

PRUDENCE IN PANAMA:
GEORGE H. W. BUSH, NORIEGA,
AND ECONOMIC AID, MAY 1989 – MAY 1990

A Thesis

by

TROY FRANKLIN BLANTON

Submitted to the Office of Graduate Studies of
Texas A&M University
in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

December 2006

Major Subject: History

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ABSTRACT

Prudence in Panama: George H.W. Bush, Noriega, and

Economic Aid, May 1989 – May 1990. (December 2006)

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Chair of Advisory Committee: Dr. Terry H. Anderson

In front of the White House press corps, George H. W. Bush stood with Panamanian President Guillermo Endara and proclaimed “democracy has been restored,” the “peace is now preserved,” and “we must see that prosperity returns to the people of Panama.” True, democracy had been restored, but at a great price to the Panamanians and without a plan for recovery.

The struggle to remove Panamanian dictator Manuel Noriega began with Ronald Reagan and ended in the first year of Bush’s presidency. While sanctions decimated the Panamanian economy, the military invasion left the country with inexperienced political leaders and internal instability. Academics who have studied the Panamanian crisis have not focused on the crucial twelve-month period between May 1989 and May 1990. It was the first military action without Cold War priorities for the United States and first attempt at economic restoration in what would become standard practice for later administrations.

Scholars have not thoroughly examined the Bush administration’s crisis with Panama. The literature is scarce, but what has been written can be divided into three

groups: disgruntled policy makers, academics, and journalists. Principally, this literature investigates the December 1989 military invasion, and only a few scholarly articles and books examine both the pre- and post-invasion periods. Lacking primary source material, journalists and scholars relied on articles and participant interviews.

This thesis focuses on events and the outcome. It examines Bush's policy toward Panama and the successes it engendered along with the failures it brought. Unlike Reagan, Bush successfully removed Noriega from power, but his administration's unsuccessful post-invasion planning hindered the needs of Panama during the establishment of the young democratic government. Noriega may have decimated Panama's economy, but the United States also failed by not helping with a clear and concise objective after Noriega's departure. This thesis demonstrates that Bush acted with prudence in 1989, invading Panama only when all other diplomatic options failed. Yet, this thesis shows that the Bush administration did not have a plan for Panama's economic restoration. By focusing too much energy on removing Noriega rather than on helping Panama regain a solid economic foundation, Bush allowed his desire to help the fledging country to be overshadowed by a lack of post-invasion plans.

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CHAPTER I

INTRODUCTION

In front of the White House press corps, George H. W. Bush stood with Panamanian President Guillermo Endara and proclaimed “democracy has been restored,” the “peace is now preserved,” and “we must see that prosperity returns to the people of Panama.” True, democracy had been restored, but at a great price to the Panamanians and without a plan for recovery.

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This thesis follows the style of *Journal of American History*.

establishment of their young democratic government. Noriega may have decimated Panama's economy but the United States equally failed by not helping with a clear and concise objective after his departure. This thesis will demonstrate that Bush acted with prudence in 1989, invading Panama only when all other diplomatic options failed. Yet, this thesis will also show that the Bush administration did not have a plan for Panama's economic restoration. By focusing too much energy on removing Noriega rather than on helping Panama regain a solid economic foundation, Bush allowed his desire to help the fledgling country to be overshadowed by no post-invasion plans.

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Godfrey Harris, former U.S. diplomat, and Guillermo De St. Malo, the president of the Foreign Policy Association of Panama, wrote *The Panamanian Problem*, a 1991 analysis expressing discontent with American policy towards Noriega. These authors maintained that the United States never had a cohesive policy towards Panama before the invasion. More specifically, they argued that the May 1989 Panamanian presidential elections, and the dictator's subsequent assault on the opposition candidates "ended any chance for a dignified solution," while the October coup attempt to overthrow Noriega

“ended any opportunity for a peaceful one as well.”¹ While this book outlines alternative policy options not implemented by the Bush and preceding Reagan administrations, it relies on media sources rather than government documents.

Michael Conniff, a prominent Latin American historian, wrote the best academic survey on Panamanian and U.S. diplomatic relations. Conniff’s *Panama and the United States* alleged that prior to the 1989 American invasion of Panama Latin American countries viewed the ongoing U.S. campaign against Noriega as a “throwback to the days of gunboat diplomacy and interventionism.”² Conniff felt the invasion occurred because of the personal duel between Bush and Noriega, the schedule of the 1977 Panama Canal Treaties, and “the poor marks President Bush received” from the press in late 1989 “for his international policies.”³

In *The Noriega Years*, political scientist Margret Scranton argued that by mid-1987 the American government no longer considered the dictator an asset providing useful information in the U.S. sponsored Contra War in Nicaragua. Instead, the Reagan Administration began to see Noriega as a political liability owing to his ties to drug trafficking. Numerous U.S. agencies sought Noriega’s removal but no consensus developed “on a plan to remove him or a concerted strategy supporting the attempts that were made.”⁴ Scranton held that the election of George Bush in 1988 and the October 1989 Giroldi coup crisis created an opportunity for the development of a joint

¹ Guillermo de St. Malo and Godfrey Harris, *The Panamanian Problem: How the Reagan and Bush Administrations Dealt with the Noriega Regime* (Los Angeles: The Americas Group, 1993), 226.

² Michael Conniff, *Panama and the United States: The Forced Alliance* (Athens, The University of Georgia Press, 2001), 161.

³ Conniff, *Panama and the United States*, 162.

⁴ *Ibid.*

Department of State and Department of Defense policy aimed at removing Noriega from power. Unfortunately, the book's argument is clouded by its concentration on the inter-agency squabbling that hindered the emergence of a cohesive policy towards Noriega.

Brenda Ann Markowitz adds a significant study to the historiography with her political science dissertation *Instrument of War or Peace?: The Utility of U.S. Economic Sanctions against the Republic of Panama, 1987-1989*. She used the U.S. economic sanctions in a theoretical framework to argue that multilateral sanctions are successful when applied on a gradual scale from weak to more comprehensive sanctions. Overall, she saw failure in the policy approach to removing Noriega and focused more on the Senate and House actions during Reagan's tenure than on presidential action. Yet, she ignores the subtle alteration of Bush's strategy in policy towards Panama.

Richard Millett wrote the only article on the immediate problems and recovery of Panama. He focused on the internal difficulties facing Panama and diplomatic issues for the United States. Yet he wrote it only a few months after the invasion, making the article more of what *needed* to be done rather than a retrospective work on what the Bush administration accomplished. He argued the Endara administration stood without their common enemy, Noriega, and it became necessary to diplomatically distance Panama from the United States for acceptance by other Latin American countries. The United States diplomatic concern was the "damage done by the invasion to U.S.-Latin American relations." He felt the damage could be "minimized by patience,

understanding of Latin sensitivity and values, rapid withdrawal from Panama,” and renewed “attention to the region’s economic problems.”⁵

Unlike scholarly works, journalistic interpretations focus on America’s “Big Stick” in Latin America. Journalist Kevin Buckley’s *Panama: The Whole Story*, published the year after the invasion, portrayed the Bush Administration’s efforts in Panama as a fumbling fiasco. He considered the policy options of economic sanctions, threats, negotiations, and elections as only “a diversion or postponement” of American armed intervention.⁶ In 1991, fellow journalists Phil Gunson and John Weeks published *Panama: Made in the USA*. They described U.S. actions against Panama as criminal behavior, stating that “strong nations commonly make great efforts to convince domestic and foreign public opinion of the virtue and purity of their intentions when committing outrages against weaker ones.”⁷

This thesis is the first to be based on some of President Bush’s official papers, resulting in a more balanced understanding of the Panama invasion. Most of these documents remain inaccessible to scholars, but the few that have been released for public scrutiny help reveal the administration’s policy toward Noriega. Beyond Conniff’s *Panama and the United States*, no academic work examines U.S. policy during the pre- and post-invasion years, nor is there a comprehensive work that includes both the sanctions and the U.S. attempt at restoring Panama’s economy. The events between May 1989 and May 1990 are understudied for various reasons. After U.S.

⁵ Richard Millett, “The Aftermath of Intervention: Panama 1990,” *Journal of Interamerican Studies and World Affairs*, 32 (Spring 90).

⁶ Kevin Buckley, *Panama: The Whole Story*, (New York: Simon and Schuster, 1991), p. 191.

