# The United States' Impact on Panama and the Panama Canal: An Intervention Case Study

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#### ABSTRACT

This paper investigates the history of the Panama Canal and how United States (U.S.) intervention has impacted its growth. The frame of this study (1983-2005) is a time-period that experienced two substantial U.S. interventions within Panama - the removal of the Panamanian leader, General Manuel Noriega, and the transition of sovereignty over the Canal from the U.S. to Panamanian power. This paper looks to explore these two isolated interventions in correlation with changes in economic growth within the Canal Zone. The results of this study will retrospectively demonstrate whether intervention stagnated or boosted economic growth within the Panama Canal, a clear indicator of how U.S. interference impacted Panama. On a larger scale, this study aims to highlight the specific economic impacts of intervention and how future interventional policies may improve based upon past success or failures.

#### Introduction

Twentieth-century Latin American history has been shaped by decolonization, drugs and war - issues that track back to outside intervention, particularly from the United States. Since 1898, the U.S. has recorded over 40 different cases of intervention across nearly all states within Latin America. These 'interventions' are operations in which the U.S. government aids or abates a change that would normally be decided by the country's own citizens (Coatsworth, 2005). Whether it be removing a dictator, aiding regional rebels, or protecting U.S. interests within the continent, these interventions have created a complex political tension between the U.S. and Latin American states. One important recent instance of U.S. intervention within Latin America is the 1991 removal of the Panamanian dictator General Manuel Noriega.

At first glance, Panama does not initially present as a particularly important Latin state, especially when compared to its more populous neighbors, but this small state might be the most impactful nation in all Latin America. The differentiating factor for Panama is the Panama Canal - the most important economic zone in the Western Hemisphere (Wang, 2017). The Panama Canal is the third largest shipping lane in the world, transiting over 287 million long tons of cargo in 2021 (Placek, 2022b). The Panama Canal plays a critical role to the world economy, which makes Panama a key pawn to larger global powers. This complex global symbiosis has served as the catalyst to much of Panama's greatest disputes, including the modern American-Panamanian relationship.

To understand the contemporary American-Panamanian relationship, it is critical to see both nations' shared history. In 1904, the U.S. government began construction of the Canal, picking up on the failed French Canal project of the 1880's. Upon completion of the Canal, the U.S. created the "Panama Canal Zone", a piece of unincorporated territory within Panama that remained under American sovereignty (Padelford et al., 2023). Effectively the U.S. had established a colony within Panama. For many decades, the Canal remained under U.S. jurisdiction, however Panama consistently fought to regain sovereignty over this sector. Eventually in 1977 Panama reached a major milestone in winning back the Canal, when U.S. President Jimmy Carter and Panamanian military leader Omar Torrijos signed the Carter-Torrijos treaty. This treaty established a transitional period

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where Panama would regain sovereignty over the Panama Canal Zone in 1979 and then gain full operational control of the Canal in 1999 (National Archives, n.d.). This was a major development for the modernization of the Panamanian state. For the first time ever, Panama could control the Canal that was so critical to their nation's success. These future actions presented themselves as a sure-fire way to raise Panama to the forefront of the global stage, however this success was quickly put into contest by a single man - General Manuel Noriega.

#### General Manuel Noriega Era

General Manuel Noriega's predecessor, Omar Torrijos, was the military dictator of Panama from 1968-1978. Torrijos was an ally of the U.S. and helped facilitate the transition of the Panama Canal. After Torrijos's resignation in 1978, Panama was led by a series of faulty 'puppet' presidents (The Editors of Encyclopaedia Britannica, 2023). Torrijos's resignation and later death in 1981 created a deeply unstable economic and political state within Panama. This instability gave way for General Manuel Noriega to rise to power. Following Torrijos's death in 1981, General Noriega gained full control of the military. By 1983, General Noriega had seized total dictatorial control over both the civilian and military governments (Hooper, 2010). Although not officially holding the office of the President, all real power now rested in the palms of General Noriega.

