama Canal. The exercises have been held annually since 2003. (See "Port Security and Other Counterterrorism Efforts" below.)

On July 31, 2012, the State Department issued its *Country Reports on Terrorism 2011*, which maintained that "the most direct terrorism threat to Panama" was the presence of a small unit of the Revolutionary Armed Forces of Colombia (FARC) in the Darién province bordering Colombia. Panama's government has stepped up its efforts in recent years to confront this presence and has cooperated closely with Colombia to secure its border. The report maintained that Panama had an adequate legal and regulatory framework for countering terrorist finance, but also contended that "uneven enforcement of the existing anti-money laundering and terrorist finance controls ... coupled with the weak judicial system, remained a problem." (The "Western Hemisphere Overview" section of the State Department's 2011 terrorism report is available at http://www.state.gov/j/ct/rls/crt/2011/195546.htm. Also see "Port Security and Other Counterterrorism Efforts" below.)

On May 24, 2012, the State Department issued its 2011 human rights report. According to the report, the Panamanian government generally respects human rights, but remaining problems included harsh prison conditions, judicial ineffectiveness, and discrimination against various groups (especially indigenous groups) and individuals, including some cases of violence. The State Department reported that the judiciary was susceptible to corruption and outside influence and faced allegations of manipulation of power by other government branches, but also cited Panamanian government efforts to improve the functioning of the judiciary. (See "Human Rights Issues" below. The Panama section of the State Department human rights report is available at http://www.state.gov/documents/organization/186743.pdf.)

Figure 1. Map of Panama

Source: Map Resources. Adapted by CRS.

Political and Economic Conditions

Panama has made notable political and economic progress since the December 1989 U.S. military intervention that ousted the military regime of General Manuel Antonio Noriega from power. The intervention was the culmination of two and a half years of strong U.S. pressure against the de facto political rule of Noriega, commander of the Panama Defense Forces. Since that time, the country has had five successive civilian governments, with the current government of President Ricardo Martinelli of the center-right Democratic Change (CD) party elected in May 2009 to a five-year term. Inaugurated on July 1, 2009, Martinelli is a businessman and former government minister. His electoral alliance, known as the Alliance for Change, also won a majority of seats in the unicameral National Assembly. Panama's largely service-based economy has been booming in recent years, spurred on by the Panama Canal expansion project that begun in 2007 and is expected to be completed in 2015.

From the Endara to the Torrijos Administration

Endara Government (1989-1994)

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

As a result of the intervention, the opposition coalition headed by Guillermo Endara that had won the May 1989 election was sworn into office. During his term, President Endara made great progress in restoring functioning political institutions after 21 years of military-controlled government, and under his administration, a new civilian Public Force replaced Noriega's Panama Defense Forces. But Endara had difficulties in meeting high public expectations, and the demilitarization process was difficult, with some police and former military members at times plotting to destabilize, if not overthrow, the government.

Pérez Balladares Government (1994-1999)

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

In the electoral race, Pérez Balladares campaigned as a populist and advocated greater social spending and attention to the poor. He stressed the need for addressing unemployment, which he termed Panama's fundamental problem. Pérez Balladares severely criticized the Endara government for corruption, and he was able to overcome attempts to portray him as someone closely associated with General Noriega. (Pérez Balladares served as campaign manager during

the 1989 elections for candidate Carlos Duque, who the Noriega regime had tried to impose on the electorate through fraud.) Instead, Pérez Balladares focused on the PRD's ties to the populist policies of General Omar Torrijos, whose 12-year (1969-1981) military rule of Panama ended when he died in a plane crash in 1981.

President Pérez Balladares implemented an economic reform program that included liberalization of the trade regime, privatization of state-owned enterprises, the institution of fiscal reform, and labor code reform. Tariffs were reduced to an average of 8%.

Pérez Balladares also worked closely with the United States as the date of the Panama Canal turnover approached. Under his government, Panama and the United States held talks on the potential continuation of a U.S. military presence in Panama beyond the end of 1999 (the date Panama was to assume responsibility for defending the Canal). Ultimately negotiations ended without such an agreement.

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

Late in his administration, Pérez Balladares became embroiled in a scandal involving the illegal sale of visas to Chinese immigrants attempting to enter the United States via Panama. As a result, U.S. officials cancelled the former president's U.S. tourist visa in November 1999.[1]

Moscoso Government (1999-2004)

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

President Moscoso, a coffee plantation owner and Panama's first female president, ran as a populist during the campaign, promising to end government corruption, slow the privatization of state enterprises, and reduce poverty. She also promised to ensure that politics and corruption did not interfere with the administration of the Canal. The memory of her husband Arnulfo Arias, a nationalist who was elected three times as president, but overthrown each time, was a factor in the campaign, particularly since Arias was last overthrown in 1968 by General Omar Torrijos, the father of the PRD's 1999 and 2004 presidential candidate.

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

[1] "Ex-Leader of Panama Linked to Visa Sales," *Washington Post*, November 27, 1999; Pablo Bachelet, "U.S. Uses Visas to Combat Corruption," *Miami Herald*, February 21, 2006.

the Moscoso government, once again giving the president majority support in the Legislative Assembly.

The Moscoso government partially reversed the trade liberalization process of the Pérez Balladares by raising tariffs on some agricultural products, some of which reached the maximum rate allowed under Panama's World Trade Organization obligations.[2]

As noted above, Moscoso was elected as a populist, with pledges to end government corruption and reduce poverty, but her campaign pledges proved difficult to fulfill amid high-profile corruption scandals and poor economic performance. As a result, the president's popularity declined significantly from a 70% approval rating when she first took office in 1999 to only 15% in 2004.[3]

Torrijos Government (2004-2009)

In the May 2004 presidential race, Martín Torrijos of the PRD won a decisive victory with 47.5% of the vote, defeating former President Guillermo Endara, who received 30.6% of the vote, and former Foreign Minister José Miguel Alemán, who received 16.4% of the vote. Torrijos' electoral alliance also won a majority of seats in the unicameral National Assembly (formerly known as the Legislative Assembly), 43 out of 78 seats, which should provide him with enough legislative support to enact his agenda. Elected at 40 years of age, Torrijos—the son of former populist leader General Omar Torrijos (1968-1981)—spent many years in the United States and studied political science and economics at Texas A&M University. He served four years under the Pérez Balladares government as deputy minister of interior and justice, and as noted above, became the PRD's presidential candidate in the 1999 elections.

Leading up to the election, Torrijos had been topping public opinion polls, with 42%-49% support. In the campaign, he emphasized anti-corruption measures as well as a national strategy to deal with poverty, unemployment, and underdevelopment. He was popular among younger voters and had a base of support in rural areas. Torrijos maintained that his first priority would be job creation.[4] He called for the widening of the Canal, a project that would cost several billion dollars, and would seek a referendum on the issue. During the campaign, all three major candidates supported negotiation of a free trade agreement with the United States, maintaining that it would be advantageous for Panama. Endara and Alemán appeared to emphasize the protection of some sensitive Panamanian sectors such as agriculture, while Torrijos stressed that such an agreement would make Panama's economy more competitive and productive.[5]

During his five years in office, President Torrijos faced such major challenges as dealing with the deficits of the country's social security fund (Caja de Seguro Social, CSS); developing plans for the expansion of the Panama Canal; combating unemployment, poverty, and increasing crime; and contending with the effects of the global financial crisis and U.S. recession on the Panamanian economy.

After protests and a protracted strike by construction workers, doctors, and teachers in June 2005, the Torrijos government was forced to modify its plans for reforming the social security fund. After a national dialogue on the issue, Panama's National Assembly approved a watered-down

[2] United States Trade Representative, *2006 National Trade Estimate Report on Foreign Trade Barriers*, p. 501.

[3] "Toss Up Between Torrijos and Endara," *Caribbean and Central America Report*, February 17, 2004.

[4] Frances Robles, "Ex-leader's Son Wins Presidency in Panama," *Miami Herald*, May 3, 2004.

