National security or special interest?: US support for the Panama canal expansion programme[1]

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Summary: *Of all the countries whose trade relies on the Panama Canal, it is the United States which took the deepest interest in its expansion. Washington gave an enthusiastic reception to the approval, in 2006, of a US$5.25 billion programme for enlarging the waterway. US endorsement primarily stemmed from a desire to promote international trade, a traditional foreign policy goal and an objective of influential domestic and transnational interest groups. Secondary aims included facilitating US investment and fostering stability in Panama. But the megaproject's hasty approval and incomplete nature may have unintended consequences that could affect conditions in Panama and US relations with that republic.*

Keywords: *Panama, Panama Canal, US foreign policy, liberalism, megaprojects.*

Resumen. *De todos los países cuyo comercio se basa en el Canal de Panamá,son los Estados Unidos que tuvo el más profundo interés en su expansión. Washington dio una entusiasta bienvenida a la aprobación, en 2006, de un programa de EE.UU. $ 5250 millones para la ampliación de la vía acuática. Principalmente el apoyo de EE.UU. provenía de un deseo de promover el comercio internacional, un objetivo tradicional de la política exterior y un objetivo de influyentes grupos de interés nacionales y transnacionales. Como objetivos secundarios incluyen la facilitación de la inversión de EE.UU. y el fomento de la estabilidad en Panamá. Pero la aprobación apresurada del megaproyecto y la naturaleza incompleta puede tener consecuencias no deseadas que podrían afectar a las condiciones en Panamá y en las relaciones de EE.UU. con esa república.*

Palabras clave: *Panamá, Canal de Panamá, la política exterior de EE.UU., el liberalismo, los megaproyectos.*

1. Published previously as: "National Security or Special Interests: US Support for the Panama Canal Expansion Programme," Global Society 25:2 (April 2011): 181-204.

Introduction

With strong backing from the US Government, in 2006 Panama approved a US$5.25 billion megaproject to enlarge its inter-oceanic waterway. The expansion is being financed by Panama through retained canal profits and international loans, to be paid off from proceeds of future operations. Work began in 2007 and is expected to continue through 2014, when a new lane accommodating larger vessels should open as planned.

Why did the George W. Bush Administration (2001-2009) provide such high-level political support for the widening programme? Though officials and private-sector magnates from other user countries, including China and Japan, expressed strong interest in the programme, Washington went much further in its public declarations of support. Exploring this issue can help illuminate aspects of contemporary US foreign relations, particularly the influence of certain domestic and transnational special interests in policy formulation and implementation.

The paper embarks on this exploration first by briefly reviewing the main theoretical traditions accounting for foreign policy making. Subsequently, it provides background to the programme, offering evidence of high-level US support for the plan and examining four hypotheses explaining such support. Evidence shows that the influence of special interests in US and transnational commerce and shipping played a role in shaping US policy toward the expansion programme. A liberal decision-making model, focusing on the impact of competing interests, is better equipped to explain US support for the megaproject.

Realism and the national interest

In an influential article on the politics of free trade agreements, Grossman and Helpman allude to the prevalence of 'statist' modes of analysing foreign policy formulation. This model sees the state as a "unified rational" actor seeking *"some well-defined objective. In economic analysis, for example, it is common to assume that the state seeks to maximize aggregate national welfare"*.[2]

The "statist" approach is embedded within the realist tradition of international relations. Realism posits the role of the sovereign state as the fundamental protagonist on the international stage and downplays the influence of non-state actors, such as private domestic and transnational corporations,

2. Gene M. Grossman and Elhanan Helpman, "The Politics of Free-Trade Agreements", *The American Economic Review*, Vol. 85, No. 4 (1995), p. 667

international organizations (IGOs), non-governmental organizations (NGOs), sub-national government agencies, and individuals acting in their private capacity.

Realist approaches conceive state preferences as defined by policymakers acting independently from non-state actors. In the international scenario, the state operates as a coherent entity—an autonomous, unitary actor. The principal criterion employed by officials making foreign policy choices is the national interest, defined as ensuring the state's survival in an anarchic international system (i.e., one with no supranational authority beyond the state to regulate exchanges between actors) and improving its global position. In this endeavour, states pursue foreign policies that strengthen their relative military and economic capabilities.

In early 2000 Condoleezza Rice, soon to become one of the chief architects of George W. Bush's international strategy, wrote that foreign policy in a Republican administration would "proceed from the firm ground of the national interest, not from the interests of an illusory international community". This national interest included defending US objectives and dealing with rogue regimes through force, if necessary, as well as promoting "economic growth and political openness" through free trade.[3] From a unitary-actor perspective, the US interest in the expansion of the Panama Canal would relate to national interest issues contributing to preserve and augment Washington's strategic or economic advantage.

Liberalism and the multiplicity of relevant actors

A liberal perspective sees foreign policy preferences as shaped not by unitary states acting as "black boxes", but through the interplay of domestic and transnational actors. Liberalism, explains Michael Doyle, focuses more on *"domestic structures and diverse human interests than do Realists"*.[4] Individuals and private groups are chief actors in international politics. They influence the creation of international agendas based on access to policymakers, mechanisms of representation, and resource endowments.

Liberalism pays particular attention to interest groups concerned with enhancing their position within states and the international system. In a liberal framework, the state is not autonomous or isolated from the pursuits of

3. Condoleezza Rice, "Campaign 2000: Promoting the National Interest", *Foreign Affairs* (January/February 2000), available: <http://www.cfr.org/publication/10456/> (accessed 26 January 2010)

4. Michael W. Doyle, *Ways of War and Peace: Realism, Liberalism, and Socialism* (New York and London: W.W. Norton, 1997).

individuals and groups within it, but *"constrained by the underlying identities, interests, and power of individuals and groups (inside and outside the state apparatus) who constantly pressure the central decision makers to pursue policies consistent with their preferences"*.[5]

Robert Putnam's two-level analysis of foreign policy formulation is useful in comprehending how domestic pressures operate to determine state preferences expressed through diplomacy. At the national level, interest groups pursue their objectives by "pressuring the government to adopt favorable policies". Politicians, in turn, search for—and attempt to retain—power by establishing alliances with those groups. They respond to domestic pressures in exchange for political support (money and votes). At the international level, government representatives *"seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments"*.[6]

Liberalism offers a more nuanced—or less parsimonious—perspective on foreign policy formulation than realism, one perhaps more in tune with the way pluralist democratic politics operates. US support for the Panama Canal expansion programme illustrates this assertion. The Bush Administration clearly backed the proposal for economic reasons, mainly to facilitate trade but, arguably as well, to enhance opportunities for private domestic and transnational investors.

These reasons serve the US national interest. Decision makers in Washington, acting independently from sectoral interests, could have arrived at this conclusion based on macroeconomic considerations. But such enthusiastic support as the Bush Administration provided the canal widening programme may be better understood through liberal lens, specifically through what Panke and Risse call "actor-centred rationalist liberalism". This branch of liberal thought holds that *"Whenever the interests of societal actors are at stake, which is when they expect concrete benefits or costs, societal actors have incentives for self-organization and for influencing and shaping the interests of states"*.[7]

Circumstantial evidence points to pressures from interest groups seeking to gain from the expansion as the most convincing explanation behind US support. Smoking-gun proof that special interests made direct monetary contributions to US politicians in exchange for public manifestations of support and exerted pressure on the Panamanian Government on behalf of the expansion

5. Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Politics", *International Organization*, Vol. 51, No. 4 (1997), p. 518.

6. Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, Vol. 42, No. 3, (1988), p. 434.

7. Diana Panke and Thomas Risse, "Liberalism", in T. Dunne, M. Kurki and S. Smith (eds.), *International Relations Theories: Discipline and Diversity* (Oxford: Oxford University Press, 2007), p. 94

programme was not available (as is often the case in academic research). But the paper provides ample data showing the significant benefits to be accrued by US domestic and transnational shipping, port, warehousing, retail, and other interests from a major renovation of the Panama Canal. Before considering this data in detail, some background on the canal and the widening programme is in order.

The Panama canal: A brief background

Construction of the waterway began as a French private enterprise in the early 1880s. Plans were for a sea-level route such as Egypt's Suez Canal, but this was unfeasible in Panama, due to the transit zone's mountainous topography. Towards the end of the decade, technical difficulties related to the sea-level design, disease, and financial mismanagement ruined the French initiative**.**
In response to ideas of national aggrandisement as well as shipping, commercial, and financial considerations, by the late 19th century Washington had established the goal of controlling a waterway through Central America. A canal would allow swift passage of US Navy vessels from one ocean to another, a significant objective for a rising power with strategic interests in the Caribbean and the Pacific. It would also facilitate trade, especially with East Asia, an increasingly important region for the United States.