In his early years as dictator, General Noriega worked closely with the U.S. government. As with his previous military career, Noriega maintained consistent contact with the CIA, giving important intelligence about political developments in Central America. These positive U.S. relations sustained through the early years of General Noriega's dictatorship, but eventually his own private interests started to interfere with those of the United States. General Noriega was notorious for "playing both sides" for his own benefit. He personally made millions of dollars off the "Narcos" drug trade, by allowing traffickers (such as Pablo Escobar) to import illegal drugs through Panamanian borders (Hooper, 2010). The U.S. knew about this secretive, illicit side of General Noriega, but as his tenure extended, so did his extremity.

In 1988, General Noriega was indicted by U.S. officials on drug racketeering charges (The Editors of Encyclopaedia Britannica, 2023). Sensing his power slipping within the region, General Noriega finally gave in to calls from the international community to host a 'free' presidential election in Panama. In 1989 this election took place, and Noriega was not reelected. General Noriega did not want to leave office, so he declared the election illegitimate and reinstated himself as "maximum leader for national liberation" (Davis, 2023). With this growth in power, the U.S. saw horror on the horizon - the growing unpredictability of the Panamanian state. Noriega had become too comfortable with his position as ruler, and this had caused him to take more egregious actions such as his "maximum leader" declaration. This unpredictable activity threatened U.S. interests within Panama and jeopardized the continued operation of the Panama Canal (Rosenberg, n.d.).

On December 16, 1989, tensions reached a boiling point when members of General Noriega's military killed a U.S. Marine in Panama City, Panama. This was the last straw. Four days later, U.S. President George H.W. Bush initiated Operation Just Cause, a military intervention to remove Noriega from power and reestablish the Panamanian democracy. Within days the U.S. military overtook Noriega's government and arrested General Noriega on January 3, 1990 (Hooper, 2010). The operation was a swift and outstanding success, presenting a new prospect of a free Panama. It appeared absolute that the newly free Panama could surely thrive alongside the Panama Canal, but this certainty was tenuous at best.

#### Post-Noriega Era

The immediate aftermath of General Noriega's removal was one of great turmoil. The new Panamanian democracy was troubled by partisan conflict, and these tensions constituted internal violence within Panama. This political instability disseminated throughout the country, leaving many to ponder if Noriega's rule was better

than weak democracy (Ropp, 1991). This controversy was the subject of diplomatic debate within the international community, as many questioned whether the U.S.' actions were going to lead to positive long-term changes within Panama.

Although imperfect, the post-Noriegan Panamanian democracy did continue to strengthen over the course of the 1990s. Of course, there existed political tensions, particularly in the Panamanian Congress, but Panama was developing into a stable democracy. Despite these positive developments, American-Panamanian relations began to falter as the 1999 Canal transition date came closer. Within the U.S. Congress, many congresspeople held doubts of the stability of the new Panamanian democracy, which led to reservations about following through on the Carter-Torrijos treaty and handing the Canal over to the Panamanian government (Sanchez, 2002).

Despite these reservations, on December 31, 1999, the Canal was returned to Panamanian control. The turnover went smoothly, being deemed a considerable success that would allow for Panama to revitalize their economy (Sanchez, 2002). This transition allowed Panama to profit directly from the Canal, which increased economic production within the nation. With greater economic production, the Panamanian democracy began to flourish. In the present, the Panama Canal remains as a critical testament to free trade within the world and continues to bolster Panama as an emerging global power. It is impossible to know whether this success would have been achieved without the removal of Noriega or the transition of power over the Canal, but by studying the implications of these events researchers can better understand the general trends of these interventions.