[5] "Panama: Presidential Candidates Remark on FTA with US," *La Prensa* (Panama), January 24, 2004, translated by Foreign Broadcast Information Service.

version of the original plan in December 2005. The enacted reform did not raise the retirement age but will gradually increase required monthly payments into the system and introduces a dual pension system that combines aspects of privatization with the current system.[6] In mid-December 2007, an almost six-week strike by doctors in the public healthcare system was resolved, with the government offering a 26.7% increase in salaries equivalent and a commitment not to privatize the system.[7]

In April 2006, the government unveiled its ambitious plans to build a third set of locks that would double the Canal's capacity, and allow larger post-Panamax ships to transit the Canal. Panama's Cabinet approved the expansion plan in June, and the National Assembly approved it in July 2006. A referendum on the expansion project took place on October 22, 2006, with 78% supporting the project. The referendum was viewed as a victory for the Torrijos government, which advanced the project as integral to Panama's future economic development and one that helped restore the president's popularity.[8]

The Torrijos government's agenda also included judicial, penal and anti-corruption reforms, as well as an economic development strategy to target poverty and unemployment. The government implemented a new penal code in May 2008 that took a tougher stance on crime by increasing sentences on serious crimes and other measures. In early July 2008, Panama's National Assembly gave President Torrijos powers to carry out security sector reforms over the next two months. In August 2008, President Torrijos enacted five decree laws reorganizing Panama's law enforcement and security services, including the establishment of a National Border Service and a National Intelligence and Security Service (SENIS). Some critics fear that the actions will lead to Panama's re-militarization, while Torrijos maintains that the new agencies are needed to combat growing drug crimes.[9] In mid-December 2008, the Torrijos government approved additional changes to the penal code that increased penalties for the illegal possession of firearms and introduced sentences for attacking a police official.[10]

In order to deal with the effects of the global financial crisis, President Torrijos announced the establishment of a $1.1 billion fund in January 2009 to allow for eased credit access and loans to financial institutions in Panama. The fund—financed with support from the Inter-American Development Bank, the Andean Development Corporation, and the National Bank of Panama—was established in order to counter the tightening of credit because of the global financial crisis.[11]

Martinelli Government (2009-2014)

May 2009 Elections

Because Panama's Constitution does not allow for immediate reelection, Torrijos was ineligible to run in the May 3, 2009, presidential election, which supermarket mogul and former

[6] Marion Barbel, "Panamanian Congress Approves Modified Social Security Reform," *World Markets Research*, December 22, 2005.

[7] "Panama: Country Report," *Economist Intelligence Unit* (EIU) January 2008, p. 2.

[8] Richard Lapper, "Good Luck, Good Timing," *Financial Times*, July 24, 2007.

[9] "Panama: Torrijos to Undertake Security Reform by Decree," *Latin American Weekly Report*, July 3, 2008; "Torrijos Forges Ahead with Security Decrees," *Latin American Regional Report, Caribbean and Central America*, September 2008.

[10] "Panama: Torrijos Pushes Through Changes to Penal Code," *Latin American Weekly Report*, December 18, 2008.

[11] Marion Barbel, "President Unveils U.S. $1.1 billion Anti-Crisis Fund in Panama," *Global Insight*, January 23, 2009.

government minister Ricardo Martinelli of the small center-right Democratic Change (CD) party won in a landslide. Despite strong economic growth and reductions in poverty, support for the Torrijos government in its last year in office eroded because of concerns about rising crime, the effects of the global financial crisis, and problems in improving infrastructure and public services. This contributed to the PRD's poor showing in the 2009 presidential and legislative elections.

While initially in 2008 it appeared that the candidate of the ruling PRD, former housing minister Balbina Herrera, was favored to win, opinion surveys late in the year reflected a significant shift in favor of Ricardo Martinelli. Polls in January 2009 showed Martinelli with 43% support compared to 25% for Herrera and almost 15% for Juan Carlos Varela of the center-right Panameñista Party (PP).[12] In late January 2009, Martinelli and Varela struck a deal to run together in a four-party coalition dubbed the Alliance for Change, with Martinelli leading the ticket and Varela as his running mate. The new alliance further widened Martinelli's lead in opinion polls. Ultimately, Martinelli captured 60% of the vote compared to almost 38% of the vote for Herrera.[13]

Martinelli's Alliance for Change also won a majority of seats in the unicameral National Assembly. The Alliance for Change parties captured 42 out of 71 seats in the legislature, with Martinelli's CD winning 15 and the PP winning 21 seats. The opposition PRD, however, remained the largest single party in the legislature, with 26 seats although internal divisions threatened to weaken its power.

Challenges for the Martinelli Government

The strength of President Martinelli's CD grew significantly after the 2009 election because of defections from other parties, but the CD's ruling alliance with the PP fell apart at the end of August 2011. President Martinelli sacked PP leader Juan Carlos Varela as foreign minister for allegedly neglecting his duties by spending too much time fostering his ambitions to run for president in 2014, while Varela maintains that the coalition fell apart because of policy differences related to transparency and accountability in the use of state resources.[14] Varela retains his position as vice president, but plays the role of an opposition leader. Tensions within the coalition between the CD and the PP had been growing throughout 2011, largely related to which party would head the coalition's ticket for the 2014 presidential election. With the political realignment, initially the CD only had 33 seats in the 71-seat National Assembly, but 3 PP deputies switched to the CD and provided the President's party with a slim working majority of 36 seats. Subsequent defections from the opposition PRD provided the CD with a solid 40-seat majority in the National Assembly.[15]

President Martinelli's once strong approval rating diminished significantly in the aftermath of his break with the Panameñista Party in 2011, but has recovered recently. Between August and November 2011, his approval ratings dropped 20 points to almost 48%, and by May 2012, the President's approval rating, according to one poll, had dropped further to about 43%.[16] More

[12] "Panama: Martinelli's Presidential Prospects Strengthen," *Latin American Weekly Report*, January 15, 2009, "Panama Mogul Extends Lead in Election Race – Poll," *Reuters*, January 11, 2009.

[13] Tribunal Electoral de Panama, "Elecciones Generales del 3 de mayo de 2009."

[14] "The Center for Strategic and International Studies and Inter-American Dialogue Hold a Discussion on Panama, Beyond the Canal," *Political Transcripts by CQ Transcriptions*, September 14, 2012.

[15] "Country Report: Panama," *Economist Intelligence Unit (EIU)*, December 2011 and October 2012.

[16] "Country Report: Panama," *EIU*, December 2011; and Louisa Reynolds, "President Ricardo Martinelli is Panama's Most Unpopular President, Says Recent Poll," *Noticen: Central American and Caribbean Affairs*, June 14, 2012.

recently, however, Martinelli's approval ratings have improved. A poll in September 2012 showed him with an approval rating of almost 58%.[17]

Nevertheless, at various junctures, President Martinelli has been criticized by civil society groups and political opponents for taking a heavy-handed approach toward governing and for not being more consultative, and this has affected his popularity.

Some have criticized the President for undermining the independence of the judiciary. For example:

- In 2009, Martinelli nominated two political allies to the Supreme Court. A complaint on this and broader problems with Panama's judicial system was heard by the Inter-American Commission on Human Rights in March 2010, with representatives of the Citizens Alliance for Justice (Alianza Ciudadana Pro Justicia).[18]
- In April 2011, one of the Supreme Court justices appointed by President Martinelli resigned after accusations emerged that he had conspired to unseat former Attorney General Ana Matilde Gomez, who had been appointed by President Torrijos.[19] President Martinelli subsequently replaced the justice with an official who had worked at the Ministry of Economy and Finance as an acting deputy minister. His appointment elicited criticism because of a constitutional provision prohibiting someone from being a justice if they had worked in a position of authority (command or jurisdictional functions) in the executive branch of the current administration.
- In January 2012, Martinelli nominated two new Supreme Court justices to replace outgoing justices. While the nominations were approved by the National Assembly, some critics raised concerns that their appointment resulted in President Martinelli's increased influence over the judiciary.[20]
- In 2011, Panama's Supreme Court revived legislation originally approved in 1999 under the Pérez Balladares government that expanded the court from 9 to 12 judges and established a "court of constitutional guarantees" or fifth chamber within the Supreme Court. President Moscoso's government subsequently repealed the legislation expanding the court and the membership of the court returned to 9 members. But in January 2011, the Supreme Court declared the Moscoso government's action unconstitutional so that the court could return to 12 members. Critics maintained that this would give President Martinelli even further influence over the court by having the ability to appoint 3 new justices or a total of 7 out of 12 justices on the Supreme Court.[21] In June 2012, however,

[17] "Recupera Presidente de Panamá Apoyo de la Población," *Agencia Mexicana de Noticias (NOTIMEX)*, October 1, 2012.

[18] The Citizens Alliance for Justice represents 20 Panamanian civil society organizations dedicated to implementing judicial reform and improving the administration of justice. See the website of the alliance at http://www.alianzaprojusticia.org.pa/; The Washington, D.C.-based Due Process of Law Foundation has also done work on the issue of Panama's judicial system. For more information, see http://www.dplf.org/index.php?cID=395&catID=1.

[19] "Country Report: Panama," *EIU*, April 2011, p. 10.

[20] "Panama's Judiciary Under Opposition Scrutiny," *Latin News Daily Report*, January 4, 2012; "Panamá: Nuevamente el president contradice sus promesas con sus actuaciones," *La Estrella de Panama*, November 30, 2011.