⁷ John Weeks and Phil Gunson, *Panama: Made in the USA*, (Great Britain: Latin American Bureau, 1991), p. 1.

Courts sent Noriega to live in a Miami jail cell, Latin America lost importance in our national news. At the same time, the Middle East emerged as the most pressing issue and Iraqi leader Saddam Hussein kept America's focus into the 21st century. Panama may be a forgotten issue during Bush's tenure as President but his first foreign policy test remains critical to his administration.

CHAPTER II

OUSTING NORIEGA, 1989

Standing before a capacity crowd on the night of December 16, 1989, Panamanian dictator General Manuel Antonio Noriega pleaded for unity and resolution in his struggle against the United States. Trying to evoke a nationalistic pride among the gathered masses, he declared: “render unto Caesar what is Caesar’s, to God what is God’s, and to the Panamanians what is Panama’s.”⁸ The speech was an act of desperation to unify a politically fragmented and economically decimated country. Ultimately, it failed to strengthen Noriega and deter his nemesis, the United States, from action—within ninety-six hours, the U.S. military launched an invasion to remove him from power.

From the United States perspective, two events defined the crisis with Noriega prior to the invasion—the May 7 Panamanian Presidential elections and a failed coup d’état in October by a fellow Panamanian Defense Force (PDF) commander, Major Moises Giroldi. After the May elections, tensions increased significantly until the coup attempt prompted many in Washington and the press to call for an armed invasion. Bush, however, would not act until he tested all diplomatic options to remove Noriega.

Since 1904 the Panama Canal has interlocked the histories, antagonisms, and futures of Panama and the United States. Before the canal, the U.S. Navy maintained

⁸ Speech by Manuel Antonio Noriega before the National Assembly of Corregimientos Representatives at the Justo Arosemena Palace in Panama City, Folder: Panama December 1989 [OA/ID CF 01576] [3 of 4], David Parcelli Files, National Security Council.

separate naval forces in the Atlantic and the Pacific. Once opened the canal became crucial to U.S. military interests by allowing expedited passage of naval vessels from ocean to ocean. For seventy-five years, efficient passage also benefited American and international commerce, consequently uniting economic and military interests in reliable and continual operation of the canal.

The 1904 Hay-Bunau Varilla Treaty assured United States ownership and operation of the canal, but by mid century American control of the canal became a source of political antagonism for Panamanians. Like most Latin American countries in the 1960's, Panama experienced a resurgence of nationalism, and that fervor contributed to an unstable political environment; riots erupted in January 1964. This volatile situation ultimately encouraged the United States to begin negotiating a new canal treaty with Panama. It was not until thirteen years later, on September 7, 1977, that President Jimmy Carter and Panamanian dictator Omar Torrijos signed the Panama Canal Treaty. Also known as the Carter-Torrijos Treaty, it created a joint Panama-U.S. delegation to oversee canal operations and it established a timeline for the transfer of canal ownership to Panama on December 31, 1999. Seemingly prophetic to future problems with Panama, the treaty passed the U.S. Senate by one vote.

Many Panamanians believed the Carter-Torrijos Treaty foretold a bright future for their country, but during these years Manuel Noriega's political and military career became intersected with the United States. As a lieutenant in 1968, he became a paid informant for the CIA, a service he provided until mid-1980. When Omar Torrijos assumed the dictatorship in 1969, Noriega served as the chief of security, essentially

molding his status as the regime's thug. During these years, he represented the Columbian Medellín drug cartel, overseeing shipments into the United States.

Washington ignored his drug activities in favor of the valuable intelligence he provided for the Reagan Administration's sponsored war against the Nicaraguan Sandinistas. In 1985, Noriega's endeavor to become Panamanian dictator held long-standing consequences. To accomplish this task, he forced then Dictator Nicolas Barletta to resign after he ordered the assassination of Hugo Spadafora, the leading opposition candidate to Barletta. After assuming the dictatorship, his role in the Contra war surfaced during 1987 U.S. Senate hearings, resulting in embarrassment for the Reagan Administration as the public realized the administration supported a narcotics trafficker and callous dictator.

The Bush administration inherited the Panamanian foreign policy quandary from President Reagan while Noriega benefited from America's war against the Nicaraguan Sandinistas. Had Noriega not been an intelligence wellspring for Reagan's causes, it is doubtful the U.S. government would have turned a blind eye towards his meteoric rise and subsequent dictatorship in Panama, as well as his participation in narcotics trafficking. By 1987, when Congress chastised Reagan for the Iran-Contra Affair, Noriega became a political liability rather than an intelligence asset. Thus, United States government publicity transformed Noriega into an anti-American tyrant that needed to be removed from power. On March 1, 1988, Reagan enacted economic sanctions. He cut off Panama Canal payments, withheld all international bank transfers, suspended its trade preference, exempted U.S. companies in Panama from paying local taxes, and no

longer provided Panama with its U.S. dollar currency, thus creating a cash flow crisis. All sanctions, however, failed to force Noriega from power.

The canal also factored into Washington's focus on Panama. By the 1980's, however, the canal's economic and military importance began to wane. Brought before the House Sub-committee on the Panama Canal, Deputy Assistant Secretary for Inter-American Affairs Michael Kozak spoke to Congress about the Bush administration's perspective on U.S. interests in Panama. Kozak admitted "the canal is no longer crucial to U.S. military strategy or to the U.S. economy as it was some decades ago."⁹ Even with the decreased significance, he still maintained that a primary objective of U.S. foreign policy was to assure the safe and efficient operation of the canal by promoting democracy in Panama. The "long-term future of the canal" could not be "assured in the context of political instability."¹⁰ Yet Kozak failed to elaborate on the degree of importance the canal held to U.S. military and economic interests. Thus, United States interests vested in the canal became merely a rallying cry for the increased foreign policy awareness in the small Central American country.

The publicity generated by the 1987 Iran-Contra hearings heightened the public's awareness of Noriega's drug pushing, undermining Vice-President Bush's 1988 presidential campaign platform promising to conduct a war on drugs. In September 1989, President Bush called drugs the "gravest domestic threat," sending a direct warning to all drug trafficking and smuggling nations around the world. Even prior to

⁹ United States Congress, House of Representatives, Testimony by Michael G. Kozak, 101st Congress, 1st Session, November 2, 1989, , Sub-committee on Panama Canal and Outer Continental Shelf of the House Committee on Merchant Marine and Fisheries.

¹⁰ Ibid.

this announcement the United States government had focused on Noriega's association with the trafficking of illegal narcotics. The President-elect knew by January 1989 that most narcotics dealings in Panama, according to a National Security Council paper on illegal narcotics production and trafficking, involved "money laundering . . . because strict secrecy laws protect Panama's regional, dollar-denominated banking center."¹¹ Elaborating further into the actual drug trade, the paper explained the significance of Panama as a transshipment point, serving as an intermediary between South American processing labs and Europe and the United States. Ironically, even as the Reagan administration waged diplomatic war on the dictator, the Noriega dominated PDF cooperated in the eradication of narcotics from Panama.

In 1988, the PDF eradicated 40 hectares of a marijuana crop on the Perlas Islands virtually eliminating all production of the product. No reports of "significant plantings of marijuana" occurred that year. Thus, all anti-drug efforts in Panama focused on the "transit of illegal drugs and on money laundering activities."¹² In contrast to the negative press Noriega received in America during 1988, the government of Panama cooperated in the Reagan Administration's anti-drug efforts. The PDF identified members of a Columbian drug trafficking ring in Panama, cooperated with U.S. government agencies to break a major smuggling ring operating out of U.S. military facilities in Panama, and helped in the arrest and deportation of fugitives wanted by U.S. law enforcement agencies.

¹¹ Status paper titled: 'Status of Illicit Narcotics Production and Trafficking,' Folder: Panama [OA/ID CF 00680], Ted McNamara Files, National Security Council.

¹² Ibid.