### Literature Review

#### **Current Perspectives**

Initial perspectives on the removal of General Noriega and subsequent hand-over of the Panama Canal suggest paralleled beneficial and detrimental effects. Shannon O'Neil, a Vice President at the Council on Foreign Relations, found that during Noriega's rule, nearly one-third of Panama's population lived on less than \$2 a day. Alternatively, she also found that once Noriega was removed, international investment increased to develop the newly democratic Panama, which in turn allowed for the Panamanian economy to recover (O'Neil, 2014). It is evident that Noriega's rule was negatively impacting the Panamanian lower class, and that his actions caused poverty to spread throughout Panama. This creates an argument that the U.S. intervention helped Panama, par-ticularly in the Panamanian economic sector. Additionally, research published in *Ameryka Łacińska*, a Polish Journal on Latin America, states that it is unlikely the Panama would have been able to successfully transition into a democracy. Since Noriega's reign had harmful implications for both Panamanians and the Panama Canal, it is commonly assumed by scholars that intervention was necessary for 'the greater good' (Kwiatkow-ska, 2022). O'Neil and Kwiatkowska's perspectives reflect the general positive position of scholarship towards America's actions within Panama, however, there still exists debate towards the efficacy of U.S. intervention.

As discussed in the Post-Noriega Section, intervention did not leave solely positive implications. General Noriega may have been an imperfect leader, but the system that replaced him was also imperfect. The immediate aftermath of his removal was followed by multi-partisan conflict. Professor Steve Ropp of the University of Wyoming highlighted that decades of military rule had formed hardline partisan divisions that had difficulty flourishing within a democracy. Additionally, Ropp found that the immediate economic recovery of Panama was a slow burn and was not able to meet the needs of a new democratic state (Ropp, 1991). Ropp's perspective is effective at showing the negative short-term effects of Noriega's removal, however the long-term implications of his negative position are limited. In a 2002 edition of *International Journal on World Peace*, Peter Sanchez, Ph.D., stated that as the Panamanian democracy developed, the short-term issues of political and economic instability lessened (Sanchez, 2002). According to Sanchez's position, with time Panama was able to

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move away from the unstable state highlighted by Ropp in 1991. Sanchez's perspective coincides with the common positive perspective illustrated by Kwiatkowska and O'Neil above, which further cements the general favorable position of scholarship towards the U.S.' interventions within Panama.

#### Finding a Gap - Transition to Economics

Throughout the preliminary research process, it has become evident that much of intervention's more 'general' impacts have already been explored, leading to the development of scholarship's largely positive position on intervention within Panama. Despite this, a distinct lack of research regarding the economic activity of the Panama Canal exists. This lack of economic research on the Panama Canal is apparent throughout scholarship, and recognition of this gap is addressed within the literature. In a 2016 Johns Hopkins dissertation on the management of the Panama Canal, Benjamin Gedan, Ph.D., stated that a key area for future research would be an analysis of the different variables contributing to Canal output and their correlation to isolated political events within Panama (Gedan, 2016).

The primary reason why the Panama Canal's economic output is a critical lens towards intervention is because of the implications the Canal holds within the gross Panamanian economy. Panama's Gross Domestic Product (GDP) - an approximate valuation of all produced goods and services in Panama- is largely connected with the Canal. The Canal directly contributes approximately 8.5% of Panama's GDP (International Trade Administration, 2023). Given the Canal's precedence within the Panamanian GDP, changes in the economic productivity of the Canal have direct correlations with changes in Panama's overall economy.

By analyzing factors such as the Canal's annual tonnage, revenue, transit speed, tariffs, etc., it will become evident how the Canal's output changed over time, particularly in relation to larger Panamanian and global economic trends (Gedan, 2016). The lack of comprehensive analysis of economic output means that a suitable gap has been identified for research. By filling in this gap and identifying correlations between Panama Canal economic growth and American interventionism, this study hopes to conclude the macroeconomic effects American interference has had on Panama.

#### **Research Purpose**

By dividing the research into three time-periods (refer to Figure 1 below) this study hopes to identify the economic effects these events had on the Panama Canal's output. This research will also help retrospectively justify whether the U.S.' actions within Panama contributed positively to both Canal and economy growth. By correlating the different periods of intervention to the Panama Canal's output, this study will attempt to see how intervention relates to economic developments within Panama. This led to the development of the primary research question: How did the transition of power over the Panama Canal in 1999 from American to Panamanian control, alongside the U.S. military intervention removal of Manuel Noriega, constitute economic changes in Panama and the Panama Canal?