President Theodore Roosevelt (1901-1909) moved swiftly to complete a canal through Central America. Plans initially focused on Nicaragua, but President Roosevelt eventually decided for Panama, then part of Colombia. Digging by the Army Corps of Engineers began following Panama's US-sponsored secession in 1903. Construction of a lock canal to overcome the isthmus' topographical issues culminated in 1914, when the waterway opened to shipping.[8]

The need to accommodate larger battleships moved the US Congress in 1939 to authorise a new set of locks. Work began in 1940 but stopped in 1942, prior to completion, after the US Navy became a two-ocean fleet to face the challenges of World War II. This decision caused a decline in its strategic significance, but the route retained value for commercial transportation.[9] Currently,

8. David McCullough, *The Path Between the Seas: The Creation of the Panama Canal, 1870-1914* (New York: Simon & Schuster, 1977).

9. Panama Canal Company, "The Third Locks Project" (Balboa: Canal Zone Government, 1941), available: <http://www.pancanal.com/esp/plan/estudios/ep-0001.pdf> (accessed 26 January 2010); John Major, *Prize Possession: The United States and the Panama Canal, 1903-1979* (Cambridge: Cambridge University Press, 1993), p 306.

an estimated 5 per cent of total world commerce passes through the canal.[10]

The waterway remained under Washington's exclusive control until 1979, when the Panama Canal Treaty, signed by President Jimmy Carter and Panamanian military ruler Omar Torrijos, entered into effect. Torrijos had made opposition to the US presence in Panama the cornerstone of a nationalist attempt to legitimise his authoritarian regime. Significantly, Article XII allowed the United States to add a new lane of locks to the existing waterway during the duration of the accord (1979-1999).[11] Although never exercised, this right—together with a clause enabling construction of a new canal—provides evidence of US interest in expanding transit capacity through the isthmus to meet US strategic or economic needs.

Between 1979 and 1999 the canal operated under joint US-Panamanian administration. As the final turnover date approached, the issue of US concern in the waterway surfaced again after California-based Bechtel Corporation lost a bid to manage the ports on both terminals to Hong Kong-based Hutchison-Whampoa and Washington embarked on failed negotiations with the Panamanian Government to obtain a base for its war against drugs. Although the US Congress held several hearings on these subjects,[12] in 1999 Washington withdrew from Panama as prescribed in the Canal Treaty. The isthmian republic then assumed full administration of the waterway through a government agency, the Panama Canal Authority (ACP).

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10. Panama Canal Authority (ACP), "About ACP: General Information—This is the Canal", available: <http://www.pancanal.com/eng/general/asi-es-el-canal.html> (accessed 19 January 2010).

11. See Art. XII of the Panama Canal Treaty, in Appendix B to Sandra W. Meditz and Dennis M. Hanratty, *Panama: A Country Study* (4th ed) (Washington: Government Printing Office, 1989), available: <http://lcweb2.loc.gov/frd/cs/panama/pa_appnb.html> (accessed 22 January 2010).

12. US Congress, Senate, "The Panama Canal and United States Interests", Hearing before the Committee on Foreign Relations, 16 June 1998, available: <http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_senate_hearings&docid=f:49528.pdf>; US Congress, House, "Losing Panama: The Impact on Regional Counterdrug Capabilities", Hearing before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources, Committee on Government Reform, 4 May 1999, available: <http://ftp.resource.org/gpo.gov/hearings/106h/62236.pdf>; US Congress, House, "Post-1999 US Security and Counter-Drug Interests in Panama", Hearing before the Committee on International Relations, 29 July 1999, available: <http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?IPaddress=wais.access.gpo.gov&dbname=106_house_hearings&docid=f:62716.pdf>; US Congress, House, "To Receive an Update on Selected Regional Issues to Include: Colombia and U.S. Policy; Legislative Elections in Haiti and U.S. Troop Withdrawal; Status of Counter-Drug Forward Operating Locations; U.S.-Cuba Counter-Narcotics Cooperation Proposal; Chinese Influence in the Panama Canal; Political Events in Venezuela; and Status of U.S. Property Claims in Nicaragua", Hearing before the Subcommittee on the Western Hemisphere, Committee on International Relations, available: <http://ftp.resource.org/gpo.gov/hearings/106h/60799.txt> (all accessed 1 February 2010).

The 2006 expansion programme

Since inauguration in 1914, the facility saw overhauls and widening plans but its traffic capacity was actually never enlarged. Expansion plans, however, were underway in 2004 when Martín Torrijos (son of Omar) was elected president. On 24 April 2006, ACP presented the enlargement scheme to President Torrijos. Panama's constitution stipulates that decisions on the canal, its adjacent areas, and construction of a new waterway or locks must be made by 1) the executive, 2) the National Assembly, and 3) the electorate in a referendum.[13]

Two months later, the executive fully endorsed the programme. The National Assembly unanimously ratified it on 17 July and convened a referendum on 22 October.[14] Critics complained that the government, intent on securing the proposal's swift passage, did not allow sufficient deliberation, that crucial information was withheld by ACP, and that the National Assembly was negligent in scrutinising the project.[15]

Turnout at the referendum was low. Out of a 2.1 million electorate, only 924,029 voters (43 per cent) took part, of which 705,284 (76 per cent) voted in favour.[16] This meant that only 33 per cent of the citizenry supported the plan. The Torrijos Administration and US officials, however, cast this result as a massive victory for the programme.

The proposal has three main components: 1) creating a new traffic lane with two new lock complexes, in the Pacific and Atlantic sides, respectively; 2) widening and deepening the canal's Atlantic and Pacific entrances; and 3) widening and deepening the navigational channel at Gatún Lake, an artificial lagoon created between 1907 and 1913 to facilitate operation of a lock canal. These works aim at allowing use of the waterway by more and larger vessels, particularly of the "post-Panamax" type, which do not fit through the existing infrastructure.

13. See Art. 325 of the Panamanian Constitution (in Spanish), available: <http://www.epasa.com/constitucion/constitu.html> (accessed 26 January 2010).

14. ACP, "Panama Announces Expansion", 24 April 2006, available: <http://www.pancanal.com/eng/pr/press-releases/2006/04/24/pr194.html>; "President Martín Torrijos Approves Panama Canal Expansion Proposal and Submits it to the National Assembly", 27 June 2006, available: <http://www.pancanal.com/eng/pr/press-releases/2006/06/27/pr195.html>; "Panama Canal Expansion Takes Major Step Forward", 17 July 2006, available: <http://www.pancanal.com/eng/pr/press-releases/2006/07/17/pr196.html> (all accessed 26 January 2010).

15. Unión Nacional por el No (UNNO), "No al proyecto de ley sobre la ampliación del canal", *Las noticias de Panamá*, 9-22 July 2006, available <http://www.thepanamanews.com/pn/v_12/issue_13/spanish_opinion_02.html>; Betty Brannan Jaén, "El debate que yo hubiera querido", *La Prensa*, 1 October 2006, available: <http://mensual.prensa.com/mensual/contenido/2006/10/01/hoy/opinion/751379.html> (both accessed 26 January 2010).

16. Tribunal Electoral de Panamá, "Referéndum: Introducción", available: <http://www.tribunal-electoral.gob.pa/referendum/documentos/resultados/introduccion-referendum2006.doc> (accessed 26 January 2010).

The megaproject is said to respond to "booming demand" for transits of containerised merchandise originating in the Far East (mainly China) and destined for the US East and Gulf Coast ports.[17] In fiscal year 2009, 14,342 vessels used the waterway.[18] The top ten user countries by origin and destination of cargo were the United States, China, Chile, Japan, South Korea, Colombia, Ecuador, Peru, Mexico, and Panama.[19]

According to ACP, the megaproject's US$5.25 billion tab is being picked by ship owners through regular adjustment of tolls.[20] But debt is also needed to compensate the cash flow deficit resulting from a requirement of presently paying for works against future revenues. Funding by the Japan Bank for International Cooperation, the European Investment Bank, and the Inter-American Development Bank will finance this deficit, estimated at US$2.25 billion.[21] A groundbreaking ceremony on 3 September 2007 marked the start of construction. The programme is scheduled for completion in commemoration of the waterway's centennial in 2014.[22]

US Support—Ay all levels

From President Bush to his envoy in Panama, Ambassador William Eaton, US officials praised the megaproject even before its approval. Visiting Panama in 2005, President Bush said it was 'wise' for the Panamanian Government "to consider modernizing the Canal". "It's in our nation's interest that this canal be modernized", he added.[23]

17. ACP, "Panama Canal Expansion: An Overview".

18. ACP, "Panama Canal Authority Announces Fiscal Year 2009 Metrics", 30 October 2009, available: <http://www.pancanal.com/eng/pr/press-releases/2009/10/30/pr366.html> (accessed 12 January 2010).

19. ACP, "Maritime Operations: Transit Statistics, Fiscal Year 2009—Top 15 by Origin and Destination of Cargo", available: <http://www.pancanal.com/eng/maritime/reports/table13.pdf> (accessed 12 January 2010).

20. ACP, "Panama Announces Expansion"; "Panama Canal Authority Proposes Changes to Pricing System, Regulations", 2 February 2007, available: <http://www.pancanal.com/eng/pr/press-releases/2007/02/02/pr207.html> (accessed 26 January 2010).