In August 1988, Panama participated with thirty other countries in an anti-narcotics operation under the auspices of the International Drug Enforcement Conferences (IDEC). Essentially, the IDEC was a 30-day effort throughout Latin America, North America, and Europe, which included the monitoring of all possible routes of entry and exit in countries involved in the production or trafficking of drugs. Specifically, Panama monitored the main highway between Panama City and Colón, and conducted intensive searches at the country's sea and air ports. The joint PDF– U.S. Drug Enforcement Agency operations in 1988 resulted in the seizure of 1286 kg of cocaine, banking accounts worth \$84,975, and arrested fifty persons of interest. Moreover, the Bush administration later admitted that throughout 1988 “Panama cooperated in returning fugitives from U.S. justice to the United States.”¹³

Cooperation between the PDF and the DEA ceased to be important in 1988; then two Florida grand juries indicted Noriega on twelve counts of racketeering, drug trafficking, and money laundering. The U.S. Department of Justice confused the situation because it indicted the dictator without informing the White House or the State Department. The indictment forced the Reagan Administration to modify its policy towards Panama. It rejected a military solution in favor of a diplomatic one. President Reagan offered to clear Noriega of the charges under the condition that he would step down as Panamanian leader. Vice President Bush viewed the compromise negatively,

¹³ Ibid.

noting in his daily diary “I am more convinced than ever the “Noriega deal is terrible . . . it’s wrong for our country; it sends the wrong signals to the drug pushers.”¹⁴

The Reagan Administration allowed Noriega’s rise to power, and it created the foreign policy crisis inherited by Bush. National interests in Panama were threatened by the appearance of American weakness in the face of Noriega’s attempt to thwart the development of democracy and stability in a country the United States had traditionally dominated. The Bush Administration understood that in order for the United States to maintain its influence in Panama, it would need to replace Noriega’s dictatorship with Panamanian democracy. In an effort to avoid the appearance of coercive “Big Stick” diplomacy, Bush sought to encourage the people of Panama to remove Noriega from power.

Prior to the May 7, 1989, Panamanian Presidential elections, the Bush administration began to formulate a policy in the event of Noriega’s candidate either winning the election, or the dictator’s refusal to relinquish power. These actions included: meeting with commercial banks in Panama to ask for their cooperation; a joint U.S.-Japan-Panama Canal Alternatives Study Commission for possible alternative routes for ships; and launching a campaign for worldwide support to establish democratic government in Panama. All of these actions were aimed at isolating and pressuring Noriega into resignation. The Bush Administration knew that the sanctions against Noriega could mean severe social and economic repercussions for Panama. With this understanding, Bush anticipated the country’s immediate relief with the proposed

¹⁴ George H. W. Bush, *All the Best* (New York: Scribner, 1999), 386-7.

arrangement of a post-Noriega assistance package worth at least “\$100 million and to announce an offer to participate in consultative group donors led by the World Bank.”¹⁵

The Panamanian elections became a turning point in both U.S.-Panama relations and in the Bush Administration’s policy. Noriega’s hand-picked President, Eric Arturo Delvalle, was serving the final months of his term, which ended on September 1, 1989. Thus, he needed his candidate to win for the U.S. to consider his government legitimate. The dictator chose Carlos Duque, of the pro-Noriega Coalition of National Liberation (COLINA), who campaigned on the pledge that Noriega would continue as PDF commander until 2000. The main challenger was Guillermo Endara of the Civil Opposition Democratic Alliance (ADOC), whose running mates were Ricardo Arias Calderon and Guillermo “Billy” Ford. Essentially, Endara, Arias, and Ford campaigned as a conglomeration of the most powerful anti-Noriega political parties. The ADOC received \$10 million from the Bush Administration for their opposition campaign.

The preliminary election results showed discontent with Noriega, giving an overwhelming victory for the ADOC candidate, Endara, who received almost 75 percent of the vote, compared to 25 percent for Duque. Fearing a defeat, Noriega ordered the Electoral Tribunal to stop the count on May 7, and posted a new official tally two days later—which gave Duque a two to one victory margin. American electoral observers, led by former President Jimmy Carter, witnessed massive fraud and relayed the information to Washington. Popular demonstrations erupted throughout Panama. The

¹⁵ Memo regarding possible actions by the United States barring outcome of May 7 Panamanian Presidential Elections, Folder: Panama (1) [OA/ID 01082] [1 of 7], Eric Melby Files, National Security Council.

pro-Noriega Panamanian police force aggressively restrained the demonstrators, even hospitalizing the leaders of the opposition, Endara and Arias.

The Panama crisis dominated U.S. newspaper headlines for the next three weeks. Some reporters and editors questioned the Bush Administration's right to consider the elections a pure voice of Panamanians considering that the government had authorized \$10 million for the CIA to spend on behalf of the opposition candidates. In the *New York Times*, Chris Burke, a writer for Fairness and Accuracy in Reporting, sarcastically wrote that the United States cannot credibly cry foul over Noriega's electoral fraud in Panama because the "\$10 million in United States aid to the opposition does not compromise that credibility."¹⁶

Bush responded to the situation in Panama in a May 11 press conference. He condemned the dictator's actions and outlined his reactions, including supporting and cooperating with other Latin American countries through "regional diplomacy and action in the Organization of American States," continuing economic sanctions, and the enforcement of the Panama Canal Treaty rights. Bush also recalled U.S. Ambassador, Arthur Davis, from Panama, reducing the embassy staff to "essential personnel only," and relocating "U.S. Government employees and their dependents living outside military bases . . . out of Panama or to secure U.S. housing areas within Panama." The president advised the State Department to "encourage U.S. business representatives residing in Panama to arrange for the extended absences of their dependents wherever possible." And finally, Bush authorized the military to send a "brigade-sized force to augment . . .

¹⁶ *New York Times*, May 25, 1989, pg. A 26.

forces already assigned there.” Obviously, Bush now was considering a military alternative to remove Noriega.

The administration also asked for the Organization of American States (OAS) cooperation. In June 1989, the OAS appointed a delegation of three foreign ministers from Trinidad and Tobago, Guatemala, and Ecuador, to visit Panama and attempt to negotiate a transfer of power. A month before, the OAS had condemned Noriega’s abuse of power in the Presidential elections. Noriega scoffed at the OAS, rejecting a diplomatic solution to the developing crisis because of the imposition of American economic sanctions.

The dictator’s behavior generated questions among the press. “General Noriega has outfoxed the United States so many times,” wrote journalist Robert Pear, that “American officials are leery of predicting success.” Pear also raised a question that many in Washington were debating: could Bush continue “a policy of patience and restraint . . . if political pressure builds up in Congress for the United States to abrogate the Panama Canal treaties or . . . to retaliate for some particularly outrageous instance of harassment of Americans in Panama?”¹⁷

This last statement proved to be prophetic. Disgruntled Panamanian citizens hoped for an armed intervention but Endara, Arias, and Ford felt differently. We “are not in accord with military intervention by any country,” Endara said, “it will cause more problems than it solves.”¹⁸

¹⁷ Robert Pear, “Can Diplomacy Along Dislodge a Dictator’s Stranglehold on Power?,” *New York Times*, May 21, 1989, p. E2.

¹⁸ Lindsey Grunson, “Opposition Tells Noriega to Face the Facts and Asks the U.S. to Hold its Fire,” *New York Times*, May 10, 1989, p. A10.

Throughout the entire crisis, many in the press praised Bush for his restraint. Journalist R.W. Apple Jr. argued that in light of the circumstances, the best hope for removing Noriega “probably lies in the possibility that other Latin American countries will speak out against, and even work against, General Noriega, as Peru and Venezuela have already done after widespread vote fraud.”¹⁹

While the OAS served as a Latin American governing body, it had critics. Unfortunately for Bush and his foreign policy efforts, numerous Latin American countries criticized the OAS as being merely an “Organization for Colonies” or an extension of Washington’s regional muscle. Most criticism stemmed from Latin American nationalists who condemned the OAS efforts in the 1960’s to isolate Cuba, and its later approval of sending Latin American and United States troops to the Dominican Republic. Although by the mid 1980’s many Latin American countries began adopting democracies, nationalistic and anti-imperialistic cries against Big Stick American foreign policy continued. Summarizing the troubles surrounding the OAS, the *Washington Post* wrote that it is their “instrument for sparing themselves the real and imagined weights of American power.” First designed as a check on American power, the OAS in recent years has not “filled its second purpose of providing a forum to concert Latin and American purposes.”²⁰ Larry Rohters outlined the domestic uproar in Mexico over the OAS stand against Noriega. Along with eighteen other countries in the OAS, Mexico condemned Noriega, and therefore “the Mexican Government has become embroiled in a domestic uproar . . . many in the country’s intellectual establishment and

¹⁹ R.W. Apple Jr., “Bush’s Trap on Panama,” *New York Times*, May 11, 1989, p. A1.