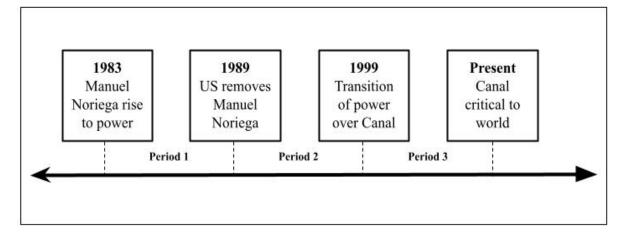


Figure 1. Study Timeline

## Methodology

In order to identify correlations between the productivity of the Panama Canal and intervention it is critical to formulate a strong quantitative methodology. As mentioned above, the cornerstone paper formulating this study's research goal was the 2016 Hopkins dissertation by Benjamin Gedan. In his future research section, Gedan specifically stated that "annual tonnage, revenue, accidents, transit speed and personnel" are relevant and accessible data points to Canal output (Gedan, 2016). These variables served as an initial launching point towards developing a comprehensive method. Additional research methodologies were also consulted to identify other potentially relevant variables. In a 2016 research paper, Ezzat Kenawy, Ph.D., analyzed the Suez Canal's economic output using variables such as total transits, revenues and tonnage (Kenawy, 2016). This study model was highly suitable for reuse with the Panama Canal. Both Gedan and Kenawy's perspectives played a key role in the final determination of this study's methodology and variable input. Using these models, this paper decided to look at the Canal's productivity through the lens of four different variables.

- 1. Canal Operational Revenue (\$) This statistic shows how much money the Panama Canal generates each year. Put plainly, this variable is a clear indicator of the growth or decline of the Canal's productivity. Depending on the rate at which Canal revenue grows or decreases, this can give reason to correlate with improvements or faults within Canal management.
- 2. Canal Toll Revenue (\$) This variable shows how much revenue the Panama Canal generates from tolls each year. On average, the Panama Canal's total tolls generate about 80% of the Canal's total revenue, making this clearly a principal factor in the financial success of the Canal (Placek, 2022a). The Canal charges vessels in relation to the tonnage and type of cargo they are carrying. The toll rate is not a constant factor, so there will be variability in the relationship of tolls to net tonnage. It is outside the frame of this study to analyze how tolls have been raised over the history of Panama Canal, however, given that demand for the Panama Canal has not faltered with historical increases in toll rates, it is not relevant to analyze how tolls impact the transits and tonnage of the Canal.
- 3. Total transits (# of ships) This variable shows how many ships pass through the Canal during a year. Any major declines in total transits could correlate to potential mismanagement of the Canal given that it is the Canal management's responsibility to efficiently move ships through the Canal. Importantly, changes in transits could also correlate with changes in shipping container sizes. With larger ships carrying more cargo, fewer transits will be necessary to carry the same amount of cargo, which may influence changes displayed in the quantitative findings.

4. Total annual net tonnage (PC/UMS net tons) - This variable shows how much net tonnage is shipped through the Canal every year. The Panama Canal/Universal Measurement System (PC/UMS) is the mathematical formula used by the Panama Canal to estimate how many tons of cargo a ship is carrying. This measurement is based upon the total volume a ship has. Although this statistic is more complex than normal net tonnage, it is the only variable readily tracked by the Panama Canal, making it the sole indicator demonstrating how much cargo moves through the Canal. The data from this variable could help justify whether changes in total transits are due to a decrease in Canal usage or whether the transits have decreased due to an increase in ship cargo size.

These variables were collected and recorded to create a series of time-graphs displaying economic changes within the Canal. The study period (Figure 1) is between 1983-2005. 1983 marks the period when Manuel Noriega first rose to power, and 2005 is consequently six years after the change of Panama Canal ownership. If any significant interventional Canal effects were to have taken place, this period (1983-2005) will identify them. Additionally, by looking at a multitude of different economic variables, all of which were mentioned above in Gedan and Kneway's research above, the study will attempt to comprehensively show how the Canal's economics have changed over time. This complex perspective will create a full picture of the Canal's economic changes and create strong correlations between Canal economics and intervention.