21. *The Economist*, "The Panama Canal: A Plan to Unlock Prosperity", 3 December 2009, available: <http://www.economist.com/displaystory.cfm?story_id=15014282> (accessed 26 January 2010).

22. *The Economist*, "The Panama Canal: A Plan to Unlock Prosperity", 3 December 2009, available: <http://www.economist.com/displaystory.cfm?story_id=15014282> (accessed 26 January 2010).

23. José Somarriba Hernández, "Explosión de emociones en el canal", *La Prensa*, 4 September 2007, available: <http://mensual.prensa.com/mensual/contenido/2007/09/04/hoy/panorama/1102941.html> (accessed 14 June 2010).

During a tour of voting precincts on referendum day, Ambassador Eaton said widening the canal is "important to our economy … The transit costs will be cheaper and that will have an effect on the market". A wider canal *"means shoppers across America's East Coast likely will pay less for products from Asia in years to come ... We welcome expansion"*.[24] Later, Secretary of State Condoleezza Rice commended Panamanians for the "majoritarian decision to expand the waterway", which added value to the country's "strategic location".[25]

Hosting President Torrijos in Washington, in 2007 President Bush reiterated his administration's interest in the waterway's enlargement:

> *And you [President Torrijos] told me that, for the good of the world, we're going to build an adjunct to the Canal. And I said, well, that's an ambitious agenda. And then, sure enough, as you sit here now, you tell me it's going to come to be. So I congratulate you on having a vision, and I congratulate you on being a leader [emphasis added]*.[26]

"No transportation project", declared US Transportation Secretary Mary Peters during a visit, *"is more important to our two economies than the plan to expand the Panama Canal."* [27] These and other remarks indicate the extent of Washington's support for expansion. What are the reasons behind such enthusiasm? The following sections respond to this question.

Possible reasons behind US support

Based on the expansion's specifics as previously laid out, US policy interests understood from both realist and liberal approaches, and the available evidence, four possible explanations emerge for US support. The first two

24. The White House, "President Bush Meets with President Torrijos of Panama", 7 November 2005, available: <http://georgewbush-whitehouse.archives.gov/news/releases/2008/05/20080506-7.html>; Associated Press, "Bush Promotes Expanding Panama Canal", *Fox News*, 7 November 2005, available: <http://www.foxnews.com/story/0,2933,174746,00.html> (both accessed 26 January 2010).

25. Associated Press, "Wider Panama Canal Likely to Mean Cheaper Prices for US Shoppers", *Fox News*, 23 October 2006, available: <http://www.foxnews.com/wires/2006Oct23/0,4670,PanamaReferendum,00.html> (accessed 26 January 2010).

26. Ministerio de Relaciones Exteriores de Panamá, "Gobiernos extranjeros reconocen civismo y transparencia del referendo", 24 October 2006, available: <http://www.miregobpa.info/noticia.asp?elemid=497> (accessed 8 November 2008, author's translation).

27. The White House, "President Bush Meets with President Torrijos of the Republic of Panama", 16 February 2007, available: <http://georgewbush-whitehouse.archives.gov/news/releases/2007/02/20070216.html> (accessed 26 January 2010).

concern strategic calculations. The last two relate to economic issues. These hypotheses are:

By allowing the transit of larger vessels, expansion will facilitate US naval operations.

The megaproject will stimulate economic growth in Panama, contributing to greater stability and less potential for anti-US radicalization.

The US$5.25 billion megaproject contains important opportunities for US investors.

A wider canal will advance trade, especially imports through Gulf and East Coast ports, fostering growth in US transportation and retail sectors.

A realist approach, based on protecting or augmenting national power through strategic or economic measures, backs all four hypotheses to varying degrees (more strongly #1). The liberal model, concerning the objectives of individuals or interest groups, supports the economic explanations. All four hypotheses are examined, with a focus on the fourth as the most convincing explanation.

Strategic interests 1: Facilitating US naval operations

A need to move the US fleet between oceans was one original motivation for a canal through Panama. But the waterway's strategic value diminished significantly with the shift to a two-ocean fleet during World War II.[28] Still, in the perception of US strategists, the route remains important for military passage, providing swing capability from US naval bases in San Diego, on the California coast and Norfolk, on the Atlantic Ocean.

The waterway is "vital" to US defence, affirmed the late Admiral Thomas Moorer at a 1998 US Senate Foreign Relations Committee hearing on "The Panama Canal and United States Interests". "On several occasions where we have had combat action", Moorer declared, "we have had to transfer a tremendous amount of material back and forth from one ocean to another. We would have to make significant increases in our military structure in terms of size if we were denied the right and the opportunity to pass back and forth" through the canal.[29]

This testimony was not given in connection with canal expansion but in reference to complaints that the United States had lost control of the waterway and China, through Hutchison-Whampoa, was now a critical actor in the tran-

28. Debra K. Rubin, "Panama Waterway Expansion Raises Opportunity and Issues", *Engineering News Record*, 12 May 2007, available: http://enr.construction.com/news/transportation/archives/070516.asp (accessed 14 June 2010).

29. Major, *op. cit.*, p. 306.

sit business through Panama. Still, the perspective suggests that a wider route might promote US strategic interests by allowing the transit of larger aircraft carriers that currently cannot use the facility. Popular movements in Panama opposed to the expansion programme argued this was a reason behind US support for the plan.[30] An ACP director refuted their claims, indicating that the new locks would still not accommodate the bigger Navy vessels.[31]

Currently, according to national security analyst Ivan Eland, the US Atlantic and Pacific fleets have *"overwhelming dominance in their respective regions without the necessity of rapidly swinging ships from one ocean to the other via the canal"*.[32] Thus, the existing route adequately protects the naval interests of the United States, which are further safeguarded by the 1977 Neutrality Treaty provision allowing US vessels of war *"to transit the canal expeditiously", including going to the head of the line of vessels "in case of need or emergency"*.[33] Obtaining larger transit capacity through the canal for US Navy vessels, therefore, is not a sufficiently persuasive reason behind the Bush Administration's support for the widening programme.

Strategic interests 2: Fostering stability in Panama

Maintaining stability on the isthmus, principally to protect the waterway's operation, has long been a US strategic objective, even after transfer of the facility to Panama in 1999. In the Neutrality Treaty, Washington committed to guaranteeing the route's integrity in perpetuity. Policymakers regard political stability as a way to secure the canal, and economic growth is generally considered a means to promote political stability.[34]

30. US Congress, Senate, "The Panama Canal and United States Interests".

31. Julio Yao, "Por qué rechazamos el proyecto", *La Estrella de Panamá*, 8 July 2006, available: <http://www.nodo50.org/caminoalternativo/canal/69.htm>; FRENADESO, "Respuesta de FRENADESO a Mario Galindo", available: <http://noalaampliacion.tripod.com/posiciones/id19.html> (both accessed 26 January 2010).

32. Mario Galindo, "La ampliación del canal, los buques Panamax, los Pospanamax y materias conexas", *El Panamá América*, 2 July 2006, available: <http://www.acp.gob.pa/esp/plan/opiniones/2006/07/02/pr124.html> (accessed 26 January 2010).

33. Ivan Eland, "Panama Canal Stirs Cold Warriors", *Journal of Commerce*, 19 October 1999, available: http://www.independent.org/newsroom/article.asp?id=1067> (accessed 26 January 2010).

34. See Art. VI of, and Amendment 2 to, the 1977 Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, in Appendix B to Meditz and Hanratty, *op. cit*

US decision makers see poverty *"as a source of instability or even revolution, a 'powderkeg' that could ignite without warning"*.[35] They also view economic growth as an antidote against tensions arising from poverty. In post 9/11 policy making, which labels terrorism as the prime threat to US national security and poor living standards as a breeding ground for radicalism, Washington frequently emphasizes the link between economic growth, political stability, and US national security.[36]

The economic growth explanation of stability connects with modernisation theory, which holds that economic progress eventually produces political development. "By cutting acute poverty and improving living standards", wrote Robert Dahl, *"economic growth helps to reduce social and political conflicts"*.[37] US policy toward developing states operates from this assumption.

US embassy officials trust that economic growth will contribute to enhance social and political conditions on the isthmus.[38] Following the 2006 referendum, Ambassador Eaton commented on the country's "bright future" stemming from canal enlargement and other activities.[39] According to this logic, the megaproject should accelerate growth which, in turn, would help improve political conditions. In 2000-2006, 37 per cent of Panama's population lived under the poverty line and 18 per cent survived on earnings of US$2 per day or less.[40] For some observers, these statistics are markers of a potentially explosive situation.[41]

A belief in growth-based political stability could be a complementary reason to back the expansion plan, but it is not sufficiently potent to exclusively account for such high-level support as Washington gave the programme. First, since the 1989 US invasion that toppled Panama's military regime, political instability has not threatened Washington's interests on the isthmus. At a 2009

35. Carlos Guevara Mann, *Panamanian Militarism: A Historical Interpretation* (Athens: Ohio University Center for International Studies, 1996).