²⁰ Editorial, “The OAS and Panama,” *Washington Post*, May 17, 1989, p. A22.

political opposition have attacked the vote . . . as betrayals of Mexico's principles, especially the principle of nonintervention."²¹

The May 7, 1989, Panamanian presidential elections pushed Bush and the OAS closer in their stand against Noriega. Bush wanted to remove Noriega with increased diplomatic pressure and isolation. The OAS wanted to prove their ability to peacefully remove the dictator without American help. Yet, Noriega refused to relinquish power. Ultimately, the OAS was unable to negotiate a peaceful transfer of power, increasing tensions between the governments of Panama and the United States.

Tensions festered between June and August 1989 while the American public's attention turned to the Chinese student protests in Tiananmen Square. Beyond the ongoing Panama crisis, China served as Bush's second major foreign policy test. In the mid-1970's, Richard Nixon appointed Bush to serve as the first ambassador to China and many in Washington—as well as the public—expected expert handling of the Tiananmen Square fiasco. Yet he sent a diplomatic envoy to China only months after the student uprisings, initiating criticism from the press and a drop in his public approval ratings. Moreover, anticommunist uprisings sprang up throughout Eastern Europe, fixating the public's eyes on Bush's reaction. On the whole, he instituted a policy of caution, never providing military aid and angering many Cold War warriors. With China and Eastern Europe on Americans' minds, Panama slipped into a media coma even as tensions increased dramatically. The press and the public compared Bush's response to these foreign policy difficulties to the strength portrayed by Ronald Reagan

²¹ Larry Rohters, "OAS Draws Latin Fire for Stand on Panama," *New York Times*, Jun. 4, 1989, p. 10.

in the face of such crises. This public perception combined with the difficulties of being a popular president's successor, and Bush became associated with the so-called "wimp factor." Thus, Bush hoped that his handling of the Panama crisis could reinvigorate the public's confidence in his political and diplomatic strength and aptitude.

By mid-1989, Panama had a total country debt of over \$5 billion and on July 3, the International Monetary Fund declared Panama ineligible for new loans for falling behind on \$163 million in earlier loans. As Panama slipped further into economic depression, the OAS urged Noriega to resign by September 1, 1989, the scheduled date for the swearing in of new president. The OAS applied this pressure concurrent with the economic sanctions imposed by the United States. The *Washington Post* viewed the OAS pressure as positive, picturing the dictator as no longer a "David standing up to the United States, but himself a Goliath kicking the Panamanian opposition around."²² Moreover, while the president did not always have the complete support of hemispheric leaders, many were sympathetic to his predicament. The President of Guatemala, Vicio Cerezo Arevalo, wrote a personal letter to Bush in which he agreed that the "democratic nations of the hemisphere . . . will continue to do all that is necessary to support the Panamanian people."²³

The OAS deadline passed, reintroducing the Noriega issue to the newspapers. The Bush administration exhausted every possible diplomatic solution for Noriega's peaceful removal but still did not feel military action to be a viable solution. The

²² Editorial, "Working on General Noriega," *Washington Post*, July 24, 1989, A10.

²³ Letter from Arevalo to Bush, Folder: Panama December 1989 [OA/ID CF 01576] [3 of 4], David Parcelli Files, National Security Council.

president also was unwilling to abrogate the canal treaties, despite pleas throughout the hemisphere and in Congress. Nor was he willing to drop the Florida court indictments in hopes that Noriega would remove himself from power and stay in Panama. Abrogation of the Canal Treaties became a rallying cry among certain members of Congress and Peruvian President, Alan Garcia Perez. Attempting to influence Bush's policies, Perez wrote an editorial in August persuading the U.S. Government "to hand over the Panama Canal to Panama at an earlier date than the 1999 deadline stipulated . . . but only to a freely elected government of Panama."²⁴ This, he predicted, would convert Noriega into a figure the Panamanians recognized as an "obstacle to democracy and the nationalization of the canal."²⁵ In Congress, several representatives attempted to enact House Concurrent Resolution 12, expressing that the president should abrogate the Panama Canal Treaties. Reflecting the views of the administration, Terrence O'Donnell, a spokesperson for the Secretary of Defense, wrote House member Walter B. Jones, that the "Department of Defense opposes enactment of H. Con. Res. 12 because . . . the current Treaties give the U.S. Government the necessary latitude to protect essential U.S. interests, now and into the next century."²⁶

By August, the administration eased their pressure on Noriega hoping for a peaceful solution. Some senior administration officials believed "Washington's efforts to oust Gen. Manuel Antonio Noriega are futile," but the *New York Times* reported on July 20, they have no "alternative policies for forcing out the Panamanian leader," other

²⁴ Alan Garcia Perez, "A Way to Force Noriega Out," *New York Times*, Aug. 20, 1989, p. E23.

²⁵ Ibid.

²⁶ Letter from Terrence O'Donnell, spokesperson for the Secretary of Defense, to the Honorable Walter B. Jones, Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Folder: Panama: General (January – June) [2 of 3] [OA/ID CF 01378], Charles Gillespie Files.

than using military action.²⁷ Yet, the administration still felt a solution other than military action was possible. A State Department official said their position was that Noriega “should leave power . . . everything after that is up to the Panamanians; it ceases to be our business.”²⁸ Beyond restraint, Bush remained uncertain on how to best handle the Panamanian dictator. He waited until September 1 to see who would assume the presidency, either a Noriega puppet government or the elected Endara government.

On September 1, Noriega inserted his own figurehead president, Francisco Rodriguez. The Bush administration went on the offensive, renewing its attacks on Noriega. The “United States will not recognize any government installed by General Noriega” Bush declared on national television. He reiterated that “our ambassador will not return and we will not have any diplomatic contact with the Noriega regime.” The president planned a “tightening of measures to deprive the illegal regime of funds that belong to the Panamanian people, in support of self-determination and democracy, and to counter the threat posed by General Noriega’s support for drug trafficking and other forms of subversion.” Bush tightened the screws, though neither the OAS nor the United States wanted a military conflict. Both hoped Noriega would step down as dictator without the need of coercive actions.

Noriega’s longtime friend and confidante, Major Moises Giroldi, intended to remove the dictator from power on the morning of October 3. A few days earlier, he had discussed his plan with the CIA and solicited American aid. Giroldi felt that visible

²⁷ Ibid.

²⁸ Robert Pear, “U.S. Is Easing its Terms for the Ouster of Noriega,” *New York Times*, Aug. 16, 1989, p. A9.

American aid would subdue Noriega loyalists and keep the transfer of power peaceful. According to Kevin Buckley's account, October 3 would be "less a coup than an abrupt change of command ceremony," because Giroldi felt Noriega would see the wisdom in retiring with wealth and dignity.²⁹

Giroldi planned to apprehend Noriega when he drove up the PDF headquarters, known as the Comandancia, on Tuesday morning. As the Noriega's Mercedes approached the Comandancia, anxious PDF soldiers began firing in the air, prompting the driver to drop the dictator off at a private stairway leading to his office. Rather than immediately apprehending Noriega, Giroldi allowed him to stay in the office, giving enough time to call the loyal 7th Company, more commonly known as the Mountain Men. Located in Rio Hato, the Mountain Men were about an hour away and any stalling in the transfer of power only aided Noriega further. Giroldi stalled.

He opted to negotiate with Noriega but to no avail. The time for negotiations had come and gone, prompting the decision to turn Noriega over to the U.S. However, even though the United States military provided no aid, they were willing to let the PDF turn Noriega over. Without specific conditions concerning the dictator's treatment, Giroldi would not simply drop him off at the U.S. military base, Fort Clayton. Finally, the 7th Company roared down the street to the Comandancia to rescue their captive leader. Noriega knew he would be rescued and began taunting Giroldi, telling him it would be easier to kill himself than let the Mountain Men regain control. "To be commander you

²⁹ Buckley, *Panama: The Whole Story*, p. 198.

have to have balls,” Noriega sneered, and “you don’t have the balls.”³⁰ By 12:30 p.m., four hours after Noriega arrived at the Comandancia, Noriega was free. Without American aid, and giving the dictator too much leeway, Maj. Moises Giroldi’s coup failed.