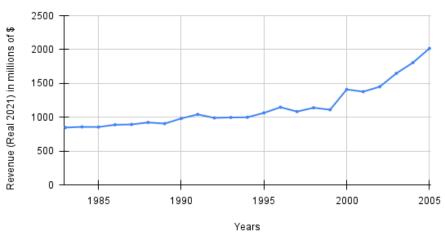
The study gathered the data for each variable individually from the Panama Canal's annual reports. From 1983-1999, the American *Panama Canal Commission* published annual reports that tracked all the necessary variables. After the transition of ownership of the Panama Canal, the Panamanian government began to publish annual reports for the Canal under the *Panama Canal Authority*. Some years were not reported digitally; however, all missing data was found through the International Monetary Fund (IMF) database. This is a suitable alternative to the annual reports, as the IMF derived their data from the Canal annual reports.

All this study's data was recorded on a spreadsheet containing variables from each year (1983-2005). This spreadsheet was then used to graph variable-time diagrams to demonstrate the basic growth trends of the Panama Canal. For reference to these data tables see Appendix A.

### Results

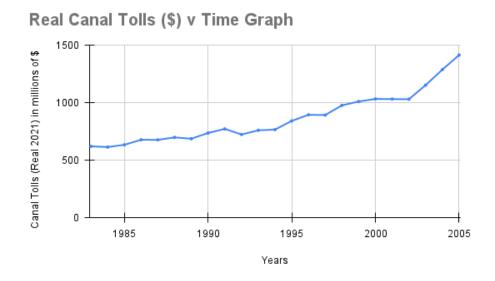
After collecting and graphing all the necessary data listed in the research methodology- which includes total Canal operational revenue (\$), Canal tolls (\$), Canal transits and total annual tonnage – the general trend analysis began. Firstly, all fiscal data points (revenue and tolls) were adjusted for inflation by converting them into a common, year-2021-dollar equivalent. To adjust for inflation, this study took the GDP deflator value of each given year (which is representative of the annual changing dollar value of each period year) and divided that by the common GDP deflator value of the 2021 dollar (World Bank, n.d.). This process presented a set of ratios, effectively how much buying power a dollar from a given year would have in the year 2021. These ratios could then be multiplied by nominal dollar amounts to counteract inflation and create a common real-2021-dollar valuation (see Appendix A for conversion statistics). Following this adjustment for inflation, the real-2021 dollar amounts for each year were graphed below.





#### Real Operational Revenue (\$) v Time Graph

Figure 2. Real Operational Revenue (\$) v Time Graph

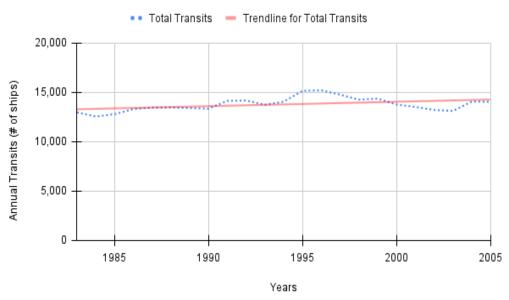


#### Figure 3. Real Canal Tolls (\$) v Time Graph

As displayed in both graphs, the amount of revenue raised by the Canal consistently increased at increasing rates of change. Over the given period, both Figure 2 and Figure 3, follow positive exponential growth patterns, demonstrating that the Canal's operational and toll revenues increased over time. This means that the amount of money circulating through the Canal increased over time, which also means that the Canal economically grew between 1983-2005 despite the removal of Noriega and the transition of power.

Additionally, the number of ships transiting the Canal remained constant over the study period. Typically, the number of annual transits was between 13-15 thousand. Between 1983-2005 the average number of annual transits was 13,775. With limited growth in the number of annual transits, it is likely that the Panama Canal was near capacity for the entirety of the study.





# Annual Transits (# of ships) v Time Graph

Figure 4. Annual Transits (# of ships) v Time Graph

Despite not seeing significant changes in the number of ships passing through, the Canal did see growth in the amount of annual tonnage. This means that although the number of ships transiting may not have changed, the amount of cargo passing through the Canal did change. This is important because it implies that the Panama Canal had increasing transits from bigger commercial vessels. The way that the Canal generates toll revenue is by charging a flat rate per ton. This means that by having more tons of cargo passing through the Canal every year, the toll revenues can increase, boosting economic growth.