36. Peter H. Smith, *Democracy in Latin America: Political Change in Comparative Perspective* (New York and Oxford: Oxford University Press, 2005), p. 231.

37. George W. Bush, *The National Security Strategy of the United States of America (September 2002)* (Washington: The White House, 2002), available: http://www.informationclearinghouse.info/article2320.htm, accessed 26 January 2010; Martha Crenshaw, "The Causes of Terrorism", in C. W. Kegley, Jr. (ed), *The New Global Terrorism* (Upper Saddle River, N.J.: Prentice Hall, 2003).

38. Robert A. Dahl, *On Democracy* (New Haven: Yale University Press, 1998), pp. 167-68.

39. Author's off-the-record conversation with a US diplomat, Panama, 5 January 2007.

40. "Panama's Economy Looks Bright, Say Top Officials", *PanamaReals.com*, 17 November 2006, available: <http://www.panamareals.com/news/category/special-features/14/panama`s-economy-looks-bright--say-top-officials.html> (accessed 26 January 2010).

41. UNDP, *Human Development Report 2009* (New York: UNDP, 2009), p. 176, available: <http://hdr.undp.org/en/media/HDR_2009_EN_Complete.pdf> (accessed 14 June 2010).

Senate meeting, Assistant US Trade Representative for the Americas Everett Eissenstat declared: *"Panama is a strong U.S. ally and is a country heading in the right direction. Panama restored democracy in 1989 and has had a succession of peaceful and democratic elections since then"*.[42]

Second, concerning the nexus between development and stability, the basic modernisation argument overlooks the crucial issue of who benefits from economic growth. As noted by Samuel Huntington (as well as by Dahl), by increasing expectations among excluded groups, creating inequalities, and placing strains on inefficient institutions, growth might actually accentuate tensions, especially if its fruits are appropriated by better-off sectors.[43] The negative impact of inequality and institutional malfunctioning on redistributing growth is not unbeknownst to Washington policymakers. USAID's "Latin America and the Caribbean Profile" acknowledges that the region *"currently has some of the highest rates of income inequality in the world"*.[44]

According to UNDP's 2009 *Human Development Report*, in 2007 Panama was fifth among the twenty Latin American republics in terms of per capita GDP (adjusted for purchasing power), after Mexico, Chile, Argentina, and Venezuela. Simultaneously, based on the Gini coefficient of wealth distribution, Panama was the sixth most unequal country in the region, following Haiti, Colombia, Bolivia, Honduras, and Brazil.[45] US policymakers know that generating growth is not a problem in Panama. Distributing wealth equitably to deflect socio-political tensions remains the challenge.

Economic interests 1: US investment opportunities

"US wants its firms to get piece of Panama Canal expansion", informed a news wire immediately after the referendum, illustrating Washington's interest in a level playing field for US companies eyeing the megaproject. *"We're confident that the tendering process will be fair and transparent", declared Ambassador Eaton, adding that "The interest of US firms includes all the sec-*

42. Carlos González Ramírez, "Panamá en dirección a la apertura económica completa", available: <http://biblioteca.apede.org/docs/ce-gonzalez-exp.doc> (accessed 26 January 2010).

43. US Senate, Committee on Finance, "United States-Panama Trade Promotion Agreement", Statement of Everett Eissenstat, Assistant United States Trade Representative for the Americas, 21 May 2009, available: <http://finance.senate.gov/hearings/testimony/2009test/052109eetest.pdf> (accessed 25 January 2010).

44. Samuel P. Huntington, *Political Order in Changing Societies* (New Haven and London: Yale University Press, 1968); Dahl, *op. cit.*, pp. 173-79.

45. US Agency for International Development (USAID), "Latin America and Caribbean Profile", available: <http://www.usaid.gov/locations/latin_america_caribbean/> (accessed 19 February 2010).

tors that will participate in the expansion of the canal".[46] In this instance, the ambassador spoke on behalf of both the US Government and economic groups drawn to the megaproject.

The promotion of investment is a foreign policy arena bringing together proponents of national and special interests. "Pursuing ambitious trade and investment agendas" is an objective in the State Department's 2007-2012 Strategic Plan.[47] The previous plan (2004-2009) highlighted the need to expand prospects for US businesses and ensure "economic security for the nation". Diplomatic efforts assist US companies "as they trade and invest abroad by *pressing* governments to open markets, promote responsible business practices, and help resolve individual disputes" (emphasis added).[48]

The US Commercial Service organised to support firms interested in the waterway's enlargement. Describing it as "one of the largest and most ambitious projects in the region", in 2007 the Service posted a notice announcing "tremendous" opportunities for US firms.[49] Estimated short-term credit needs of approximately US$2.25 billion, mentioned earlier, also represent significant opportunities for international financial investors.

US companies started taking part in activities related to the canal's widening before the 2006 referendum. In 2002, New York-based Parsons Brinckerhoff, in partnership with Colorado-based Montgomery Watson Harza (MWH), received a US$14.5 million consulting contract to write ACP's Master Plan recommending expansion through a new lane of locks.[50] Anticipating a 'yes' vote in the referendum, in May 2006 Caterpillar, the world's leading manufacturer of construction equipment, opened an operations centre in Panama City.[51]

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46. UNDP, *Human Development Report 2009*, pp 171-74, 196-98.

47. EFE, "US Wants its Firms to Get Piece of Panama Canal Expansion", 23 October 2006, available: <http://news.notiemail.com> (accessed 10 October 2007).

48. US Department of State and US Agency for International Development (USAID), *Strategic Plan, Fiscal Years 2007-2012: Transformational Diplomacy* (Washington: Department of State/USAID, 2007), p. 26, available: <http://www.state.gov/documents/organization/86291.pdf> (accessed 25 January 2010).

49. US Department of State and US Agency for International Development (USAID), *Strategic Plan, Fiscal Years 2004-2009: Aligning Diplomacy and Development Assistance*, (Washington: Department of State/USAID, 2003), p. 47, available: <http://www.state.gov/documents/organization/24299.pdf> (accessed 26 January 2010).

50. US Commercial Service, "Panama Canal Expansion Project", 27 February 2007, available: <http://www.buyusa.gov/panama/en/24.html> (accessed 25 January 2010).

51. Parsons Brinckerhoff, "PB Consult / MWH to Consult on Panama Canal Master Plan", 19 November 2002, available: http://www.pbworld.com/news_events/press_room/press_releases/pdf/panama_release.pdf; Cliff J. Schexnayder, "Panama Canal Authority Looking For Expansion Program Manager", *Engineering News Record*, 6 June 2007, available: <http://enr.construction.com/news/transportation/archives/070606d.asp> (both accessed 26 January 2010).

Caterpillar was an important contributor to the electoral chest of Representative Jerry Weller (R-Illinois), one of the co-chairs of the "Panama, Trade, Security, and Economic Cooperation Caucus" formed to further common US and Panamanian Government objectives in Washington.[52] The connections between policymaking and economic sectors actively supporting the megaproject are obvious in this example and fall in line with Putnam's predictions at the first level of analysis. The choice of Rep. Weller, however, was not the most felicitous for the special interests. After nomination as "one of the most corrupt members of Congress" by a watchdog group in 2007, Weller dropped re-election plans.[53]

Support for a megaproject in Panama providing opportunities for US investors thus makes sense from both a realist approach seeking to maximize state power through foreign investment and a liberal model attentive to the income-generating concerns of non-state domestic and transnational actors who can support politicians in their quest for office. In hindsight, however, investment does not seem a sufficiently powerful reason to support canal enlargement. As noted, Asian and European public-sector entities or the Inter-American Development Bank (IDB) thus far received most of the loan agreements.[54]

As regards construction and supply contracts, only a fraction went to US companies. At 31 March 2010, ACP had assigned most expansion-related contracts, totalling US$4.0 billion. The principal award was the US$3.2 billion contract for new lock design and construction, which went to an international consortium consisting of Sacyr Vallehermoso (Spain), Impregilo (Italy), Jan de Nul (Belgium), and Constructora Urbana (CUSA), a company belonging to the family of ACP Administrator Alberto Alemán.

Between November 2006 and March 2010 at least 30 US firms received contracts for approximately US$94 million—not a negligible amount, but by no means a deal breaker in the overall US foreign policy framework. This figure represents 2.4 per cent of total awards at 31 March 2010 (US$4.0 billion). At the time of the first expressions of US support for the plan, however, most of the

52. Alex Hernández, "Caterpillar instaló centro de operación en Panamá", *El Panamá América*, 6 May 2006.

53. Center for Responsive Politics. "Money in Politics Data: Rep. Jerry Weller", available: http://www.opensecrets.org/politicians/summary.asp?CID=N00004745&cycle=2006; US Congress, House of Representatives, Committee on House Administration, "110th Congress Congressional Member Organizations (CMOs)", available: <http://cha.house.gov/member_orgs110th.aspx>; Betty Brannan Jaén, "Poca transparencia sobre cabilderos", *La Prensa*, 8 January 2006, available: <http://mensual.prensa.com/mensual/contenido/2006/01/08/hoy/opinion/459261.html> (accessed 26 January 2010).