During the following days, Noriega began to consolidate his power even further by torturing, killing, or extraditing all individuals who had knowledge of Giroldi’s plan. Moreover, there was a backlash against Bush within the press, public, and Congress for not aiding Giroldi. Initially, Bush denied the U.S. role in the coup, but after the press and Congressman Jesse Helms of North Carolina revealed America’s involvement, he conceded that his Administration had prior knowledge. Not only had Noriega thwarted the Panamanian attempt of his removal but he had outfoxed Bush, reinforcing the president’s weak image. Journalist R.W. Apple wrote what many in America felt. The biggest question surrounding Bush was his “hesitancy or passivity that seemed to characterized the response” to the coup attempt.³¹

After the coup attempt, Bush had to choose between an armed intervention or increased economic sanctions. He banned all Panamanian flag vessels from U.S. ports, which cut off imports from Panama. Bush intended this action to be the final sanction that would force Noriega to step down as dictator because the Panamanian government was finding it difficult to sustain the country.

³⁰ Ibid, p. 205.

³¹ R.W. Apple, “Bush and Panama: Chance Lost, Perhaps to Hesitancy,” *New York Times*, Oct. 8, 1989, p. 16.

Since the Reagan Administration first imposed economic sanctions in 1987, Panamanian imports had decreased from 402 million to 297 million dollars.³² Yet, the economic sanctions hindered the 145,000 Panama state employees as much as Noriega, creating criticism within the government. “The current U.S. aggression against Panama,” Finance and Treasury Minister Dr. Orville K. Goodin wrote, “seeks a deterioration of the national government’s financial solvency to prevent it from fulfilling social responsibilities in the fields of health, education, housing, and electricity.”³³ Prior to the vessel ban, the Government of Panama already had difficulties paying the salaries of state employees and the government implemented a decremented schedule for year-end government salaries. State employees did not receive their full pay, only fragmented pay checks given in installments, one in December 1989 and one the following month.

By August 31, 1989, the Foreign Assets Control (FAC) compiled a list of individuals and companies who continued to do business with the dictator. The list revealed banned individuals and companies so that, according to Bush, “no funds or other assets or credits may be transferred to the Noriega regime from the United States or from U.S. persons and their controlled entities in Panama.”³⁴ The denied funds were funneled into Panama Account No. 2, located in the Federal Reserve Bank of New York. The Administration created the Panama Account to store all banned funds which by October 19 totaled over \$126 million.

³² Panama: Major Trade Partners, Folder: Panama (Economic Issues) [OA/ID CF 00731] [3 of 4], William T. Pryce Files, National Security Council.

³³ Communiqué from Dr. Orville K. Goodin, Folder: Panama November 1989 [OA/ID CF 01576] [1 of 4], David Parcelli Files, National Security Council.

³⁴ Report from George Bush to Congress on October 19, 1989 regarding the National Emergency with respect to Panama, Folder: Panama (1) [OA/ID CF 01082] [2 of 7], Eric Melby Files, National Security Council

The Panamanian economy continued to decline. Bush scheduled the vessel ban to take effect on January 30, 1990. It was his most aggressive economic sanction. On average, the income generated by Panama from shipping in the late 1980's ranged from about 70 to 90 million U.S. dollars.³⁵ The shipping industry protested the ban. The administration had contemplated a multiple economic sanction option, and those who had economic policy connections in Washington were aware of the options discussed and considered. Fred L. Denton, the president of the American Chamber of Commerce and Industry of Panama, argued in a letter to Ambassador Edward Briggs and the National Security Council that the ban "would affect maritime transport in general." He predicted three possible consequences: "it would generate a panic atmosphere among ship-owners and lenders," it would hurt the "Panamanian government, depriving it of some 40 million dollars in revenues," and it would be "severely adverse to the Panamanian economy and what is worse, permanent."³⁶ Similarly, Raymond H. Newman, president of the Charter Marine Transportation Company, wrote of his objections to the ban. He felt that since "very little tonnage is really Panamanian owned, Panama's main benefits are the registration fees."³⁷ He claimed more damage would eventually be done to the U.S. economy and its allies rather than the Panamanian economy. Philip Loree, chairman of the Federation of American Controlled Shipping, expressed concern with the short and long term ramifications. Loree believed that in the

³⁵ Figures are from Fred L. Denton, American Chamber of Commerce and Industry of Panama.

³⁶ Letter from Fred L. Denton to Ambassador Briggs, Folder: Panama (1) [OA/ID CF 01082] [2 of 7], Eric Melby Files, National Security Council.

³⁷ Letter from Newman to Congressman Charles E. Bennett (FL-Rep), Folder: Panama December 1989 [OA/ID CF 01576] [1 of 4], David Parcelli Files, National Security Council.

short term, “an order prohibiting ships of Panamanian registry from trading with the United States would result in a great deal of economic uncertainty and disruption which would be harmful to many U.S. interests.” In the long run, he felt the ban against Panamanian registered vessels “would establish a potentially damaging precedent for similar actions against merchant ships in international trade.”³⁸

The shipping industry disagreed with the sanctions enacted by the Bush administration. While directed against Panamanian vessels, it affected the commodities carried to and from the United States, such as agricultural products and coal, which are dependent on their ability to compete with the international market. Consequently, the amount of funds denied to the Noriega regime was estimated at \$45 million, half of Fred L. Denton’s assessment. Since the ban would be of great inconvenience to the U.S. shipping industry as well as its allies, the administration announced the ban two months prior to its scheduled implementation for preparation purposes.

Immediately after the shipping ban announcement, the White House held a press conference. The press fixated on the long-term consequences of such a Draconian economic sanction. “What about the Panamanian opposition?,” a reporter asked, “will the Panamanian economy be able to recover from the effects of this ban?” Press Secretary Marlin Fitzwater answered that members of the Panamanian opposition either “oppose it, and others support it . . . but supporters and opponents agree . . . that the ultimate responsibility for the circumstances which have prompted this measure lie squarely with Noriega.” After this exchange, the press became more adamant about

³⁸ Letter to President Bush from Philip Loree, Folder: Panama December 1989 [OA/ID CF 01576] [1 of 4], David Parcelli Files, National Security Council.

long-term economic consequences asking if the Panamanian economy would be able to recover. Naturally, Fitzwater deflected any economic criticism, stating “most Panamanians agree that the first step on the road to recovery is the departure of General Noriega . . . the installation of a freely-elected, constitutional government is the next step . . . no economic recovery can occur until both these requirements are fulfilled.”

Bush gave sufficient notice to the international community for the proposed ban on Panamanian flag vessels. In preparation for talking with Athens, Bonn, Hong Kong, London, Madrid, Rome, Seoul, Singapore, Taipei, and Tokyo, Bush discussed the possibility of a “price war among world registries which might help mitigate the cost of changing registries . . . and the effect of this step would be to lower registry costs generally as others compete to obtain the business lost by the Noriega regime.”³⁹ However, talking to Brussels, the Hague, Paris, and Caracas, Bush omitted the discussion of curbing the registry costs and asked only if there are “other ways in which your government can work in conjunction with ours and others to exert significant pressure on General Noriega.”⁴⁰ Perhaps hoping to garner further support within the OAS, Venezuela was the only country thanked for the leadership role taken by its president, Carlos Perez, in his attempts to find a solution to the Noriega problem.

Official responses to the Panamanian vessel ban varied. The United Kingdom, Hong Kong, Norway, and Taiwan did not oppose the economic sanction but were hesitant to support it. In particular, Hong Kong and Paris were concerned about the

³⁹ Memo covering specific talking points for shipping ban, Folder: Panama (1) [OA/ID CF 01082] [4 of 7], Eric Melby Files, National Security Council.

⁴⁰ Ibid.

warning time for their shipping companies. In all, however, the Bush Administration's actions did not surprise the international community.

As the economic sanctions increased, so did tensions between the United States and Noriega. On November 22, the Panama General State Council, comprised of Provisional Panamanian President Francisco Rodriguez, Vice President Carlos Ozores, and Cabinet Members, condemned the Bush administration and held it responsible for any attack against Noriega or the PDF. The state-controlled media station, Panama City Televisora Nacional, said "the magnitude of the people's wrath and the clamor for vengeance that will undoubtedly spread throughout the country in an event of an attack . . . will be very difficult for the Panamanian Government to answer for the security of opposition leaders as well as that of local and foreign collaborators with the terrorist policy of the current U.S. Administration."⁴¹ The Council continued by asking for support along with political solidarity from sympathetic nations.