[21] "Country Report: Panama," *EIU*, February 2011, p. 10.

strong public protests led President Martinelli to back down and withdraw his proposal for the fifth chamber.[22]

The president has backed away from other policy initiatives after strong public opposition. For example:

- In July 2010, Panama experienced labor unrest in response to controversial legislation that would have ended the obligatory payment of union dues and allowed companies to suspend contracts of striking workers and hire replacement workers during strikes. Two striking workers in the banana sector were killed in clashes with police in Bocas del Toro and hundreds were injured. The strike was suspended after the Martinelli government agreed to suspend some of the controversial aspects of the law. In October 2010, the government agreed to repeal the controversial labor provisions as well as provisions that would have relaxed environmental standards.[23]
- Protests by Panama's indigenous communities in early 2011 resulted in President Martinelli agreeing to repeal a controversial new mining law that would have facilitated foreign investment in the sector. Indigenous communities such as the Ngöbe-Buglé and others have opposed mining and hydroelectric projects in their territories. Continued indigenous protests in February 2012 over existing mining projects and a large planned hydroelectric project led to the death of two protestors, and resulted in the government making further concessions and engaging in talks with the indigenous communities. Protests reportedly could resume if the indigenous groups do not agree with the outcome of the talks.[24]
- In late October 2012, the Martinelli government agreed to repeal a recently enacted law that would have sold off state-owned land in the Colón Free Zone. Protests against the law resulted in three dead in clashes with the police. The government had argued that the revenue from the sale would be provided to the impoverished province of Colón, while opponents viewed the law as an attempt to conceal state spending and keep down the deficit.[25]

Economic Challenges

When the Martinelli government took office in 2009, it had to deal with the fallout stemming from the global financial crisis, but the economy weathered the storm and avoided the contraction experienced by many Latin American economies. Before the financial crisis, Panama's services-based economy had been booming, largely because of the Panama Canal expansion project, with the economy growing by over 10% in 2007 and 2008. The global financial crisis and U.S. recession slowed Panama's economic growth to 3.9% in 2009, but this still made Panama's economy one of the few in the region registering positive economic growth. Since then, the economy has rebounded, with a growth rate of 7.6% in 2010, 10.6% in 2011, and a forecast of

[22] "New Alliance Claims First Victory," *LatinNews Daily Report*, June 21, 2012.

[23] Sean Mattson, "Panamanian President Ricardo Martinelli Reverses Course on Controversial Legislation," *Noticen, Central & Caribbean Affairs*, November 11, 2010; "Panama: Martinelli Performs Major U-Turn," *Latin American Regional Report, Caribbean & Central America*, October 2010.

[24] "Country Report: Panama," *EIU*, November 2012, p. 3.

[25] "Panama: Martinelli Performs another U-Turn," *Caribbean & Central America Report*, November 2012.

9.5% growth in 2012, fueled by both the Canal expansion project and the construction of a metro system in Panama City.[26]

Although Panama is categorized by the World Bank as having an upper-middle-income economy because of its relatively high per capita income level of $7,910 (2011), one of the country's major challenges is highly skewed income distribution with large disparities between the rich and poor. According to the U.N. Economic Commission for Latin America and the Caribbean, Panama's poverty rate was almost 37% in 2002, but declined to about 26% in 2009 and 2010. Extreme poverty or indigence in Panama also fell from 18.6% in 2002 to 11.1% in 2009, although it increased to 12.6% in 2010. In order to tackle poverty, the previous government of President Martin Torrijos (2004-2009) initiated a social support program of conditional cash transfers to poor families and the elderly living in extreme poverty. Since taking office, President Martinelli has fulfilled his campaign pledge to provide $100 a month to poor seniors. In May 2011, the World Bank approved a $100 million policy loan for Panama to help it strengthen fiscal management, improve tax collection, and expand key social programs.

The Martinelli government enacted two tax reform measures in 2010 that reduced corporate and personal income tax rates, and offset the loss of revenue by raising the sales tax from 5% to 7% (not including food) and raising other taxes on banks, casinos, airlines, and the free-trade zone, with a projected net increase in revenue. The government maintains that additional revenue from the reform will be used to augment social expenditures (such as scholarships and cash transfers to the elderly), although critics of the measure maintain that the poor will be hit by an increase in the cost of living. The measures prompted protests against the government, with violent clashes between police and demonstrators. The tax measure, however, also led to an upgrading of Panama's investment-grade credit rating.

In addition to the ongoing Panama Canal expansion project, the Martinelli government also initiated other infrastructure projects, including most significantly the building of an urban metro system for Panama City. Other projects include an expansion of Panama City's international airport and regional airports, a new bridge over the Atlantic side of the Canal, and highways, schools, and hospitals around the country.

Corruption

Concern about public corruption remains high in Panama. The World Economic Forum's report on global competiveness shows that corruption is viewed by business executives as the most problematic factor for doing business in Panama. According to the report, while Panama has improved its overall competitiveness, public trust in politicians is low and judicial independence is judged to be one of the lowest in the region.[27] President Martinelli has at times defended his cabinet ministers accused of corruption, while in other cases he has taken action to fire government officials or, in one case, let a minister resign on his own. Reports in Panama's press have chronicled allegations of corruption against government officials. In June 2011, the Martinelli government and the U.N. Office on Drugs and Crime (UNODC) signed an agreement to establish a regional anti-corruption academy in Panama. According to UNODC, the academy will offer specialized courses to equip prosecutors, judges, police officers, and other public officials with skills in the prevention, detection, and prosecution of corruption in public offices.

[26] "Country Report: Panama," *EIU*, October 2012.

[27] World Economic Forum, *The Global Competitiveness Report 2012-2013*, pp. 31, 33, and 286.

Crime

Another challenge for the Martinelli government has been dealing with crime, which increased significantly in 2008 and 2009. From 2000 to 2007, according to the UNODC, the annual homicide rate averaged about 11.1 1 homicides per 100,000 inhabitants, but subsequently increased to 19.2 100,000 in 2008 and 23.6 per 100,000 in 2009. In terms of numbers, Panama had 818 murders in 2009, a 25% increase over 2008, with drug trafficking reportedly the driving force behind the increase.[28]

During the 2009 electoral campaign, Martinelli proposed a safe streets program that included increasing the number of police and raising police pay. In February 2010, President Martinelli announced an expansion of the national police force with an additional 4,000 officers that would raise the total force to over 15,000.[29] According to the U.S. Department of State, efforts by the Panamanian National Police have had an impact on reducing crime.[30] The number of murders fell to 759 in 2010 (a decline of 8% from the previous year), according to UNODC.[31] In 2011, the number of murders continued to fall to a reported 704 homicides (almost a 7% decline), according to the U.S. Department of State, giving Panama a homicide rate of 19.3 per 100,000 for the year.[32]

Human Rights Issues

The Panamanian government generally respects human rights, but, as noted by the State Department in its 2011 human rights report (issued in May 2012), human rights problems continue in a number of areas. Among the principle problems cited were harsh prison conditions, judicial ineffectiveness, and discrimination against various groups (especially indigenous groups) and individuals, including some cases of violence. The State Department reported that the judiciary was susceptible to corruption and outside influence and faced allegations of manipulation of power by other government branches. It also noted, however, Panamanian government efforts to improve the functioning of the judiciary, including the implementation of a new code of criminal procedure (accusatory system of justice) in two provinces that should help speed up the administration of justice. The State Department also described some efforts by the government to improve prison and detention center conditions, including the establishment of a Penitentiary Training Academy to address human rights, prisoner rights, and penitentiary law.

Other human rights abuses, according to the State Department report, included problems with freedom of the press, trafficking in persons, and child labor.[33] For several years, successive Panamanian governments have used a variety of means to impede the media's freedom of expression. In January 2011, a draft law that would have allowed anyone convicted of insulting the president or an elected official to be sentenced to prison was withdrawn from consideration in

[28] United Nations Office on Drugs and Crime (UNODC), Homicide Statistics 2012, "Intentional Homicide Count and Rate per 100,000 Population (1995-2011)," available at http://www.unodc.org/unodc/en/data-and-analysis/homicide.html; "Panama: Drug-Fueled Violence on the Increase," *Noticen, Central American & Caribbean Affairs*, January 28, 2010.

[29] "Panama Politics: President's Popularity Slips," *EIU ViewsWire*, March 23, 2010.

[30] U.S. Department of State, Bureau of Diplomatic Security, "Panama 2012 Crime and Safety Report," April 6, 2012.

[31] UNODC, op. cit.

[32] U.S. Department of State, "Panama 2012 Crime and Safety Report," op. cit.

[33] U.S. Department of State, "2011 Country Reports on Human Rights Practices, Panama," May 24, 2012, available at http://www.state.gov/documents/organization/186743.pdf

the National Assembly after strong criticism by journalists and press rights groups.[34] Child labor violations reportedly occur most frequently in rural areas at harvest time and in the informal sector.

With regard to broader worker rights, the State Department notes that while Panamanian law recognizes the right of private-sector workers to form and join unions of their choice, the law requires a minimum of 40 persons to a form a union and only one trade union is allowed per business. The International Labor Organization (ILO) Committee of Experts criticizes both provisions as violations of workers' rights to organize. As noted above, Panama experienced labor unrest in July 2010 after the government approved legislation weakening labor laws in several respects, but the government subsequently repealed those provisions. In the lead up to the U.S. congressional approval of implementing legislation for the bilateral free trade agreement in 2011, Panama approved two new laws in April of that year that eliminated restrictions on collective bargaining for companies export processing zones, companies less than two years old, and companies in the special economic zone in the Barú region of Chiriquí province. (For more, see "Free Trade Agreement" discussion below.)