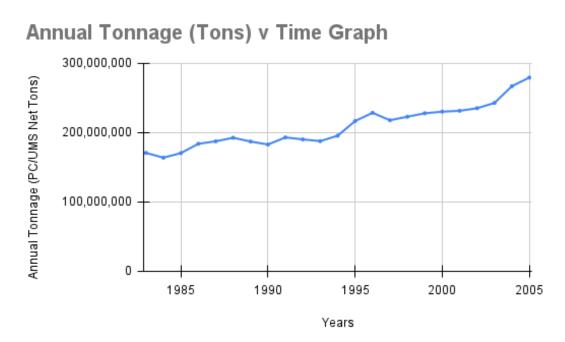


Figure 5. Annual Tonnage (PC/UMS Net Tons) v Time Graph

Alongside the increased tonnage, another reason that the Canal's revenues went up is from increased toll rates. By taking the real toll revenue (2021 \$) and dividing it by the annual tonnage (PC/UMS Tons), the average cost for each ton of cargo can be calculated for each year. This effectively creates a price map, showing how much it costs to ship a single ton of cargo (in real 2021 dollars) for each year of the study. The graph interestingly demonstrated that this rate did not remain constant, but rather the real price/ton increased over the frame of the study.

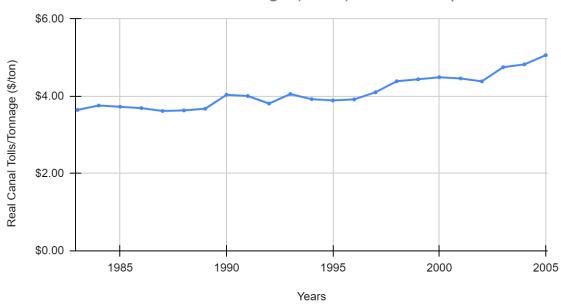




Figure 6. Real Canal Tolls/Annual Tonnage (\$/ton) v Time Graph

### Conclusions

As demonstrated by the results, the Panama Canal did not experience significant negative activity during the frame of the study. Over the frame of the study, the Panama Canal saw growth in annual tonnage, operational revenue and toll revenue. Additionally, the Canal showed signs that it was near capacity for the entire frame of the study, as displayed by the flat growth of annual transits. This means that while outside intervention occurred, the Panama Canal did not see any wavering demand from commercial transit.

This unwavering demand, alongside increasing toll rates, indicates that the Panama Canal was effectively managed despite the interventions that transpired in 1989 and 1999. This is because if the Canal had seen negative effects from the interventions, the Canal would not have been able to maintain its steady toll rate increases over time without seeing decreasing transits. If the Canal had been severely impacted by the interventions, it is likely that the Canal would not have been able to raise toll rates without driving demand away. With increased toll rates, a correlation between good management and revenues can be drawn.

The increasing real price per ton led to dramatic increases in real toll revenues. This helped foster economic growth within the Canal. Effectively the Panama Canal was able to maintain steady growth rates despite the interventions that could have slowed or negated revenue growth. With this finding it can be said that the interventions (both Noriega 1989 and transition of power 1999), had little negative impact on the growth of the Canal.

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There is no definitive conclusion that can be drawn as to if the interventions helped facilitate growth with the Canal. Since the Canal was already experiencing growth in operational revenue and toll revenue before the period of the study, interventions cannot be directly attributed to additional growth during the study. The data is inconclusive if removing Noriega or transitioning power helped the Canal increase in economic efficiency, however these events did definitively demonstrate no negative impact on growth. When situated in the larger scholarly perspective, these findings corroborate with the general positive inclination of scholarship towards intervention within Panama. This is because the findings demonstrate that intervention in no way harmed Canal growth, as growth continued to happen. This fills in the missing perspective of Canal effects, and further explains the positive economic and political developments illustrated in the literature review by O'Neil, Kwiatkowska and Sanchez above. These findings, paired with the positive findings of other studies, are effective in further establishing scholarships' general positive position towards intervention in Panama as presented in the literature review.