After the October coup attempt, Noriega consolidated his dwindling power base and made efforts to blame the United States actions for the devastated Panamanian economy. On November 1, the Government of Panama prohibited all contact with U.S. diplomats and agents not made through the Panamanian Foreign Ministry, a bastion of Noriega's cronies. Moreover, the ministry refused to recognize the status of the U.S. Charge d'Affairs, John Bushnell, who assumed the position on September 30. In a telegram relating this episode to Washington, former Charge d' Affairs, John Maisto,

⁴¹ Statement by Panama City televisor Nacional in Spanish, Folder: Panama December 1989 [OA/ID CF 01576] [1 of 4], David Parcelli Files, National Security Council.

who had a healthy working relationship with the Panamanian ministry, wrote about a warning he received that an “undeclared war continues between the two countries.”⁴²

Compounding the already increasing tensions, on November 16 the OAS passed a Panama Resolution by a vote of 25 to 2, in which only Nicaragua stood with Panama. The resolution was in response to Noriega’s rejection of a transfer of power proposal on September 1 by the OAS Meeting of Consultation of Foreign Ministers. Venezuela and the co-sponsoring nations of Argentina, Bolivia, Brazil, Columbia, Costa Rica, Guatemala, Mexico, Peru, and Uruguay, presented the proposal which rejected the existence of a legitimate government in Panama. The Noriega regime was condemned for its “utter lack of political will” to lead Panama “according to the principles of its constitution and to respect human rights.”⁴³ The Panama Resolution forced Panama to withdraw its own OAS resolution that blamed the United States for its internal problems and the isolation of the Noriega regime within Latin America.

Three days after the OAS Panama Resolution, Bush worried about possible retribution by Noriega. He cautioned Americans in Panama and initiated a Presidential directive to U.S. military, intelligence, and law enforcement personnel to use “whatever force and to take whatever other actions may be necessary in and around Panama, including preemptive action, to prevent any such terrorist or criminal acts from being

⁴² Telegram, Folder: Panama November 1989 [OA/ID CF 01576] [4 of 4], David Parcelli Files, National Security Council.

⁴³ Letter from Ambassador Luigi R. Einaudi to William T. Pryce regarding OAS Panama Resolution, Folder: Panama November 1989 [OA/ID CF 01576] [3 of 4], David Parcelli Files, National Security Council.

carried out.”⁴⁴ While the Presidential directive’s wording seemed to encourage coercive actions, it permitted cautionary measures only in response to abrasive PDF actions. It responded to the increased and compounding tensions rather than being the catalyst for future military action.

The Panama Canal Commission (PCC) announced the formal suspension of board meetings on November 27 until Noriega departed. However, while formal meetings ceased, U.S. members planned to continue meeting with senior commission executives in the United States. The actions taken by the PCC were rational measures for security, but the 1977 Canal Treaties stipulated on January 1, 1990 a Panamanian replace the U.S. administrator creating more problems for the Bush Administration. Rather than waiting for a Panamanian appointee, Bush appointed Fernando Manfredo, the PCC’s deputy administrator to become the acting administrator of the commission as of January 1. The importance of this appointment was not its transfer of power, but in that Bush did not allow the Noriega government to appoint Manfredo. In a White House press statement memorandum, the administration felt Marlin Fitzwater could sufficiently answer questions regarding Manfredo by saying: “The U.S. does not recognize the illegitimate Noriega-controlled regime as a government . . . therefore, we are unable to accept any proposal from that regime.”⁴⁵

By December, tensions between Noriega and the United States came close to erupting into armed conflict and Bush found support from both sides of the Senate aisle.

⁴⁴ November 19, 1989, Presidential Directive, Panama November 1989 [OA/ID CF 01576] [3 of 4], David Parcelli Files, National Security Council.

⁴⁵ Recommended Press Statement, Panama November 1989 [OA/ID CF 01576] [1 of 4], Folder: David Parcelli Files, National Security Council.

After the United States refused to acknowledge the government of Panama's nominee for PCC Commissioner, Tomas Altamirano-Duque, the Bush Administration waited for Noriega's response. While waiting, Bush received support from Congress, including Massachusetts Democratic Senator John Kerry. On December 12 he wrote the President to offer his assistance to help remove the Panamanian dictator. Though he never wrote about a military solution, Kerry felt Noriega could be ousted from power if the "Executive and Legislative branches . . . work closely and cooperatively to reach that goal."⁴⁶ The administration was thankful for the cooperation by the legislative branch and offered a confidential briefing for Kerry on the actions towards Noriega being considered or already implemented. Responding to Kerry's letter, Bush reinforced his policy towards Noriega, writing that he was "optimistic that our patient and resolute efforts are yielding fruit."⁴⁷ Bush was not yet willing to use military actions.

Noriega responded to the Panamanian vessel ban by declaring himself "Maximum Leader of the State." Speaking before the National Assembly of Corregimientos Representatives on December 16, he thanked the Corregimientos for the honor, saying "I have not sought it . . . I have not promoted it . . . It brings me more responsibilities . . . It is easier to live without responsibilities . . . However, I do not evade them." He blamed the United States for all Panamanian problems, protesting the serious damage done to the country's economy, public finances, and the government's capacity to respond to demands for health, housing, and education. After Noriega

⁴⁶ Letter from Senator Kerry to George Bush, Folder: Panama (General) January - August [OA/ID CF 00732] [2 of 11], William T. Pryce Files, National Security Council.

⁴⁷ Letter to Senator Kerry, Folder: Panama (General) January - August [OA/ID CF 00732] [2 of 11], William T. Pryce Files, National Security Council.

declared himself Maximum Leader of the State he claimed that Panama was in a state of war with the United States:

They and their internal allies, have conspired to destroy our country's peace and stability. They have interfered and intervened in our domestic affairs and the armed forces have tried to bribe the weaker persons to betray their homeland. We have resisted and now we must decide to advance toward an offensive of creativity and development in the generational project of the new republic. The need for a common front to respond to the aggression and the urgent need to organize ourselves as one to fight against the aggressor forces the people's government to take this step. This step is nothing more than responsibility accepting, as a Panamanian and a patriot, the leadership of the forces that oppose U.S. aggression and seek to consolidate the nation as a state.⁴⁸

The next day, the PDF shot the unarmed Marine 1st Lt. Robert Paz. The lieutenant and three companions were lost while driving back to their base, and after refusing to exit their vehicle at a check point near the PDF headquarters known as the Comandancia, the allegedly intoxicated PDF guards opened fire, shooting Paz. Taken to Gorgas Hospital, he died of his wounds fifteen minutes after arriving. At the same time, the PDF stopped Navy lieutenant Adam J. Curtis and his wife at the same checkpoint and detained them. Blindfolded and tortured for almost four hours, the PDF eventually released the Curtises, who returned to Rodman Naval Station around 2:00 a.m. to inform the U.S. military authorities of their past few hours.

The events of the night of 17 December pushed the invasion wheels into motion, and three days later the United States invaded Panama with a force of 25,000 troops.

⁴⁸ December 16, 1989 Speech by Manuel Antonio Noriega before the National Assembly of Corregimientos Representatives at the Justo Arosemena Palace in Panama City, Folder: Panama December 1989 [OA/ID CF 01576] [3 of 4], David Parcelli Files, National Security Council.

Sitting before the nation, President Bush explained why he launched the largest military engagement by the United States since the Vietnam War. “Every attempt to resolve this crisis through diplomacy has been rejected,” the president said, “General Noriega’s reckless and inflammatory threats and attacks upon Americans in Panama have created an atmosphere of imminent danger to the 35,000 American citizens in Panama.”

Bush ordered the invasion after consultations with Guillermo Endara, who took the presidential oath at Fort Clayton in Panama on the day of the invasion. Three years of sanctions devastated Panama and the weight of economic restoration and stability lay on the shoulders of President Guillermo Endara. It would not be an easy task to unite a fragmented country ruled by decades of dictatorship. The United States would have to help with recovery efforts.