In February 2012, two protestors were killed during several days of clashes between police and indigenous protestors in Chiriquí province, while in late October 2012, three people were killed in clashes with police in the city of Colón during protests over a government proposal to sell state lands in the Colón Free Zone. In both cases, Amnesty International raised concerns about allegations of excessive use of force by security forces to disperse demonstrators. Similar concerns had been raised in July 2010 when two protestors were killed and hundreds of people injured in clashes with security forces during labor protests.

Over the years, violence from the civil conflict in neighboring Colombia has resulted in thousands of displaced persons seeking refuge in the neighboring Darién province of Panama. Many of the Colombians have lived in Panama for years, have given birth to children in Panama, and do not want to return to Colombia because of family and cultural ties to local Panamanian communities. According to the State Department's human right report, the Panamanian government restricts the movement of some 1,500 displaced persons Colombians in the Darién region covered under "temporary humanitarian protection." While the majority of the displaced are Afro-Colombians, there have also been indigenous people from Colombia who have fled to Panama because of the violence.

In addition to those under "temporary humanitarian protection," the State Department's notes that there were some 2,500 refugees and asylum seekers in Panama, while the Office of the U.N. High Commissioner for Refugees (UNHCR) classifies some 15,000 people in Panama as "persons of concern" in need of international protection. UNHCR has a permanent office in Panama that provides services to refugees.

2014 Presidential Election

While Panama's next presidential election is not scheduled until May 2014, the country will be gearing up for the race in early 2013. The Democratic Revolutionary Party (PRD) is scheduled to hold a primary in early February 2013, with former mayor of Panama City Juan Carlos Navarro the favorite, and the Panameñista Party (PP) is scheduled to hold a primary in March 2013, with Vice President Varela the favorite. Martinelli's Democratic Change party has not announced the date of its party primary. Martinelli is not eligible to run since Panama's Constitution only allows

[34] "Withdrawal of Proposal to Introduce Jail Terms for Insulting the President," Reporters Without Borders, January 12, 2011.

for a president to return to power after two terms (10 years). There was speculation in the past about Martinelli wanting to amend the Constitution to allow for successive re-election, but this has been very unpopular in public opinion polls. Moreover, such a constitutional amendment was soundly defeated by a wide margin in a national referendum in 1998. Some observers maintain that President Martinelli might attempt to initiate a constitutional amendment to allow for re-election after one presidential term (five years).

U.S.-Panama Relations

Since the 1989 U.S. military intervention that ousted the regime of General Manuel Antonio Noriega from power (see "Background on the 1989 U.S. Military Intervention"), the United States has had close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. According to the Department of State, there are some 45,000 Americans in Panama at any given time, including tourists and those who reside in Panama, such as retirees of the former Panama Canal Commission and those who hold dual nationality. There are growing numbers of American retirees in the western part of the country in Chiriquí province.[35]

The current U.S. relationship with Panama is characterized by extensive cooperation on counternarcotics efforts; support to promote Panama's economic, political, and social development; and a bilateral free trade agreement (FTA) that was approved by Congress in October 2011 and entered into force on October 31, 2012. Panama sought the FTA in order to make trade rules with the United States permanent, and perhaps more significantly, to promote increased foreign investment in the country. The United States has stressed that the FTA with Panama, in addition to enhancing trade by giving the United States greater access to Panama's growing market, would also provide greater access to Panama's large services market. According to the U.S. officials, Panama's strategic location as a major shipping route (with about 10% of U.S. international trade passing through the Canal), enhances the significance of the FTA for the United States.[36] Panama is currently in the midst of a $5.25 billion expansion of the Panama Canal, and has identified almost $10 billion in additional infrastructure projects in coming years that could provide opportunities for U.S. companies.[37]

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

[35] U.S. Department of State, Background Note: Panama, March 26, 2012.

[36] Office of the United States Trade Representative, Statement by Ambassador Miriam Sapiro, Deputy United States Trade Representatives, Statement before the House Committee on Ways and Means, Subcommittee on Trade, March 30, 2011.

[37] Office of the United States Trade Representative, "Benefits of the U.S.-Panama Trade Promotion Agreement," April 19, 2011.

U.S. Foreign Aid and Other Support

Because of Panama's relatively high per capita income level, the United States has not provided large amounts of foreign aid to Panama in recent years. Nevertheless, aid has included development assistance to improve business competitiveness and trade-led economic growth; child, survival, and health assistance to help in the fight against HIV/AIDS and malaria; and security assistance to improve Panama's counterterrorism capabilities, border security programs, and maritime interdiction. U.S. bilateral assistance (not including Peace Corps) amounted to $3 million in FY2011 and an estimated $2.8 million in FY2012.

The FY2013 bilateral foreign aid request of $3.7 million for Panama is broken down into the following foreign aid accounts as follows: $2.8 million for Foreign Military Financing (FMF) to be used to train and equip Panama's National Border Service (SENAFRONT) and National Air-Naval Service (SENAN), provide spare parts for boats and communications equipment for maritime services, and procure vehicles for Panama's Public Forces; $720,000 for International Military Education and Training (IMET) to support training and professionalization of Panama's Public Forces and civilian personnel involved in security-related duties; and $135,000 for Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) assistance to strengthen the capacity of the Panamanian government to combat terrorist threats and secure its borders. (Congress has not yet completed FY2013 foreign aid appropriations legislation, but it approved a continuing appropriations resolution in September 2012 [H.J.Res. 117, P.L. 112-175] through March 27, 2013, at the same rate for projects and activities in FY2012, plus an across-the-board increase of 0.612%. It is unclear, however, how much Panama will be allocated under this legislation.)

This funding does not include two other types of assistance that Panama receives from U.S. centralized or regional programs. First, Panama receives some aid from U.S. regional programs implemented by the U.S. Agency for International Development (USAID) to combat HIV/AIDS and malaria. Second, Panama has been receiving significant amounts of assistance since FY2008 initially under the Mexico-focused Mérida Initiative and, beginning in FY2010, under the Central America Regional Security Initiative (CARSI) that assists countries in their efforts to combat drug trafficking and organized crime. While Panama was reported to have received an estimated $11 million under the Mérida Initiative for FY2008/FY2009, the Administration has not provided public information on how much each Central American country is receiving under CARSI. Overall Central America funding for the Mérida Initiative/CARSI program amounted to almost $497 million from FY2008-FY2012, with another $107.5 million requested in FY2013.[38]

A number of U.S. agencies provide support to Panama. The Peace Corps has about 230 volunteers in the country working on a range of development projects. The State Department, the Drug Enforcement Administration, the U.S. Coast Guard, and the Department of Homeland Security are involved in providing counternarcotics support to Panama. The U.S. Southern Command (Southcom) provides support to Panama through military exercises providing humanitarian and medical assistance, and at times provides emergency assistance in the case of natural disasters such as floods or droughts. Southcom has sponsored annual multinational training exercises since 2003 focused on the defense of the Panama Canal. Panama hosts the Smithsonian Tropical Research Institute dedicated to studying biological diversity. Panama also participates in the Container Security Initiative (CSI) operated by the U.S. Customs and Border Protection of the Department of Homeland Security, and the Megaports Initiative run by the National Nuclear Security Administration of the Department of Energy. For many years, USAID had a mission in

[38] For additional information on CARSI, see CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by Peter J. Meyer and Clare Ribando Seelke.

Panama administering U.S. foreign aid programs. Because of Panama's progress in economic development, USAID was able to close its Panama mission in September 2012, but will continue to provide support for some programs through its Central America Regional program based in El Salvador.

Port Security and Other Counterterrorism Efforts

Panama also participates in the Container Security Initiative (CSI) operated by the U.S. Customs and Border Protection of the Department of Homeland Security, and the Megaports Initiative run by the National Nuclear Security Administration of the Department of Energy. Three Panamanian ports—Balboa, Colón, and Manzanillo—participate in the CSI, while those three ports plus the port of Cristobal participate in the Megaports Initiative. The CSI uses a security regime to ensure that containers that pose a potential risk for terrorism are identified and inspected at foreign ports before they are placed on vessels destined for the United States. The Megaports Initiative involves deploying radiation detection equipment in order to detect nuclear or radioactive materials.

The State Department's *Country Reports on Terrorism 2011*, issued in July 2012, maintained that "the most direct terrorism threat to Panama was the persistent presence of small unit of the Revolutionary Armed Forces of Colombia (FARC)" in the Darién province bordering Colombia.[39] A small number of FARC members from the guerrilla group's 57th Front were reported to operate in the Darién, using the area as a safe haven. Panama's government has stepped up its efforts in recent years to confront this presence by patrolling the province and conducting raids against FARC camps. Panama has cooperated closely with Colombia to secure its border. President Martinelli stated in May 2012 that his country would soon have sovereignty over all its national territory because of its efforts to expel the FARC from Darien province.[40] In 2012, the government has continued to conduct raids on FARC camps in the region.