54. Associated Press, "Weller Retirement Opens up another GOP Seat for the Taking", Fox News, 13 January 2008, available: <http://www.foxnews.com/story/0,2933,322435,00.html?sPage=fnc/politics/house> (accessed 26 January 2010).

bidding was still ahead and ample investment opportunities seemed available to US corporations, as announced by the US Commercial Service. As the Caterpillar example suggests, potential investors expecting to profit from the venture may have exercised leverage in shaping US policy toward the megaproject.[55]

Economic interests 2: Enhancing US trade

Toward the end of the nineteenth century, a search for markets and investment outlets helped drive US expansionism. The desire to obtain overseas possessions, including an inter-oceanic waterway facilitating US commerce, surfaced at the time.[56] But a century later, notes economist William Hawkins, the direction of commerce "is the reverse of what was envisioned a century ago". The Panama Canal was built "to support a United States then rising to global power". Currently, it is being enlarged "to handle the increasing number of products from China and other parts of Asia that need to be transported to stores in the American heartland".[57]

Whereas in the early twentieth century US economic strategy focused on increasing exports, the significance of imports for the overall economy and wellbeing of the US public has risen in recent years. The critical role of consumption in the US economy—"one of the most striking developments of the past four decades", according to Niall Ferguson—explains the connection between imports, economic growth, and national security.[58] In 2009, personal consumption expenditures represented 71 per cent (US$10.3 trillion) of total US GDP (US$14.5 trillion).[59] The part of consumption satisfied by imports rose from approximately 5 per cent in 1970 to 14.5 per cent in 2009.[60]

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55. The Economist, "The Panama Canal".

56. ACP, "Informe trimestral XIV: avance de los contratos del programa de ampliación", 31 March 2010, available: <http://www.pancanal.com/esp/ampliacion/informes/informes-trimestrales/20100331.pdf> (accessed 14 June 2010).

57. Peter M. Sánchez, Panama Lost? US Hegemony, Democracy, and the Canal (Gainesville: University Press of Florida, 2007), p. 57.

58. William R. Hawkins, "Panama as a Bellweather of US Fortunes: the Storm Gathers", American Economic Alert, 4 November 2006, available: <http://www.americaneconomicalert.org/view_art.asp?Prod_ID=2592> (accessed 14 June 2010).

59. Niall Ferguson, Colossus: The Rise and Fall of the American Empire (New York: Penguin, 2004) p. 268.

60. US Department of Commerce, Bureau of Economic Analysis, National Economic Accounts, National Income and Product Accounts Table, "Table 1.1.5. Gross Domestic Product", available: <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=5&Freq=Qtr&FirstYear=2007&LastYear=2009> (accessed 1 February 2010).

Policymakers regard consumption as vital to the US economy. President Bush exemplified this view immediately after the 9/11 terrorist strikes when he encouraged the public to "go shopping" in response to the attacks.[61] From this viewpoint, promoting imports to expand personal consumption and create economic growth contributes to preserve and enlarge US power.

The Panama Canal plays an important role to ensure the flow of goods to the United States. Nearly 10 per cent of total US-borne trade uses the waterway. Approximately two thirds of all transits originated in or are destined for the United States.[62] In 2009, nearly 28 per cent (US$431.5 billion) of US imports came from China, Japan, and South Korea, countries listed among the top ten canal users.[63] A capacity to accommodate larger vessels through the canal will permit an increase in imports from these and other countries.

Also, from a strategic viewpoint linked to market economics, free trade is a channel for spreading influence and disseminating values. Promoting imports from the Far East, though perhaps not convenient for the balance of trade, should procure leverage among the exporting countries of the region, notably China. In her 2000 *Foreign Affairs* article, Condoleezza Rice wrote that *"Trade and economic interaction are, in fact, good—not only for America's economic growth but for its political aims as well"*.[64]

Special Interests in Commerce and Shipping

For economic and strategic reasons, a wider canal through Panama facilitating trade makes sense within a US national interest framework. Evidence, however, points to domestic and transnational group pressure as the most convincing explanation for the Bush Administration's support (and the Panamanian Government's sponsorship) of the megaproject. Accordingly, liberalism emerges as the most effective decision-making model elucidating US policy toward the waterway's enlargement.

61. US Department of Commerce, Bureau of Economic Analysis, National Economic Accounts, National Income and Product Accounts Table, "Table 1.1.10: Percentage Shares of Gross Domestic Product," available: <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=14&Freq=Qtr&FirstYear=2007&LastYear=2009> (accessed 1 February 2010); Elliott Parker, e-mail, 12 October 2007.

62. Thomas L. Friedman, "9/11 and 4/11", The New York Times, 20 July 2008, available: <http://www.nytimes.com/2008/07/20/opinion/20friedman.html> (accessed 26 January 2010).

63. US Congress, Senate, Committee on Finance, "Statement of Everett Eissenstat".

64. US Census Bureau, Foreign Trade Statistics, "Top Trading Partners: Total Trade, Exports, Imports, Year-to-Date December 2009", available: <http://www.census.gov/foreign-trade/statistics/highlights/top/top0912yr.html> (accessed 15 February 2010); ACP, "Maritime Operations, Transit Statistics, Fiscal Year 2009—Top 15".

In 2009 *The Economist* revealed that "The bosses of the world's shipping firms, who sit on ACP's advisory board, started *pressing* for expansion as soon as Panama took over" the waterway in December 1999 (emphasis added).[65] In 2005, *The Houston Chronicle* affirmed that Japanese shipping NYK Line and Wal-Mart *"are among companies pressing Panama to enlarge the 91-year-old waterway to take bigger ships at a time when growing exports from Asia clog US Pacific ports" (emphasis added).*[66] Such pressures coincide with the predictions of actor-centred rationalist liberalism that responsive governments *"pursue foreign policy in accordance with the economic interests of domestic [and transnational] actors".*[67]

A report in an East Asian newspaper echoes an earlier remark by Ambassador Eaton, suggesting that large retailers are definitely set to benefit from canal enlargement:

> *Chinese toys and sneakers headed to Wal-Mart Stores Inc. and Target Corp. on the US East Coast may bypass Warren Buffett's $33.8-billion railway as the expansion of the Panama Canal slashes the cost of shipping them by sea. The deeper, wider canal will allow A.P. Moeller-Maersk A/S, China Ocean Shipping Group Co. and other lines to ship more cargo directly to New York and Boston instead of unloading it on the West Coast for trains and trucks to finish the journey east. That could save exporters 30 percent.*[68]

Non-central government actors and managers at East and Gulf Coast ports are keen on expansion. In the second half of 2009, Canal Administrator Alemán hosted Port Everglades Director Phillip Allen and (separately) Governor Sonny Perdue of Georgia, who visited along with "senior leaders from the Georgia Ports Authority (GPA) and the Georgia Department for Economic Development". All are interested in a wider canal's potential to provide more

65. Rice, *op. cit.*

66. Okke Ornstein, "Canal Expansion: A Gift to Corporate America", *Noriegaville*, 20 September 2005, available: <http://laotraorilla.blog-city.com/los_panameos_le_vana__regalar_el_canal_a_wal_mart.htm> (accessed 26 January 2010).

67. Panke and Risse, *op. cit.*, p. 99.

68. "Panama Canal expansion to cut China shipping costs", *The Manila Bulletin*, 30 January 2010, available: <http://www.mb.com.ph/articles/240960/panama-canal-expansion-cut-china-shipping-costs> (accessed 1 February 2010).

business for their ports.[69] Later that year, Administrator Alemán assured Florida government and business leaders that Miami *"will be in a key strategic position to accommodate the world's largest cargo vessels as a result of the expanded Panama Canal"*.[70]

The Texas Department of Transportation holds that expansion will have a powerful impact on the Port of Houston and the state's inter-modal transport system. Canal improvements are expected to *"have profound impacts on job opportunities and economic development for Texas, as well as solidify Texas as the trade corridor of this hemisphere for decades to come"*.[71]

Expectations of increased commercial activity stimulated construction at some of these ports. "With an eye toward feeding the U.S. consumer's insatiable demand for Asian-made goods", Reuters reported, companies such as Wal-Mart and Home Depot "have built millions of square feet ... of warehouse space around Houston ports". According to Jeff Moseley, president of the Greater Houston Partnership business group, "The expansion that is going on in Panama has got the Port of Houston written all over it". Other ports, including New Orleans and facilities in New York, New Jersey, Georgia, and South Carolina, are also *"weighing expansion plans to lure the super-sized ships"*.[72]

Such non-central actors may influence state-level decision making through influential individuals with a stake in the megaproject. Prior to the referendum, Parsons Brinckerhoff formed an "Expert Technical Committee" to help complete the expansion plan risk administration contract. The committee included Professors Stuart Anderson, of Texas A&M and Debbie Niemeier, of UC Davis, formerly with the Texas Department of Highways.[73]

69. "Panama Canal, Port Everglades Alliance", *Marine Link*, 6 August 2009, available: <http://www3.marinelink.com/Story/PanamaCanal%2cPortEvergladesAlliance-216309.html>; "Panama Canal Hosts Georgia Governor", *Marine Link*, 30 September 2009, available: <http://www3.marinelink.com/Story/PanamaCanalHostsGeorgiaGovernor-216864.html> (both accessed 1 February 2010).