CHAPTER III

REBUILDING PANAMA, 1990

When Manuel Noriega emerged from his papal nuncio hiding on the morning of January 3, 1990, Operation Just Cause became a success. The invasion removed Noriega, allowed Panama to develop their democracy, and eliminated the “wimp factor” from George H. W. Bush. In the following months, Panama faced major economic and political problems while the United States had the task of economically aiding the struggling country. If these problems went unsolved the successful invasion would succumb to being a farce. Amidst the post-invasion problems, Panamanian citizens warned the United States that if they do not “finance the country’s reconstruction, the present honeymoon will certainly fade.”⁴⁹

The invasion engendered grateful feelings among Panamanians and received a warm reception from Americans. Bush’s approval ratings soared to 79 percent in the Gallup poll, six points higher than Ronald Reagan’s best showing during his eight years as president. In mid-January, an ABC news poll found that eight in ten people “supported the president’s decision to send U.S. troops to Panama.”⁵⁰ According to a CBS News poll, ninety-two percent of 794 Panamanian adults interviewed approved of America sending troops to remove Noriega.⁵¹ Journalists, however, differed in their opinion of the invasion’s lasting success. A *New York Times* editorial saw the invasion only as an interim success because it “provoked nervous, even angry criticism around

⁴⁹ Myra MacPherson, “In Panama, After the Fall,” *Washington Post*, 10 January 1990, D1.

⁵⁰ Richard Morin, “Poll Shows Rising Support for Bush, Republicans,” *Washington Post*, 18 January 1990, A9.

⁵¹ Michael R. Kagay, “Panamanians Strongly Back U.S. Move,” *New York Times*, 6 January 1990, 9.

the world,” and only a “clear recovery of full Panamanian sovereignty in the coming months can secure an enduring triumph.”⁵²

As the American public lauded Bush for his actions, some in the press saw the incident as a failure. *Newsweek* journalist Jonathan Alter argued that “whatever one thinks of last week’s American assault, it was a product of failure.” He saw the rationale for the invasion as “simple frustration and embarrassment at being bested by a thug,” thus anything short of a “full-scale invasion testifies not just to Noriega’s canniness but to more than two decades of clumsy American handling of him.”⁵³ More broadly, George McGovern wrote in the *Washington Post* that “freedom and honor are worth risking one’s life to attain,” but if they are to be restored in “Panama and elsewhere in Central America, that will be done by the local people—not by outside forces acting in violation of international law.”⁵⁴ Latin American scholar, Richard Millet, agreed with the press. His post-invasion analysis argued that any “resort to military force in international relations symbolize” a U.S. policy failure since any “rational policy is to protect and advance national interests without resorting to force.” The invasion also underscored the OAS’s continuing inability to resolve internal crises. The United States, he felt, failed alongside every other Latin American country.⁵⁵

Among the Panamanians who assailed the invasion, the Latin American Council of Churches became the most vocal. They wrote a harsh letter to United States Christians denouncing the military action and accusing U.S. churches of tolerating and

⁵² “Operation Just Begun,” *New York Times*, 5 January 1990, A30.

⁵³ Jonathan Alter, “For Bush, the Best of a Bad Bargain,” *Newsweek*, January 1, 1990, 23.

⁵⁴ George McGovern, “A Betrayal of American Principles,” *Washington Post*, 16 January 1990, A23.

⁵⁵ Richard Millet, “The Aftermath of Intervention: Panama 1990,” *Journal of Interamerican Studies and World Affairs*, 32 (Spring 90): 14.

justifying the invasion. The letter asked how long will the “Christian churches in the U.S. continue to tolerate, and in some cases even justify, these actions that not only violate the most basic human rights, but also the right that the weakest or smallest countries have to make their own decisions and to write their own history?”⁵⁶ Ironically, even before the letter became public, American Catholics sent \$10,000 in emergency assistance to the Panamanian church’s efforts to help rebuild their country.

Bush gave America three reasons for invading Panama: to “protect American lives,” “restore the democratic process,” and “preserve the integrity of the Panama Canal Treaty.” As of December 21, 1989, he completed the first two tasks but had not yet helped Panama stabilize economically and allow the country to assume control of the canal. Prior to the invasion, few documents demonstrate a plan to aid Panama once Endara assumed control. Thus, any reconstruction strategy occurred *after* U.S. troops marched through the streets of the invaded country. With little planning prior to the invasion, the small, yet strategically significant Latin American country would have to wait for their economic aid.

Abundant problems surrounded the rebuilding of Panama economically, socially, and politically. In the first *Newsweek* issue after the invasion, Tom Morganthau and Douglas Waller saw politics as the core of Panama’s problems. They felt “Endara’s government, formed from the faction-ridden ranks of a political opposition that had repeatedly proven itself incapable of taking decisive action, bore the unmistakable label ‘Made in the U.S.A.’” The new government became “Pax Americana in a very small

⁵⁶ Gustav Spohn, “Panama Invasion Assailed,” *Washington Post*, 20 January 1990, C18.

place.”⁵⁷ Beyond rising above the acute factionalism within the parties of Endara, Ford, and Arias, the first step towards a stable political environment entailed the removal of Noriega’s cronies from the ministries, the National Assembly, and the PDF. In order to fully transition into a functional democracy, the ghosts of Noriega’s dictatorship needed to be removed from the present Panamanian government.

In step with the political house-cleaning, Panama required planning to rebuild their economy. Three years of sanctions decimated its economy. From 1987-1989, Panama’s Gross Domestic Product (GDP) declined almost 16 percent, from \$2.1 billion to \$1.7 billion. Between March 2, 1988 to July 17, 1989, the U.S. blocked almost \$300 million assets to the Government of Panama, while the government’s net capital declined from \$493 million in 1987 to \$155 million in 1989, the most damage done during 1989 when it declined by \$244 million.⁵⁸

Panama needed a plan for recovery. Only ten days after the invasion former Panamanian president Nicolas Ardito-Barletta sent the Bush Administration a memo covering Panama’s immediate economic needs and a long-term plan consisting of three stages for full economic recovery. Barletta felt the United States needed to return Panama to its financial status on December 19, then to where it stood in February 1988, and finally to allow the country a sustained economic growth and social progress.

⁵⁷ Tom Morganthau and Douglas Waller, “The Invasion May be the Easy Part,” *Newsweek*, January 1, 1990, 24.

⁵⁸ *National Accounts Statistics*, 1990, p. 1450 and 1452; Subcommittee on Western Hemisphere Affairs and International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, One Hundred and First Congress, First Session, *U.S. Policy Toward Panama in the Aftermath of the May, 1989 Elections*, July 25-27, 1989, Washington D.C.: U.S. Government Printing Office, 1990.

Once the invasion began, looters ravaged the major cities of Panama City and Colón. According to Barletta, the looting cost supermarket chains at least \$50 million and local retail businesses nearly \$600 million. Aiding Panama's immediate economic needs included five steps: to re-supply food inventories in Panama City and Colon, restock Drugstores with medicine, replenish business inventories, rebuild the low-income El Chorillo housing district that burnt during the invasion, leaving nearly 2,000 families homeless, and repairing government facilities.

Since the Reagan Administration established economic sanctions in February 1988, Barletta estimated that Panama's GDP dropped 25 percent—significantly higher than the U.S. estimate—and unemployment doubled to 24 percent. He advocated strengthening national and international confidence in Panama, reestablishing the credit system, and stimulating various sectors of the economy beyond the construction industry and agriculture. In short, he felt the fastest way to begin recovery began through the production of goods and services while simultaneously injecting money into the economy that allowed for more exports, production, and investment.⁵⁹

Arriving at the White House at the same time as Barletta's memo, President Endara sent Bush a letter of thanks, congratulations, and suggestions for economic revival. On January 9, Endara wrote Bush that “undertaking the government of this nation we find ourselves with a country in ruins as a consequence of twenty-one years of military rule.” He reminded Bush that the fall in its GDP almost equaled the United

⁵⁹ Preliminary Ideas for the Economic Reconstruction of Panama, by Nicolas Ardito-Barletta, Folder: Panama (2) [OA/ID CF 01082] [2 of 3], Eric Melby Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

States during its depression in the 1930's. Even more, unemployment reached 33 percent in the urban areas, with the public administration "physically destroyed and its personnel disoriented and disheartened," and the widespread destruction of the businesses in Panama and Colón. Yet, even though he thanked Bush for the initial aid, he felt that without more aid from the United States, the "survival of democracy in Panama . . . could be jeopardized."⁶⁰ Endara wanted Panama to flourish independently but his letter demonstrated his dependence on the United States.