With regard to countering terrorist finance, the State Department terrorism report maintained that Panama had an adequate legal and regulatory framework for countering terrorist finance, although the report also contended that "uneven enforcement of the existing anti-money laundering and terrorist finance controls ... coupled with the weak judicial system, remained a problem." The report also noted that the Colón Free Zone remained vulnerable to abuse for illicit finance.

With regard to the protection of the Panama Canal, the United States and Panama have continued to work together to plan for potential incidents that could close the Canal. Since 2003, Panama has participated in annual PANAMAX defense exercises with the United States and a number of other Latin American countries focused on ensuring the security of the Canal. The most recent exercise was held in August 2012 involving 17 nations in the region and more than 1,000 military personnel.

Cooperation to Combat Drug Trafficking and Money Laundering

An important concern for U.S. policymakers over the years has been securing Panamanian cooperation to combat drug trafficking and money laundering. Panama is a major transit country for illicit drugs from South America to the U.S. market because of its geographic location and its large maritime industry and containerized seaports. The State Department's March 2012

[39] U.S. Department of State, *Country Reports on Terrorism 2011*, July 31, 2012, "Western Hemisphere Overview" section available at http://www.state.gov/j/ct/rls/crt/2011/195546.htm

[40] "Martinelli Asegura Que Expulsará a las FARC de Región Fronteriza del Darién," *Agencia EFE*, May 31, 2012.

International Narcotics Control Strategy Report (*INCSR*) maintains that Colombian and Mexican drug trafficking operations and a unit of the Revolutionary Armed Forces of Colombia (FARC) have used Panama's remote spaces (such as the Darién region bordering Colombia), its coastline and littoral zones, and its transportation infrastructure to move drugs through the country's territory. Panama's large financial sector and the Colón Free Zone (CFZ) also make the country vulnerable to money laundering. According to the *INCSR*, the majority of money laundering is believed primarily to be related to drug trafficking. The CFZ also reportedly continues to be vulnerable to abuse by criminal groups through illicit financial activities, largely because of insufficient enforcement of existing controls. (Also see further discussion of "Colón Free Zone" below.)

The State Department maintains that the Martinelli government is continuing Panama's history of close counternarcotics cooperation with the United States. Panama seized 34 metric tons of cocaine in 2011 compared to 49.5 metric tons in 2010. According to the State Department, the decrease is likely because of the disruption of established trafficking organizations, a shift in trafficking trends away from multi-ton shipments, and Panama's increased deployment of anti-drug assets around the country.

Since 2009, the Martinelli government has established several air and naval anti-drug bases on both the Pacific and Caribbean sides of the country in an effort to increase the ability of its security forces to interdict suspected trafficking vessels. In early October 2012, President Martinelli inaugurated the construction of the first of 19 radar systems that will cover both coasts of the country and form part of a strategy to deter and interdict drug shipments attempting to transit the country.

U.S. counternarcotics support has included programs to improve Panama's ability to intercept, investigate, and prosecute illegal drug trafficking; strengthen Panama's judicial system; improve Panama's border security; and promote strict enforcement of existing laws. The United States has provided resources to modernize, train, and maintain vessels and facilities of the National Air-Naval Service (SENAN), the National Border Service (SENAFRONT), the National Police (PNP), and the Ministry of Public Security; assisted with training and maintenance for aircraft involved in interdiction efforts; supported and encouraged a growing training program of Panama's security forces by Colombian police; and supported a law enforcement modernization project within the PNP. In the March 2012 *INCSR*, the State Department encourages Panama to devote more resources to the modernization of its security and justice services, and maintains that Panama would be strengthened by a renewed focus on law enforcement modernization, anti-corruption, strategic planning, judicial and prosecutorial reform, decentralization of decision making, and a stronger focus on community-oriented policing.

Panama has made significant progress in strengthening its anti-money-laundering regime since June 2000, when it was cited as a non-cooperative country in the fight against money laundering by the Financial Action Task Force (FATF), a multilateral anti-money-laundering body. Subsequently, the government undertook a comprehensive effort to improve its anti-money-laundering regime by enacting two laws and issuing two decrees in 2000. As a result of these efforts, the FATF removed Panama from its non-cooperative country list in June 2001.

Panama has made progress over the past two years in improving the transparency of its financial system. It signed a Tax Information Exchange Agreement (TIEA) with the United States in November 2010, and by early July 2011 had signed enough tax agreements with other countries for the Organization for Economic Co-operation and Development (OECD) to remove the country from its so-called "gray list," a list of countries judged not to have implemented an internationally agreed tax standard. (Jurisdictions that have signed at least 12 such agreements for the exchange of tax information are considered by the OECD to have substantially implemented

the tax standard and are removed from the list.) It should be noted, however, that although Panama was removal from the OECD's "gray list," the country will still be subject to peer reviews of its legal and regulatory system for the exchange of information for tax purposes.

For a number of years, the State Department has expressed concern about Panama's use of bearer shares, often associated with money laundering, and maintained that the government should take steps to eliminate or immobilize these financial instruments. Panama took action on this issue on February 1, 2011, when President Martinelli signed into law bearer shares or "know your client" legislation. While Panama has made significant progress in improving its anti-money laundering regime, the State Department maintains in its March 2012 *INCSR* that the government's uneven enforcement and a weak judicial system susceptible to corruption and favoritism facilitates the work of money launderers.

Both the signing of a TIEA with the United States and Panama's approval of legislation related to "bearer shares" were issues raised by the United States in order to secure congressional approval of implementing legislation for the bilateral free trade agreement. (See "Road to U.S. Congressional Approval: Resolving Labor and Tax Issues" below.)

U.S. Commercial Relations and the Free Trade Agreement

Panama has a largely services-based economy, and has historically run a merchandise trade deficit with the United States. In 2011, the United States ran a $7.9 billion trade surplus with Panama, exporting about $8.2 billion in goods and importing $389 million. Panama's major exports to the United States include fish and seafood, gold, sugar, and fresh fruits. Major imports from the United States include oil, machinery, aircraft, consumer goods, and foodstuffs. The stock of U.S. foreign direct investment in Panama was estimated at $5.7 billion in 2011 (based on a historical-cost basis), led by the finance/insurance and wholesale trade sectors.

Until the bilateral free trade agreement (FTA) entered into force on October 31, 2012, Panama had been a beneficiary of specialized U.S. preferential import programs for Caribbean Basin nations for almost 28 years.[41] The Caribbean Basin Initiative (CBI) began in 1984 pursuant to the Caribbean Basin Economic Recovery Act (CBERA). The program was amended several times and was made permanent in 1990 in so-called CBI II legislation. CBI benefits were expanded in 2000 with the enactment of the Caribbean Basin Trade Partnership Act (CBTPA), which provided NAFTA-equivalent trade benefits, including tariff preferences for textile and apparel goods, to certain CBI countries, including Panama. In May 2010, Congress approved an extension of CBTPA benefits through September 2020 (P.L. 111-171). With the FTA entering into force at the end of October 2012, its benefits replaced those for Panama under the CBERA, CBTPA, as well as broader U.S. trade preferences in the U.S. Generalized System of Preferences (GSP).

Free Trade Agreement

Panama and the United States began negotiations for a free trade agreement in April 2004. There had been expectations that the negotiations would be completed in early 2005, but continued contention over several issues and a lengthy hiatus prolonged the negotiations until December 2006. Issues included market access for agricultural products, considered sensitive by Panama; procurement provisions for the Panama Canal Authority regarding expansion activities; and sanitary control systems governing the entry of U.S. products and animals to the Panamanian market. Negotiations were suspended for some time in 2006 until after Panama held its Canal

[41] Panama was not a beneficiary of the CBI from 1988-1989 when the United States was applying economic sanctions on the country during the rule of General Manuel Noriega.

expansion referendum in October, but a 10th round led to the conclusion of negotiations on December 19, 2006. In December 2006, Panama and the United States also signed a bilateral agreement on sanitary and phytosanitary measures in which Panama recognized the equivalence of the U.S. food safety inspection to those of Panama and no longer required individual plant inspections.

When the FTA negotiations were concluded, then-U.S. Trade Representative Susan Schwab stated that the agreement would be subject to additional discussions on labor, and that the Administration would work with both sides of the aisle in Congress to ensure strong bipartisan support before submitting it to Congress.[42] On May 10, 2007, congressional leaders and the Bush Administration announced a bipartisan trade deal whereby pending free trade agreements would include enforceable key labor and environmental standards. This included an obligation to adopt and maintain in practice five basic internationally recognized labor principles: freedom of association; recognition of the right to collective bargaining; elimination of forced or compulsory labor; abolition of child labor; and elimination of discrimination in respect of employment and occupation.

The United States and Panama ultimately signed the proposed FTA on June 28, 2007, with the enforceable labor and environmental standards outlined in the bipartisan trade deal. Panama's National Assembly ratified the agreement on July 11, 2007, by a vote of 58 to 3, with one abstention. After more than four years, the U.S. Congress approved implementing legislation for the FTA on October 12, 2011 (P.L. 112-43).