70. "Panama Canal CEO Briefs Miami Leadership", *Marine Link*, 10 November 2009, available: <http://www3.marinelink.com/Story/PanamaCanalCEOBriefsMiamiLeadership-217305.html> (accessed 1 February 2010)

71. Texas Department of Transportation, "New Study Looks at Panama Canal Expansion's Effect on Texas Transportation", 28 November 2006, available: <http://www.txdot.gov/KeepTexasMovingNewsletter/12042006.html#Panama> (accessed 26 January 2010).

72. Chris Baltimore, "Houston Eyes Asia Trade as Panama Canal Expands", *Reuters*, 13 December 2009, available: <http://www.reuters.com/article/idUSTRE5BD04L20091214> (accessed 25 January 2010).

73. Expert Technical Committee, "Review of the Cost Estimates and Schedule for the Panama Canal 3rd Lane Locks Atlantic and Pacific Locks, Pacific Access Channel, and Navigation Channel", 2 November 2005, available: <http://www.pancanal.com/esp/plan/estudios/0294.pdf> (accessed 26 January 2010).

The Texas connections extend beyond the outside consultants to the hallways of power in both the United States and Panama. In 1995-2000, President George W. Bush was governor of Texas. President Torrijos and Administrator Alemán attended Texas A&M.[74] One would expect these influential individuals to be receptive to initiatives benefiting a state where they maintain important associations.

Challengers and their nugatory efforts

The liberal approach to policy formulation implies that a certain pluralism is at work, i.e., that a plurality of groups compete for power and influence before agents of the state in the endeavour to shape foreign policy in self-satisfactory ways. Accordingly, writes Moravcsik, states are constantly subject to *"capture and recapture, construction and reconstruction by coalitions of social actors"*.[75] This consideration begs the question, which groups did US domestic and international financial, commercial, and shipping interests face in their attempt to influence policy making toward the Panama Canal expansion programme?

Challenges to the viewpoint that a wider waterway was a beneficial development may be organized around three main concerns: preserving US economic supremacy, protecting the environment, and promoting human development. Because the platforms and efforts of advocates of these views were in many instances inarticulate or precarious, or because the coalitions supporting the respective views lacked direct access to Washington policymaking circles, the influence of their more organized, resource-endowed competitors neutralized the impacts they were able to produce. As noted by Moravcsik, presumably in this instance (as in others), "concentrated, organized, short-term, or otherwise arbitrarily salient interests" predominated over less visible and poorly structured agendas.[76]

Preserving US economic supremacy

Critiques of the expansion plan aiming to preserve US economic supremacy presented the widening programme within the context of a zero-sum

74. Texas A&M University, "Martin Torrijos Espino '87 Named 2007 Outstanding International Alumnus of Texas A&M University", 22 February 2007, available: <http://intlcenter.tamu.edu/NewsFeb22.asp> (accessed 26 January 2010).

75. Moravcsik, *op. cit.* p. 518.

76. *Ibid.*, p. 531

game between the United States and China for global preponderance. William Hawkins, of the protectionist US Business and Industry Council, warned that the waterway's expansion would "support China's rise as the next Great Power with global ambitions". The main purpose of the megaproject—facilitating trade between Asia and the US East and Gulf coasts—would promote more exports from the Far East, further enriching the Chinese and debilitating the US economy.[77] As well, sustained economic growth would allow China to continue building up its military forces, to the detriment of US national security.[78]

An enlarged canal, "as both an import and export route, will become a prime conduit for Chinese-driven global trade", wrote the London *Times* Asia Business correspondent.[79] Certainly, in addition to encouraging exports to the United States, the waterway's expansion is also expected to facilitate imports of minerals and foodstuffs, thus satisfying the Chinese economy's burgeoning need for raw materials. "For commercial purposes", explained Peter T.R. Brookes of The Heritage Foundation at a US Congress hearing on "China's Influence in the Western Hemisphere", the Asian giant "obviously has a strong interest in the Panama Canal". Representative Dan Burton, a Republican member of Congress, added that "China is a leading competitor of the United States in the search for oil, gas and minerals in Central and Southeast Asia, the Middle East, Africa and now Latin America".

A new lane of locks would permit increased transits of raw materials from the northeastern section of South America (Colombia, Venezuela, Brazil) to China and open new trade routes allowing greater exports of West African minerals through the Panamanian waterway, thus helping placate the rising Chinese economy's thirst for energy sources and other commodities. For some analysts, such as June Teufel-Dreyer, a member of the congressional US-China Economic and Security Review Commission, China *"appears to be attempting to use Latin America to challenge US supremacy in the region"*.[80] Increased trade through a wider Panama Canal could promote these objectives by providing China with more leverage among the region's countries.

77. Hawkins, *op. cit.*

78. Congressional testimony of Peter T. R. Brookes, senior fellow, The Heritage Foundation, at US Congress, House, "China's Influence in the Western Hemisphere", Hearing before the Subcommittee on the Western Hemisphere of the Committee on International Relations, 6 April 2005, available: <http://www.foreignaffairs.house.gov/archives/109/20404.pdf> (accessed 3 June 2010).

79. Leo Lewis, "Panama Canal Revamp Boosts China and Puts Buffett Bet at Risk", *The Times*, 8 February 2010, available: <http://business.timesonline.co.uk/tol/business/markets/china/article7018468.ece> (accessed 14 June 2010).

80. US Congress, House, "China's Influence in the Western Hemisphere".

Concerning the waterway's widening programme, critics adopting a national-security perspective linked their analysis to prior allegations that China had acquired a controlling interest in the canal through the 1997 Hutchison Whampoa port concessions. Some erroneously asserted that through its relations to this conglomerate, the Chinese Government actually oversaw the waterway's administration and could prevent certain vessels from utilizing the facility. Significantly, in 2005 Representative Burton—chair of the congressional subcommittee holding the hearings—asserted that *"China now has control of both ends of the Panama Canal"*.[81] Others claimed that the Chinese Government utilized the Hutchison Whampoa ports as intelligence-gathering sites.[82]

While there are grounds to support the claim that intelligence operatives working for Beijing might be active in Panama (as elsewhere in the region), allegations of Chinese control of the canal through the ports were unfounded. Above and beyond, despite the conservative connections of the economic supremacy critique, the arguments failed to derail the Bush Administration's commitment to the Panama Canal expansion programme. Roger Noriega, Assistant Secretary of State for Western Hemisphere Affairs, summarised the administration's policy at the 2005 congressional hearings. "China's growing presence in the region", he declared, reflects its growing engagement throughout the world. It does not necessarily constitute a threat to US interests ... It is safe to say that the United States has been, and will continue to be, the [Latin American republics'] long-term partner of preference—a preference not based on short-term economic deals, but based on shared values and common long-term objectives.[83]

Protecting the enviroment

Environmental concerns focused primarily on access to water to supply both future canal operations and the sprawling metropolitan population along the waterway. But these apprehensions failed to echo in the hallways of Washington. Major US and international environmental groups did not push the issue, which was mostly voiced by Panamanian conservationist organizations with little or no clout in the United States. An exception was the Sea Shepherd Conservation Society, an international environmental NGO, which predicted that

81. *Ibid*.

82. Eland, *op. cit*.

83. US Congress, House, "China's Influence in the Western Hemisphere".

the megaproject *"will be an ecological and economic disaster for Panama"*.[84]

Each transit through the existing facility requires 190 million, non-recyclable litres of fresh water from the canal basin, which also meets the needs of the trans-isthmian urban areas and forest reserves.[85] Expansion designs include pools to recycle 60 per cent of the water utilized by the new locks. Thus, the expanded facility will discard 40 per cent of the new lane's use of water, on top of all of the existing locks' utilization of water. Such massive use might have deleterious impacts on livelihoods in the transit zone. Other ecological considerations include the possible salinisation of Gatún Lake as well as soil loss and sedimentation owing to climate change.[86]

In December 2008, a report by the US Army Institute of Water Resources addressed some of these issues. Focusing on the "great deal more water" required for the new locks, the paper mentioned challenges posed by the need to ensure "a ready supply of water in a country where rainfall is highly seasonal". The report also cited the risk of flooding resulting from erosion in the canal basin.[87] Earlier, more critical observers complained that ACP submitted the project without full disclosure of the ecological risks involved.[88] Not until February 2007 was an environmental assessment commissioned to a consortium led by URS Holdings, a US engineering firm.[89]

Ecological effects surfaced as the project progressed, but these were minimised by Panamanian authorities. In 2010, the press reported on the devastation of a mangrove on the canal's Pacific entrance after its use as dumping

84. Sea Shepherd Conservation Society, "Captain Watson on CBC Radio about the Panama Canal Expansion Plans", 3 November 2006, available: <http://www.seashepherd.org/news-and-media/editorial-061103-1.html> (accessed 4 June 2010).