One interesting finding that could be drawn to support that the 1999 transition of power did help raise revenues is the drastic increase in real operational revenue from 1999-2000. The difference was nearly 24% between these years (for perspective all other years saw less than 10% +/- change). This is clearly demonstrated in Figure 2, right at the turn of the century. At face value this would indicate that transitioning management from American to Panamanian control allowed for the Canal to increase its economic activity, however this is disproven with toll revenues from the same year. The percent increase in toll revenues during this year was consistent with the common trends of toll revenue changes (see Appendix A). This means that this drastic change in operational revenue is more likely because of changes in accounting calculations than actual data changes. This would make sense, as this was the first fiscal year that the Panamanians reported revenues, as opposed to the Americans. It is probable that the Panamanians had different methods in revenue calculation, so this change is likely less drastic than initially perceived.

### Limitations

This study was limited by several factors such as statistical data and limited correlative evidence. The primary limitation affecting this study was the lack of digitized data readily available on the web. The Panama Canal Commission (America 1983-1999) and the Panama Canal Authority (Panama 2000-2005) are the two organizations that ran the Panama Canal during the study's period. Both organizations generated annual reports that show how much revenue, transits, tonnage, etc. that the Canal had that year. All these reports exist, however many of them are not digitized. The years that were available from direct reports include: 1983-1992, 1998-1999 and 2003-2005. To address the gap year (1993-1997 and 2000-2002), the study used data from secondary sources, primarily IMF reports and audits. This data should be consistent, as the IMF pulled their data from the Canal annual reports, however there is variability in how transits, revenues and tonnage are calculated, so the potential for error exists.

Another limitation of this study was the strength of correlations. As stated above it is clear that intervention had no negative effects on Canal growth, but it is unclear whether intervention had negligible or positive impacts. This is because the frame of the study purely looked at the economic data of the Canal. If the study considered changes in management practices or interviewed management personnel, like the qualitative methods Gedan employed in his dissertation, it might be possible to draw more definitive conclusions as to whether the removal of Noriega or transition of Canal sovereignty had direct positive effects on growth.



### **Future Research**

Several avenues for future research exist following this study. Future studies could address the limitations of correlation strength by investigating changes in management practices. By using qualitative methods such as interviews or emails, deeper understandings could be drawn as to how intervention changed the day-to-day operation of the Canal. This research would help determine what specific effects intervention had on management, which could then further explain the quantitative developments exhibited by this study's findings.

Additionally, this study could be expanded to include more variables. This study looked at all vessels in correlation to intervention, however future research could address specific vessel types, and how they contributed to changes within the Canal. Within the Canal annual reports there exist many different classifications of ship types, including military and oceangoing commercial vessels. It was outside the frame of this study to investigate differences in transiting vessels, however future research could address these discrepancies to see if any meaningful conclusions could be drawn in correlation to intervention.

### **Final Thoughts**

To conclude, there is little evidence to suggest that U.S. intervention left negative effects on the economic growth of the Panama Canal. Despite the high-risk interventions, the Panama Canal continued to grow at high rates. However, this is a cautionary tale. The U.S. may have had success within Panama and helped preserve the Panama Canal as an icon of free trade, but the U.S. has failed many times in other places. Interventions in Iraq, Afghanistan, Somalia and many other states have failed, yet Panama has succeeded. With the information found in Canal economic growth, we can further understand why Panama thrived where so many other countries have failed. Panama is a model for how U.S. intervention can work, but it is clearly the outlier. We must reflect and make do with what creates a successful post-intervention state, like Panama. It may be that intervention is not practical without strong economic sectors such as the Panama Canal. Perhaps we need to reflect on the feasibility of military-forced regime change. Regardless of the situation one thing is certain, the world needs more successful cases like Panama. The Panama Canal survived as one the strongest symbols of free trade during one of the darkest periods in Latin American history. Interventionism is an ethically complex principle, but with successful cases such as Panama, it perhaps it can be used as a machine for the freedom of tomorrow.

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