After the FTA was approved by both countries, work began on the implementation of the agreement over the next year. On October 22, 2012, U.S. Trade Representative Ron Kirk and Panamanian Minister of Commerce and Industry Ricardo Quijano exchanged letters determining that the agreement would enter into force on October 31, 2012. According to the Office of the United States Trade Representative (USTR), both countries completed a thorough review of their respective laws and regulations related to the implementation of the agreement.[43] In late September 2012, Panama's National Assembly had approved a package of final laws needed for FTA implementation, including laws related to the country's copyright and intellectual property rights regime, and President Martinelli signed the measures into law by October 10, 2012, along with an executive decree related to the way Panama administers its tariff-rate quotas. This cleared the way for the exchange of letters and for the FTA to enter into force.[44]

Under the FTA, over 86% of U.S. exports of consumer and industrial goods became duty-free when the agreement entered into force, while remaining tariffs will be phased out over 10 years. Almost 50% of U.S. agricultural exports to Panama became duty-free immediately, while tariffs on most remaining farm products will be phased out within 15 years. Under the FTA, U.S. companies are to be guaranteed a fair and transparent process to sell goods and services to Panamanian government entities, including the Panama Canal Authority. The agreement provides improved access to Panama's $22 billion services market, which includes financial, telecommunications, computer, express delivery, energy, environmental, and energy services. In

[42] Rosella Brevetti, "Panama, United States Conclude Negotiations on Free Trade Pact," but Labor Issues Remain," *International Trade Daily*, December 20, 2006.

[43] USTR, "United States, Panama Set Date for Entry into Force of United States-Panama Trade Promotion Agreement," Press Release, October 22, 2012.

[44] Rosella Brevetti, "Officials Say U.S.-Panama FTA on Brink of Being Implemented," *International Trade Reporter*, October 11, 2012; "Panamanian Congress Advances Bills Required for FTA Implementation," *Inside U.S. Trade*, September 27, 2012; and "Panama Completes All Outstanding Steps for FTA Implementation," *Inside U.S. Trade*, October 11, 2012.

addition to the $5.25 billion Canal expansion project, scheduled for completion in 2015, Panama has identified almost $10 billion in additional infrastructure projects in coming years that could provide opportunities for U.S. companies.[45]

For additional information, see the USTR's website on the U.S.-Panama FTA, available at http://www.ustr.gov/uspanamatpa; also see CRS Report RL32540, *The U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck.

Road to U.S. Congressional Approval: Resolving Labor and Tax Issues

The U.S. Congress had been likely to consider implementing legislation for the agreement in the fall of 2007, but the September 1, 2007, election of Pedro Miguel González of the ruling PRD to head Panama's legislature for one year delayed consideration of the FTA. González is wanted in the United States for his alleged role in the murder of U.S. Army Sergeant Zak Hernández and the attempted murder of U.S. Army Sergeant Ronald Marshall in June 1992. The State Department issued a statement expressing deep disappointment about the election of González because of his October 1992 indictment in the United States for the murder of Sergeant Hernández. Although González was acquitted in Panama in 1997 for the Hernández murder, observers maintain that the trial was marred by jury rigging and witness intimidation. González denies his involvement, and his lawyer asserts that ballistic tests in the murder were inconclusive. While polls in Panama in 2007 showed that Panamanians believed that González should have stepped down, the case also energized the populist anti-American wing of the ruling PRD.[46] González did not seek a second term as president of the National Assembly when his term expired on September 1, 2008, and another PRD official was elected Assembly president. This essentially removed the issue as an impediment to U.S. congressional consideration of the FTA, although implementing legislation was not introduced until the 112th Congress.

In order to secure congressional approval, the Obama Administration focused on working out final issues with Panama related to labor rights and tax transparency, and on April 18, 2011, United States Trade Representative Ron Kirk maintained that completion of action on these issues had cleared the way for technical discussions with Members of Congress on the draft implementing bill for the Panama FTA.[47]

The United States raised labor issues related to restrictions on collective bargaining rights in Panama's export processing zones (EPZs) and the right to strike in companies less than two years old. Legislation addressing both issues was approved by Panama's National Assembly in late March 2011 and signed into law by President Martinelli on April 5, 2011. The legislation eliminated restrictions on collective bargaining in EPZs and also eliminated the prohibition against the right to strike in companies less than two years old.

Another labor issue raised by the United States related to labor rights in a special economic zone in Panama's Barú region in the western province of Chiriquí. The law that had established the

[45] Office of the United States Trade Representative, "Benefits of the U.S.-Panama Trade Promotion Agreement," April 19, 2011; USTR, "United States, Panama Set Date for Entry into Force of United States-Panama Trade Promotion Agreement," Press Release, October 22, 2012.

[46] Marc Lacey, "Fugitive from U.S. Justice Leads Panama's Assembly," *New York Times*, November 28, 2007.

[47] Office of the United States Trade Representative, "Ambassador Ron Kirk Announces Next Step for U.S.-Panama Trade Promotion Agreement," April 18, 2011. Also see White House, Office of the Press Secretary, "Fact Sheets: U.S.-Panama Trade Promotion Agreement," April 19, 2011, available at http://www.whitehouse.gov/the-press-office/2011/04/19/fact-sheets-us-panama-trade-promotion-agreement.

special zone made collective bargaining discretionary for six years.[48] In late March 2011, Panama's National Assembly approved legislation that extended full collective bargaining rights to workers in the special economic zone in Barú, and President Martinelli signed the measure into law on April 5, 2011.[49]

With regard to tax transparency issues, some Members of Congress had wanted to delay consideration of the Panama FTA until the United States and Panama signed a Tax Information Exchange Agreement (TIEA). This ultimately occurred on November 30, 2010. In a joint declaration at the signing of the TIEA, both countries agreed that the agreement would take effect as soon as practicable after Panama approves implementing legislation under its domestic laws to comply fully with the terms of the agreement. As noted in the declaration, Panama also maintained that it would enact legislation requiring the identification of the owners of bearer shares, an issue that U.S. officials have raised with Panama for a number of years.[50] Such legislation on bearer shares, also referred to as "know your client" legislation, was signed into law by President Martinelli on February 1, 2011. Panama's National Assembly subsequently approved the TIEA on April 13, 2011, and the measure was enacted into law and entered into force on April 18, 2011. According to the Treasury Department, the agreement provides the United States with access to information it needs to enforce U.S. tax laws, including information related to bank accounts in Panama. It permits both countries to seek information from each other on all types of national taxes in both civil and criminal matters for tax years beginning on or after November 30, 2007.[51]

Legislative Action on the FTA

Several measures were introduced early in the 112th Congress in support of the FTA with Panama. S.Res. 20 (Johanns), introduced January 25, 2011, would have expressed the sense of the Senate that the United States should immediately approve FTAs with Panama, Colombia, and South Korea. S. 98 (Portman), introduced January 25, 2011, would, among other provisions, expressed the sense of Congress that the President should submit the Panama, South Korea, and Colombia FTAs to Congress and that Congress should approve those agreements. H.Res. 86 (Frelinghuysen), introduced February 11, 2011, would have expressed the sense of the House that the Panama, Colombia, and South Korea FTAs should be implemented immediately.

Hearings were held in both houses in the 112th Congress on the proposed FTA with Panama. The House Ways and Means Committee held a hearing on the pending FTAs with Colombia, Panama, and South Korea on January 25, 2011.[52] A Senate Foreign Relations Committee minority staff report issued on February 8, 2011, urged the Administration to invest the political capital needed

[48] "U.S. Focused on Labor Laws for New Panama Economic Zone," *Inside U.S. Trade*, February 17, 2011. Also see U.S. Department of State, "Country Reports on Human Rights Practices: Panama," April 8, 2011.

[49] Office of the United States Trade Representative, Statement by Ambassador Miriam Sapiro, Deputy United States Trade Representatives, Statement before the House Committee on Ways and Means, Subcommittee on Trade, March 30, 2011; and "Panama Moves Closer to Completing All Steps Necessary for FTA Vote," *Inside U.S. Trade*, April 1, 2011.

[50] U.S.-Panama Tax Information Exchange Agreement, Joint Declaration, November 30, 2010, available at http://www.treasury.gov/resource-center/tax-policy/treaties/Documents/PanamaTIEAnote.pdf.

[51] U.S. Department of the Treasury, Press Release, "U.S., Panama Sign New Tax Information Exchange Agreement," December 1, 2010. See the full text of the TIEA, available at http://www.treasury.gov/resource-center/tax-policy/treaties/Documents/PanamaTIEA10.pdf.