85. Cornelia Dean, "To Save Its Canal, Panama Fights for Its Forests", *The New York Times*, 24 May 2005, available <http://www.nytimes.com/2005/05/24/science/earth/24pana.html?pagewanted=print>, (accessed 26 January 2010); Lorne Matalon, "Panama Canal Expansion Spurs Environmental Debate", *National Geographic News*, 27 June 2007, available: <http://news.nationalgeographic.com/news/2007/06/070627-panama-canal.html> (accessed 3 June 2010).

86. David B. Ashley, "Panama Canal" presentation, University of Nevada, Reno, 28 September 2007; Gonzalo Menéndez González, "Some Worrisome Environmental Aspects of the Panama Canal Expansion", *The Panama News*, 23 July-5 August 2006, available: <http://www.thepanamanews.com/pn/v_12/issue_14/opinion_01.html> (accessed 26 January 2010).

87. Kevin Knight, "The Implications of Panama Canal Expansion to US Ports and Coastal Navigation Economic Analysis", Institute for Water Resources White Paper, December 2008, available: <http://www.iwr.usace.army.mil/inside/products/pub/iwrreports/WhitePaperPanamaCanal.pdf> (accessed 4 June 2010).

88. UNNO, "No al proyecto de ley sobre la ampliación del canal".

89. Wilfredo Jordán, "Adjudican EIA para ampliación del canal", *La Prensa*, 17 February 2007, available: <http://mensual.prensa.com/mensual/contenido/2007/02/17/hoy/pdf/Negocios.pdf> (accessed 26 January 2010).

ground for dredging operations. Mangroves are a particularly fragile ecosystem providing important services in tropical areas, such as preventing excess sediment and other residues from reaching the ocean, protecting the mainland against flooding, and operating as refuge and breeding ground for various species. Panama's environmental agency, however, exonerated ACP from any wrongdoing, declaring that the impact of the devastation was only *"visual"*.[90]

Promoting human development

The critique emphasising human development focused on three main issues: the megaproject's alleged financial inviability, its failure to respond to Panama's social needs, and its potential for encouraging further corruption in Panama. Such occurrences could destabilise Panama, creating a security risk in a country hosting a vital route for US commerce. As was the case of opposition on environmental grounds, however, these criticisms were put forth principally by sectors on the isthmus and generally failed to resonate in the United States. Exceptionally, the Council on Hemispheric Affairs (COHA), a left-leaning think tank based in Washington, advocated some of the human development causes.

Financial Viability—Or Inviability?

The project's stated cost drew much criticism.[91] Because the official estimate (US$5.25 billion) was tentative, based on "conceptual" engineering designs, declarations by US Deputy Assistant Secretary of Defense Roger Pardo Maurer indicated a possibility of high overruns. Pardo Maurer put the cost in the US$16-25 billion range.[92]

90. José Arcia, "No hay impacto ambiental", *La Prensa*, 14 June 2010, available: <http://mensual.prensa.com/mensual/contenido/2010/01/12/hoy/panorama/2058919.asp. (accessed 20 February 2010).

91. Jorge E. Illueca, Fernando Manfredo, Julio Manduley, and Enrique Illueca, "Nuestro canal: una ampliación innecesaria y riesgosa ahora o una alternativa de desarrollo nacional propio para todos (segundo informe al país)", *Buscando Camino*, October 2006, available: <http://www.nodo50.org/caminoalternativo/canal/111.htm> (accessed 14 June 2010).

92. US Congress, Senate, Foreign Relations Committee, Western Hemisphere, Peace Corps and Narcotics Affairs Subcommittee, "China's Role in Latin America", 20 September 2005, Federal News Service transcript, available: <http://cip3000.tripod.com/zDocs/xChinaYCanal.htm> (accessed 26 January 2010).

A former canal chief engineer's estimate was US$19.2 billion.[93] US banker Walter Molano calculated it at nearly US$9 billion, still almost twice the ACP figure. Widening the waterway was less convenient for Panama than for the United States, Molano said, adding *"that Panama would be better off making large investments in related port, warehouse, multimodal cargo handling and distribution infrastructures than in the canal itself"*.[94] His observations on potential beneficiaries overlap with those of the Greater Houston Partnership's Jeff Moseley (see above) and suggest that megaprojects may benefit foreign interests more than host countries.

ACP's inability to address the divergence in cost assessments convincingly gave reason to wonder if anyone had accurately calculated the project's price. Flyvbjerg et al, however, note that megaproject cost underestimation is not uncommon, owing to poor risk measurement, incomplete financial calculations, and excess optimism by promoters, among other factors.[95] For example, Boston's "Big Dig" traffic tunnel overshot its original, US$2.6 billion budget to at least US$14.6 billion. Parsons Brinckerhoff, awarded the Panama Canal Expansion Master Plan contract, participated in designing the *"Big Dig"*.[96]

Worries about possible miscalculations increased when immediately after the referendum the international rating agency Standard & Poors estimated the total expansion bill at US$6.2 billion, one billion dollars above the ACP figure.[97] Later, Administrator Alemán warned that inflation and the previously unforeseen rise in oil prices could push up costs.[98] Previously, IMF had warned about the dangers of debt-financed overruns on Panama's meagre fiscal con-

93. Thomas Drohan, "NO: Dos razones contundentes", *El Panamá América*, 15 October 2006, available: <http://www.panamaprofundo.org/boletin/canaldepanama/no_dos_razones.htm> (accessed 26 January 2010).

94. Eric Jackson, "On the Panama Canal Expansion Referendum Campaign Trail", *The Panama News*, 8-21 October 2006, available: <http://www.thepanamanews.com/pn/v_12/issue_19/news_04.html>; Walter Molano, "Panama: A Bubble Waiting to Burst", *Latin Business Chronicle*, 26 September 2006, available: <http://www.latinbusinesschronicle.com/app/article.aspx?id=411> (both accessed 26 January 2010).

95. Bent Flyvbjerg, Nils Bruzelius, and Werner Rothengatter, *Megaprojects and Risk: An Anatomy of Ambition* (Cambridge: Cambridge University Press, 2003).

96. Miguel Antonio Bernal, "The Canal Expansion's 'Big Dig'", *The Panama News*, 3-16 September 2006, available: <http://www.thepanamanews.com/pn/v_12/issue_17/opinion_01.html>; Associated Press, "Boston's 'Big Dig' opens to public", 20 December 2003, available: <http://www.msnbc.msn.com/id/3769829/> (both accessed 26 January 2010).

97. Edith Castillo Duarte, "Ampliación del Canal podría costar 6 mil 200 millones", *La Prensa*, 26 October 2006, available: <http://mensual.prensa.com/mensual/contenido/2006/10/26/hoy/negocios/777593.html>, (accessed 14 June 2010).

98. Santiago Cumbrera, "Inflación podría elevar costos de la ampliación", *El Panamá América*, 21 November 2007, available: <http://burica.wordpress.com/2007/11/21/inflacion-podria-elevar-costos-de-la-ampliacion/> (accessed 26 January 2010).

dition. "In light of the project's financing plans", the impact of expansion on Panama's contingent fiscal liability needed careful assessment. According to IMF, Panama is ultimately responsible for debt incurred by ACP (a Panamanian government entity).[99]

After awarding all major contracts, in January 2010 ACP asserted that the megaproject remained within budget.[100] But a reduction in canal transits from a global economic slowdown and the opening of an Arctic seaway owing to global warming, as early as 2013, are additional events with potential effects on the programme's financial viability not thoroughly addressed by ACP. In FY 2009, a slower world economy caused a 2.4 per cent drop in canal transits. Even so, toll revenues increased by 9 per cent.[101]

A navigable shortcut through the North Pole could also produce a decline in transits. An Arctic passage would save shipping companies thousands of miles and millions of dollars.[102] According to ACP analyses, the Arctic meltdown is not imminent and does not pose a short-term threat to the Panama Canal.[103] A report by a Canadian research team, however, found that global warming is rapidly depleting Arctic ice *"at a rate of 70,000 square kilometres each year"*.[104] A northern route may be operational sooner than ACP officials would like to think.

Socio-Economic Disconnection

Some observers highlighted the programme's detachment from national development objectives. Critics argued that the project does not respond to the country's development needs, particularly overcoming poverty, which affects

99. IMF, "Panama: 2004 Article IV Consultation", Country Report #06/7 (January 2006), available: <http://www.imf.org/external/pubs/ft/scr/2006/cr0607.pdf> (accessed 26 January 2010).

100. Roberto González Jiménez, [ACP adjudicó $3,975 millones para ampliación", *La Prensa*, 26 January 2010, available: <http://mensual.prensa.com/mensual/contenido/2010/01/26/hoy/negocios/2073757.asp> (accessed 14 June 2010.)

101. ACP, Transit Statistics, Fiscal Year 2009, "Panama Canal Traffic: Fiscal Years 2007 through 2009", available: <http://www.pancanal.com/eng/maritime/reports/table01.pdf> (accessed 12 January 2010).