[52] See the witness testimony from the hearing, available at http://waysandmeans.house.gov/Calendar/EventSingle.aspx?EventID=220430.

to secure approval of the Panama and Colombia FTAs.[53] The House Committee on Ways and Means, Subcommittee on Trade, and the Senate Finance Committee held respective hearings on February 9 and March 9 on the President's trade agenda featuring United States Trade Representative Ron Kirk. The House Committee on Foreign Affairs Subcommittee on the Western Hemisphere, held a hearing on the Colombia and Panama free trade agreements on March 17. The House Committee on Ways and Means, Subcommittee on Trade, held a hearing on the Panama FTA on March 30, 2011, featuring Deputy United States Trade Representative Miriam Sapiro and outside witnesses.[54] The Senate Finance Committee followed up with a hearing on the Panama FTA on May 25, 2011, that also featured the Deputy United States Trade Representative.[55]

Mock markups of draft implementing bills for the FTA were held on July 7, 2011, with the House Ways and Means Committee approving a draft bill along party lines by a vote of 22-15 and the Senate Finance Committee approving it by a vote of 22-2. Introduction of the final bill awaited congressional agreement on consideration of trade adjustment assistance (TAA) legislation.[56] Once the TAA issue was resolved, President Obama submitted implementing legislation for the Panama FTA on October 3, 2011 (H.R. 3079 and S. 1643). The House Ways and Means approved the measure on October 5, 2011, by a vote of 32-3 and the bill was reported on October 6, 2011 (H.Rept. 112-238), while the Senate Finance Committee reported its measure on October 11, 2011, without a written report. Both houses approved H.R. 3079 on October 12, 2011 (the House by a vote of 300-129 and the Senate by a vote of 77-22), and the President signed the measure into law on October 21 as P.L. 112-43.

Colón Free Zone

Panama's Colón Free Zone (CFZ), located at the Atlantic gateway to the Panama Canal, is the world's second-largest free trade zone after Hong Kong. The vast trade volume that traverses the Panama Canal as well as Panama's modern financial sector and central location in the Americas make Colón a logical, if not ideal, place for a duty free zone. It serves as a "one stop shop" for both Latin American buyers and sellers from the rest of the world, including Asia and the United States. Sellers operate showrooms targeted at small- and medium-sized buyers, who make wholesale purchases of goods for retail sale in their respective countries. CFZ imports include a broad array of luxury goods, electronic products, clothing, and other consumer products, with Hong Kong the largest supplier and Colombia and Ecuador the largest destinations for CFZ exports.[57]

The U.S. Department of Commerce maintains that the CFZ offers a significant opportunity for U.S. retail companies to export to Latin America. According to the agency, U.S. companies can save time, grow sales, reduce complexity, and reduce financial risk by using the CFZ to export to

[53] U.S. Congress, Senate Committee on Foreign Relations, *Losing Jobs and Alienating Friends: The Consequences of Falling Behind on Free Trade with Colombia and Panama*, committee print, 112th Cong., 1st sess., February 8, 2011, S. Prt. 112-?? (Washington: GPO, 2011), available at http://lugar.senate.gov/issues/foreign/lac/FTA.pdf.

[54] See the testimony of the March 30, 2011 hearing at http://waysandmeans.house.gov/Calendar/EventSingle.aspx?EventID=230458.

[55] See the statements of the May 25, 2011 Senate Finance Committee hearing, available at http://finance.senate.gov/hearings/hearing/?id=fbdf8ce6-5056-a032-522a-f5ebc033b713.

[56] For background on TAA, see CRS Report R41922, *Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy*, by J. F. Hornbeck and Laine Elise Rover.

[57] U.S. Department of Commerce, U.S. Commercial Service, "Doing Business in Panama 2012," April 2012.

the region.[58] The CFZ has its limitations, however, including that it only covers consumer retail products (with no perishables and very little capital equipment); it is not suitable for exporting to larger countries such as Brazil and Mexico, which have their own internal buying structures; and some CFZ merchants should be avoided because of their poor reputation related to involvement in illicit activities.[59]

On this last point, the Department of State maintains that the CFZ is vulnerable to abuse by criminal groups through illicit financial activities, largely because of Panama's insufficient enforcement of existing controls. It maintains that a new electronic transaction recording information system for the CFZ will improve the capacity to trace transactions when the system is fully implemented.[60] (Also see "Cooperation to Combat Drug Trafficking and Money Laundering" above.)

Operation and Security of the Panama Canal

Historical Background and the Panama Canal Treaties

When Panama proclaimed its independence from Colombia in 1903, it concluded a treaty with the United States for U.S. rights to build, administer, and defend a canal cutting across the country and linking the Pacific and Atlantic oceans. (See **Figure 1**, "Map of Panama.") The treaty gave the United States rights in the so-called Canal Zone (about 10 miles wide and 50 miles long) "as if it were sovereign" and "in perpetuity." Construction of the Canal was completed in 1914. In the 1960s, growing resentment in Panama over the extent of U.S. rights in the country led to pressure to negotiate a new treaty arrangement for the operation of the Canal. Draft treaties were completed in 1967 but ultimately rejected by Panama in 1970.

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

Some treaty critics have argued that Panama did not accept the amendments, conditions, reservations, and understandings of the U.S. Senate, including the DeConcini condition to the Neutrality Treaty. That condition states: "if the Canal is closed, or its operations are interfered with, the United States of America and the Republic of Panama shall each independently have the right to take such steps as each deems necessary, in accordance with its constitutional processes, including the use of military force in the Republic of Panama, to reopen the Canal or restore the operations of the Canal, as the case may be." However, others argued that Panama, in fact, had

[58] U.S. Department of Commerce, U.S. Commercial Service, "Sell Through Panama's Colon Free Trade Zone to the Region –a U.S. Export Opportunity," May 2011.

[59] Ibid.

[60] U.S. Department of State, *International Narcotics Control Strategy Report, Volume II, Money Laundering and Financial Crimes*, March 2012, pp. 149-151.

accepted all U.S. Senate amendments. The State Department asserted that Panama expressly accepted all amendments, conditions, and understandings to the two treaties, including the DeConcini condition. The United States and Panama signed the instruments of ratification for both treaties, which incorporated all the Senate provisions. The two countries cooperated throughout the years on matters related to the Canal and established five binational bodies to handle these issues. Two of the bodies were set up to address defense affairs and conducted at least 16 joint military exercises between 1979 and 1985 involving Panamanian and U.S. forces.

Canal Transition and Current Status

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

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

The secure operation of the Panama Canal remains a U.S. interest since the Canal is important for U.S. ocean-borne trade. The Canal's largest trade route in FY2010 for ocean-borne cargo was between the east coast of the United States and Asia, which comprised almost 41% of total Panama Canal long tons cargo traffic. The Canal's second-largest trade route in FY2010 was between the east coast of the United States and the west coast of South America, which comprised almost 12% of total Panama Canal long tons cargo traffic. The United States provides assistance to Panama to improve its ability to provide security for the Canal and to enhance port and maritime security. U.S. officials have consistently expressed satisfaction that Panama is running the Canal efficiently, and since 2003, the U.S. military has conducted exercises with Panama and other countries to protect the Canal in case of attack.

Since the ACP has run the Canal beginning in 2000, it has been lauded for increasing Canal safety and efficiency. In September 2012, Jorge Luis Quijano was appointed by the ACP's Board of Directors to become the new Canal administrator for a seven-year term, succeeding Alberto Alemán Zubieta who had served as administrator since 1996. Quijano, an engineer, has worked at the Canal since 1975, and led the Canal expansion project beginning in 2006.

Canal Expansion Project

In April 2006, the Panama Canal Authority presented to then-President Torrijos its recommendation to build a third channel and new set of locks (one on the Atlantic and one on the Pacific) that would double the capacity of the Canal and allow it to accommodate giant container cargo ships known as post-Panamax ships. The project would also widen and deepen existing channels and elevate Gatun Lake's maximum operating level. The estimated cost of the seven-year project is $5.25 billion, to be self-financed by the ACP through graduated toll increases and external bridge financing of about $2.3 billion that would be paid off in about 10 years. According to the ACP, the overall objectives of the expansion project are to (1) achieve long-term sustainability and growth for the Canal's financial contributions to the Panamanian national treasury; (2) maintain the Canal's competitiveness; (3) increase the Canal's capacity to capture

the growing world tonnage demand; and (4) make the Canal more productive, safe, and efficient.[61]

President Torrijos and his Cabinet approved the expansion project in June 2006, and the Legislative Assembly overwhelmingly approved it in July 2006, with 72 out of 78 deputies voting for the project. Pursuant to Panama's Constitution (Article 319), the project had to be submitted to a national referendum. The Torrijos government chose to hold the referendum on October 22, 2006, close to the anniversary of October 23, 1977, the date when Panamanians approved the two Panama Canal treaties in a national plebiscite by a two-to-one margin. The expansion project was approved by 78% of the vote, although there was some vocal opposition.[62]

The Panamanian government officially launched the expansion project on September 3, 2007, with a ceremony that included former President Jimmy Carter, whose Administration negotiated the Panama Canal Treaties. In March 2009, three multinational consortiums placed bids for the multi-billion dollar contract to build the new set of locks.[63] The ACP announced in July 2009 that the consortium *Grupo Unidos por el Canal* (United for the Canal) led by Spanish construction company Sacyr Vallehermoso was the winner of the contract after posting a bid of $3.12 billion. The consortium also includes Italian, Belgian, and Panamanian companies, as well as two U.S. companies—Montgomery Watson Harza and Tetra Tech—involved as design subcontractors.[64] In January 2010, the ACP awarded the fourth and final dry excavation contract to a consortium made up of Spanish, Mexican, and Costa Rican companies. The excavation work will create an access channel linking the new Pacific locks with the Gaillard Cut, which is the narrowest stretch of the Canal. While the project originally was expected to be completed by 2014, some delays reportedly have pushed the completion to April 2015.[65]

The Canal expansion is expected to reduce shipping rates between Asia and the U.S. Gulf and East coasts, resulting in significant savings, and will likely increase Latin American trade with Asia as well as intra-Latin American trade. Many U.S. ports are already readying themselves in order to take advantage of the trade expansion. Some analysts maintain that the Canal expansion, which reportedly will allow 90% of the world's liquefied natural gas (LNG) tankers to pass

[61] Autoridad del Canal de Panama (ACP), "Proposal for the Expansion of the Panama Canal, Third Set of Locks Project," April 24, 2006.

[62] Among the opponents, an organization known as the Peasant Coordinator Against the Dams (CCCE, *Coordinadora Campesina Contra los Embalses*), consisting of agricultural, civil, and environmental organizations, asserted that the expansion project would lead to flooding and would drive people from their homes. An umbrella protest group known as the National Front for the Defense of Economic and Social Rights (*Frenadeso*), which was formed in 2005 during protests against social security reforms, called for a "no" vote. "Torrijos Appeals for Approval of Canal Expansion," *LatinNews Daily*, September 1, 2006.

Former Presidents Jorge Illueca and Guillermo Endara, as well as former Panama Canal Administrator Fernando Manfredo, also opposed the expansion project, maintaining that the price was too high and too much of a gamble. Critics feared that the total price tag could rise considerably and expressed concern that toll increases could make alternative routes more economically attractive. Panama: Torrijos Reveals Plans to Expand Canal," *LatinNews Daily*, April 25, 2006; Chris Kraul and Ronald D. White, "Panama is Preparing to Beef up the Canal," *Los Angeles Times*, April 24, 2006; John Lyons, "Panama Takes Step Toward Expanding the Canal," *Wall Street Journal*, April 24, 2006.

[63] "Panama: Groups Bid on Canal Expansion," *Economist Intelligence Unit, Business Latin America*, March 9, 2009.

[64] "Unidos por El Canal Virtual winner of ACP contract," *Business News Americas*, July 8, 2009; and "Panama Canal Announces 'Best Value' Proposal for New Set of Locks Expansion Contract," *States News Service*, July 9, 2009.

[65] "Canal Progress Update," *Caribbean & Central America Report*, November 2012.

through the Canal, will be a boon for the U.S. natural gas industry.[66] Others anticipate that the expansion will make U.S. Midwest grain exports more competitive in Asia.[67]

Background on the 1989 U.S. Military Intervention

The December 20, 1989, U.S. military intervention in Panama, known as Operation Just Cause, was the culmination of almost two and a half years of strong U.S. pressure, including economic sanctions, against the de facto political rule of General Noriega, Panama's military commander. Political unrest had erupted in mid-1987 when a high-ranking Panamanian military official alleged that Noriega was involved in murder, electoral fraud, and corruption, which prompted the formation of an opposition coalition that challenged his rule. The regime nullified the results of May 1989 national elections, which international observers maintain were won by the opposition by a 3-1 margin. It also harassed U.S. citizens in Panama, including the killing of a U.S. Marine lieutenant. President George H. W. Bush ultimately ordered U.S. forces into combat to safeguard the lives of Americans in Panama, to defend democracy, to combat drug trafficking, and to protect the operation of the Panama Canal.

In early January 1990, with the restoration of democracy and Noriega's arrest to face trial in the United States on drug charges, President Bush announced that the objectives of the U.S. intervention had been achieved. In terms of casualties, 23 U.S. soldiers and 3 U.S. civilians were killed, while on the Panamanian side, some 200 civilians and 300 Panamanian military were killed. While Congress was not in session during the intervention, in general, Members were strongly supportive of the action. In February 1990, the House overwhelmingly approved a resolution, H.Con.Res. 262, stating the President acted appropriately to intervene in Panama after substantial efforts to resolve the crisis by political, economic, and diplomatic means.

Status of Manuel Noriega

In the aftermath of the 1989 U.S. military intervention, General Manuel Antonio Noriega was arrested in January 1990 and brought to the United States to stand trial on drug charges. After a seven-month trial, Noriega was convicted on 8 out of 10 drug trafficking charges in U.S. federal court in Miami in 1992, and sentenced to 40 years in prison. That sentence was subsequently reduced to 30 years, and then to 20 years. With time off for "good behavior," Noriega was scheduled to be released from jail on September 9, 2007, but remained in U.S. custody pending appeals of his extradition to France. After exhausting his appeals, Noriega was extradited to France in April 2010. In France, Noriega faced a 10-year prison sentence for his conviction in absentia in 1999 on money laundering charges. He was eligible for a new trial upon his extradition to France, and in July 2010 was again convicted of drug money laundering and sentenced to seven years in prison.

On January 12, 2011, Panama requested Noriega's extradition from France for the 1989 killing of Major Moisés Giroldi, the leader of a failed coup in 1989. According to Panama's Ministry of Foreign Affairs, Panama previously had requested Noriega's extradition from France for the 1985 killing of vocal critic Hugo Spadafora.[68] Panamanian courts had sentenced Noriega to at least 60 years in prison for those offenses, although the law only allows him to serve a maximum sentence

[66] Brian Hansen and Benno Spencer, "Panama Canal Expansion Could Be Boon for Budding U.S. LNG Export Industry," *Platts Gas Market Report*, August, 3, 2012

[67] Tim Johnson, "Canal Expansion to Alter Dynamics of Trade," *Seattle Times*, August 12, 2012.

[68] República de Panamá, Ministerio de Relaciones Exteriores, Comunicado de Prensa, "Extradición de Manuel Antonio Noriega por el caso Giroldi," January 12, 2011.

of 20 years, and according to some reports, his imprisonment in the United States and France could be subtracted from his sentence in Panama.

In November 2011, a French appeals court agreed to extradite Noriega, and he ultimately returned to his native country on December 11, 2011, and was imprisoned. In addition to his previous convictions in Panama, Noriega could face additional charges against him in Panama, including the 1970 disappearance and murder of labor activist Heliodoro Portugal. Noriega's return has not had any significant political fallout in Panama.

Since his return, the former military ruler has been hospitalized several times, most recently in November 2012. He has suffered two strokes and reportedly has heart disease, prostate cancer, and a benign brain tumor. Noriega's lawyers have requested that he be allowed to serve his time at home or in a medical center.[69]

[69] "Panama's Noriega Back in Jail after Hospital Stint," *Agence France Presse*, October 12, 2012; "Noriega Va de Nuevo al Hospital para Examen Programado de Urología," *Agence France Presse,* November 21, 2012.

Appendix. Links to U.S. Government Reports

Background Note, Panama, State Department

Date: March 26, 2012
Full Text: http://www.state.gov/outofdate/bgn/panama/199022.htm

U.S. Relations with Panama, State Department

Date: October 24, 2012
Full Text: http://www.state.gov/r/pa/ei/bgn/2030.htm

Congressional Budget Justification for Foreign Operations FY2013, Annex: Regional Perspectives (pp. 827-829), State Department

Date: April 3, 2012
Full Text: http://www.state.gov/documents/organization/185015.pdf

Country Reports on Human Rights Practices 2011, Panama, State Department

Date: May 24, 2012
Full Text: http://www.state.gov/documents/organization/186743.pdf

Country Reports on Terrorism 2011 (Western Hemisphere Overview), State Department

Date: July 31, 2012
Full Text: http://www.state.gov/j/ct/rls/crt/2011/195546.htm

International Religious Freedom Report 2011, Panama, State Department

Date: July 30, 2012
Full Text: http://www.state.gov/j/drl/rls/irf/religiousfreedom/index.htm?dlid=192991#wrapper

International Narcotics Control Strategy Report 2012, Vol. I (Panama, pp. 355-359), State Department

Date: March 2012
Full Text: http://www.state.gov/documents/organization/187109.pdf

International Narcotics Control Strategy Report 2012, Vol. II (Panama, pp. 149-151), State Department

Date: March 2012
Full Text: http://www.state.gov/documents/organization/184329.pdf

National Trade Estimate Report on Foreign Trade Barriers 20112 (Panama)

Date: March 2012
Full Text: http://www.ustr.gov/webfm_send/2729

Trafficking in Persons Report 2012 (Panama, pp. 297-301), State Department

Date: June 19. 2012
Full Text: http://www.ustr.gov/sites/default/files/NTE%20Final%20Printed_0.pdf

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