102. Scott G. Borgerson, "Arctic Meltdown: The Economic and Security Implications of Global Warming", *Foreign Affairs* Vol. 87, No. 2, available at: <http://www.foreignaffairs.com/articles/63222/scott-g-borgerson/arctic-meltdown>, accessed 14 June 2010.

103. Guillermo E. Quijano, Jr., "El calentamiento global", *La Prensa*, 1 October 2007, available: <http://mensual.prensa.com/mensual/contenido/2007/10/01/hoy/opinion/1130119.html>, (accessed 26 January 2010).

104. Chinta Puxley, "Arctic Sea Ice Has Nearly Vanished, Expert Fears", *Globe & Mail*, 27 November 2009.

approximately 1.3 out of nearly 3.5 million Panamanians (37 per cent)[105].They claimed these needs would be better met through alternative canal modernisation initiatives costing under US$5.25 billion, enhancing the isthmus' multimodal transportation systems, and increasing investments in human capital.

The Economist's report on the widening scheme echoed these concerns. The means through which a wider waterway would raise living standards, wrote the paper, remain "murky". Expansion-related progress "could even exacerbate some flaws in the economy" including job loss to foreigners resulting from a shortage of skilled labour.[106] Such shortcomings led to missed opportunities in other sectors. In 2010, General Electric shelved plans to establish a software centre in Panama, owing to the unavailability of qualified local staff.[107]

Advocates of alternative canal modernisation strategies suggested that their proposed investments could be financed through proceeds of current operations, including retained toll revenues set aside by ACP to fund the expansion. They objected to retaining canal earnings to finance a high-risk enlargement programme that, in their view, does not respond to Panama's socio-economic requirements.[108] This viewpoint coincides with investment banker Molano's, that the megaproject prioritises the interests of US domestic and transnational commercial sectors.[109] But, if Washington policymakers ever heard this argument, they were not impressed.

A Boost to Corruption?

Social movements in Panama held that international forces, in agreement with local political and economic sectors, had rushed the plan forward in the expectation of appropriating its profits. In an analysis released shortly before the referendum, COHA, the Washington NGO, echoed these views. Pointing to allegations of corruption in the Torrijos Administration, COHA wrote that *"A government with such outstanding abuses should not be granted stewardship over a project that will [allow] an enormous amount of discretionary funds to*

105. UNDP, *Human Development Report 2009*, p. 176.

106. *The Economist*, "The Panama Canal".

107. Roberto González Jiménez and Yolanda Sandoval, "Panamá se queda sin laboratorio de GE", *La Prensa*, 20 January 2010, available: <http://mensual.prensa.com/mensual/contenido/2010/01/20/hoy/negocios/2067814.asp> (accessed 1 February 2010).

108. Jorge Illueca *et al*., *op. cit*.

109. Jackson, *op. cit*.; Molano, *op. cit*.

pass through its corrupt fingers".[110]

Generally, low turnout in the October 2006 referendum related to a belief that despite its multi-billion dollar investments, the megaproject did not hold much promise for improving the living conditions of most Panamanians, but that well-connected sectors would benefit enormously. Opposition voices later pointed to expansion contracts awarded to companies close to President Torrijos and ACP Administrator Alemán as evidence that average Panamanians were being excluded from the programme's benefits. For instance, in July 2007 CUSA, the Alemán family construction firm, submitted the winning, US$40.4 million bid for the first of five dry excavation contracts. CUSA, as mentioned above, was also a participant in the consortium that received the expansion's largest, US$3.2 billion award.

In November 2007, ACP awarded the second dry excavation contract, for US$25.6 million, to Cilsa Minera María, a conglomerate led by Mexican multi-billionaire Carlos Slim, a friend of President Torrijos.[111] Among other observers, banker Luis H. Moreno, chairman of Panama's Committee on Ethics and Civics, questioned the transparency of this award.[112] In some critics' views, claims of preferential treatment for certain bidders appeared to substantiate COHA's position that the megaproject would compound Panama's "explosive mix of corruption, drugs, money laundering, contraband, and other illicit transactions", with adverse consequences for US interests on the isthmus.[113] Washington, however, did not react publicly to such contentions, despite the fact that the State Department's 2006 human rights report noted that "a perceived level of serious domestic corruption worsened during the year" in Panama.[114]

110. Ashley Dalman, "Expanding the Panama Canal: A Wider Canal or More Government Payola", Council on Hemispheric Affairs analysis, 8 August 2006, available: <http://www.coha.org/expanding-the-panama-canal-a-wider-canal-or-more-government-payola/> (accessed 4 June 2010).

111. ACP, "Informe trimestral XIV"; Colectivo Panamá Profundo, "CUSA: Negocio de la familia Alemán Zubieta, gana la primera licitación para la estafa de la ampliación del canal", July 2007, available: <http://www.panamaprofundo.org/boletin/palabra/cusa-negocio-familia-aleman-zuebieta.htm> (accessed 26 January 2010).

112. Carmen Boyd Marciacq, "No hay sorpresa por licitación de la ACP", *El Siglo*, 16 November 2007, available: <http://www.elsiglo.com> (accessed 26 January 2010).

113. Ashley Dalman, *op. cit.*

114. US Department of State, "2006 Country Reports on Human Rights Practices: Panama", 6 March 2007, available: <http://www.state.gov/g/drl/rls/hrrpt/2006/index.htm> (accessed 4 June 2010).

Conclusion

The United States is interested in the US5.25 billion Panama Canal expansion mainly for commercial reasons. Strategic and investment motivations might complement the emphasis on trade. But, while Panama retains strategic importance in the perceptions of US policymakers, canal expansion has no obvious potential for further enhancing US military capabilities. There is at best mixed evidence in support of the programme's potential for fostering stability on the isthmus. And, while promoting investment in the megaproject was always on the agenda, actual opportunities for US investors have been modest, amounting to 2.4 per cent of total awards at 31 March 2010.

Promoting trade in US commercial hubs remains the overpowering reason behind the US interest. Advancing US exports was one of the motives that prompted President Roosevelt's drive to complete the canal. A century later, however, the interest is chiefly to promote imports from the Far East that will increase transportation and retail activities in the United States, especially in US East and Gulf Coast ports and multimodal centres (notably Houston).

US backing for the Panama Canal expansion programme, mostly evident in 2005-2007, illustrates the influence of special interests in policy making. Realism predicts that foreign policy is defined autonomously by state officials, without much reference to sectoral concerns. Liberalism posits a different scenario—one in which domestic and transnational actors compete to place their interests on the foreign policy agenda, with success accruing the most influential groups.

According to Putnam, policy makers seeking political support respond to the interests of domestic and transnational groups capable of providing political capital.[115] Based on evidence of interest in the megaproject from major US companies, state governments, and port managers, liberalism provides the more effective analytic framework accounting for US support. Broad enthusiasm for widening the canal among influential US domestic and transnational actors thus evinces the participation of various interest groups in formulating policy as well as the predominance of commercial liberalism in contemporary political economy.

However much widening the waterway might boost domestic and transnational economic objectives in the United States, in the long term Panama may pay a price that its government, Washington, and other foreign interests have failed to contemplate, particularly regarding financial, environmental, and social impacts. Because the government rushed the project to approval without adequate consideration of factors vital to its proper functioning (such as the sup-

115. Putnam, *op. cit.*

ply of water), there is a risk that its operation may meet with inconveniences in the future. The annals of history contain much documentation concerning the enormous problems to both the United States and Panama that resulted from the hasty drafting and approval of the treaties for the construction of the first canal and the undemocratic character of negotiations leading to the approval of the 1977 treaties during the military regime of Omar Torrijos.[116] This time around, careful deliberation was in order to prevent repetition of a dismal past.

Notes

Earlier versions of this paper were presented at the 48th Annual Convention of the International Studies Association (ISA), Chicago (2007), the Stevens-Goethals Reunion on the Panama Canal, The Homestead, Virginia (2007), the Annual Conference of the Political Studies Association of Ireland (PSAI), Galway (2008), and a colloquium at the Institute of Political Science at the Catholic University of Chile, Santiago (2009). Support from the University of Nevada, Reno and the Helen Kellogg Institute for International Studies at the University of Notre Dame is gratefully acknowledged, as are comments by John Dugas, Andreas Feldmann, George Goethals, Alexandra Guisinger, Victor Hinojosa, Brittmarie Janson Pérez, Robert Ostergard, Elliott Parker, Sebastian Rosato, Gloria Rudolf, and two anonymous reviewers on behalf of *Global Society*. Araceli Madera and Marius Nintas assisted with information retrieval and analysis.

116. Michael Conniff, *Panama and the United States: The Forced Alliance*, 2nd ed (Athens: University of Georgia Press, 2001); Guevara Mann, *op. cit.*; John Lindsay-Poland, *Emperors in the Jungle: The Hidden History of the US in Panama* (Durham: Duke University Press, 2003); Major, *op. cit.*; Sánchez, *op. cit.*