Endara asked for economic support to help with the ruined Panama City neighborhood of El Chorrillo, a social emergency fund, the decimated banking system, businesses, government losses, and paying arrears to international banking institutions. The U.S. responded quickly in helping the El Chorrillo inhabitants and creating a social emergency fund but joined the final four requests into a larger \$500 million aid package. Endara concluded his letter by telling Bush he believed that this request would be "received by you in the spirit of generosity and justice which has always characterized that great nation over which you preside, and with the assurances that economic support is absolutely essential to reconstruct our country and to save it for democracy."⁶¹

The Barletta and Endara plans both wanted help with international loans, stability for Panama's government, and aid for local businesses. Clearing its international debt would allow Panama to focus on internal problems but as the government rebuilt its infrastructure. The only large difference in the plans regarded the long-term needs.

⁶⁰ Letter from President Endara to President Bush, Folder: Panama (Economic Issues) [OA/ID CF 00731] [3 of 4], William T. Pryce Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

⁶¹ Ibid.

Endara focused on the immediate needs while Barletta expressed his desire for a three-step process to economic stability.

The first U.S. economic aid came to help those directly affected by the invasion. The densely packed neighborhood of El Chorrillo consisting of wooden tenements surrounded the PDF headquarters and housed 30,000 living in shacks built for the Panama Canal laborers. United States tracer bullets and flares created fires that erupted throughout the wooden tenements and destroyed several city blocks. The immediate relief arrived in early January 1990, when the Agency for International Development (AID) worked alongside the Office of Foreign Disaster Assistance (OFDA) to provide \$1.5 million for the 3,111 displaced families in El Chorrillo. According to the State Department summary of economic assistance, the AID also agreed to provide over \$32 million to the government to help house “displaced families from the El Chorrillo area of Panama City, small business restoration, emergency employment, and restoration of public services.”⁶²

A consultant for AID, Robert Gersony, conducted an informal survey among the displaced families from El Chorrillo to help AID find the optimal strategy for disbursement of funds. He found that the invasion destroyed 1,614 residential units and severely damaged 450 units in the El Chorrillo area. Gersony recommended a fixed cash grant of \$250 for each family in “covering the purchase . . . of new or used initial items” which they required, plus \$7,000 for a housing grant. While this report demonstrated the

⁶² State Department Summary of Assistance to Panama to Date 10 July, 1990, Folder: Panama (General) May - August [OA/ID CF 00731] [1 of 4], William T. Pryce Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

destruction caused by the invasion, it also revealed the devastation incurred by one particular apartment complex. The “24 de diciembre” building, named after a December 24 fire that destroyed the site’s previous wooden houses, contained 450 housing units that Panama City residents looted and vandalized after the invasion. According to Gersony, “plumbing and electrical fixtures—even elevator motors—were torn out and taken away.”⁶³ Nearly half of the El Chorrillo displaced families resided in this building, making it the focus of AID’s restoration efforts.

Prior to submitting an aid package to Congress, Bush and President Endara signed a mutual cooperation agreement on narcotics on January 10, 1990. In theory, the agreement would reduce demand and prevent the use, while also combating the production and trafficking of illegal drugs. Bush and Congress also felt it necessary for Panama to change their banking laws to prevent money laundering. Panama’s 1970 Banking Law made the country a haven for illicit profits because they waved all duties, fiscal charges, and control over off shore operations. Senior Editor of *Foreign Affairs* Linda Robinson argued that Panama catered to “drug trafficking, arms smuggling and illicit trade.”⁶⁴ This became a rallying cry within Congress, its members refused to pass Bush’s aid bill as long as Panama kept their bank secrecy laws. Unfortunately for Congress, Panama proved unwilling to change their system of banking. Even in September 1990, the White House received a telegram of a Spanish article in which Panamanian Foreign Minister Julio Linares said the Government of Panama would

⁶³ Characteristics and Perspectives of Families Displaced from El Chorrillo, Folder: Panama OA/ID CF 00741 [2 of 9], Nicolas Rostow Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

⁶⁴ Linda Robinson, Dwindling Options in Panama,” *Foreign Affairs* 68 (Winter 89/90): 190.

renounce part of the U.S. aid package if the “conditions for receiving this money are adverse to the international banking center which operations in Panama.” He continued to say that “I do not like these conditions Many members of the cabinet do not like them, and President Guillermo Endara does not like them either You can be certain that I am not going to sign any agreement that would destroy the financial center.”⁶⁵

Bush did not unveil his economic aid plan to Congress until January 24, 1990. The humanitarian assistance provided \$42 million for the programs already initiated by AID. To strengthen Panama’s private sector, Bush restored Panama’s suspended sugar quota and compensated the nation for its 1989 quota, an estimated \$28 million, while the Export-Import bank provided \$400 million in short-term and medium-term guarantees, through its affiliate, the Foreign Credit Insurance Association, to finance sales of American products. Finally, to promote a sustained economic recovery, the administration sought an additional \$500 million in FY 90 for U.S. assistance to Panama.”⁶⁶ On February 8, Congress approved the \$542 million in emergency aid.

President Guillermo Endara voiced his opinion that his country needed \$40 million to rebuild homes in El Chorillo, and suggested another \$200 million in public works jobs programs and a \$700 million program of grants and loans channeled through private banks to businesses for the repair and restocking of stores that were looted in the

⁶⁵ Telegram of Spanish Article, Folder: Panama (Economic Issues) [OA/ID CF 00731] [1 of 4], William T. Pryce Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL

⁶⁶ Fact Sheet, Partnership with Panama: Action Plan to Foster Economic Recovery, Folder: Panama (2) [OA/ID CF 01082] [1 of 3], Eric Melby Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

wake of the invasion.”⁶⁷ He characterized the U.S. aid as “generous support but that it was about half what his government had requested.”⁶⁸

While the problem of economic aid continued to nag the Bush administration, the invasion created political fallout within Latin America. An expert in this area, Richard Millet, saw the “specter of gunboat diplomacy” being raised throughout Latin America, an “issue which touches one of the most tender nerves in the Latin body politic.” Even Noriega’s bitter foe, Costa Rican President Oscar Arias, described the U.S. presence in Panama as “an occupation.”⁶⁹ Bush vowed to “repair” damaged relations and sent Vice President Dan Quayle on a Latin American tour at the end of January.⁷⁰

Latin American nations would not recognize the Endara government while U.S. troops still occupied Panama. By a vote of 20-1, the OAS approved a resolution “deeply deploring” U.S. actions, the only vote against the resolution came from the United States. Similar to the feelings of all OAS countries, Venezuelan President Andres Perez declared he “condemned the invasion totally and absolutely,” making it “virtually impossible to recognize the new Panamanian Government within a process of occupation.”⁷¹

Venezuela and Mexico proved to be the most problematic. Both countries refused to receive Quayle until the United States proved it wanted the new Panamanian government independent and not reliant on U.S. troops. Prior to Quayle’s trip, Press

⁶⁷ David Hoffman and Ann Devroy, “Bush Seeks \$500 Million Panama Aid,” *Washington Post*, 25 January 1990, A1.

⁶⁸ “Panama Seeks More Aid,” *Washington Post*, 26 January 1990, A18.

⁶⁹ Millet, “The Aftermath of Intervention: Panama 1990.”

⁷⁰ David Hoffman, “Bush: Invasion Hurt Ties in Hemisphere,” *Washington Post*, 6 January 1990, A1.

⁷¹ “Perez Says U.S. Panama Action ‘Deplorable,’” *Diario*, FBIS-LAM ser., 23 February 1990, 56.

Secretary Marlin Fitzwater said the President hoped to make it public in a “very visible way that he wants good relations with Central America” but Quayle insisted that his mission did not entail an apology because the “invasion was a necessary evil.”⁷² The Administration’s strategy in Latin America, according to the *New York Times*, was “based primarily on the calculation that pragmatism will eventually replace resentment and that regional leaders will begin to support the new Panamanian Government.”⁷³ Similar with dealing with Noriega, Bush relied on prudence and patience in the aftermath.

As Latin America assailed U.S. actions, the process of allotting aid to Panama began to quicken. By March, U.S. Ambassador to Panama, John P. Hinton, and AID signed a \$25 million project agreement with Endara. The recovery program authorized by Congress on February 7 provided \$13.6 million for housing in El Chorrillo, \$7.0 million for emergency employment in public infrastructure work, and \$4.5 million for technical assistance and commodity support.⁷⁴

Assistant Secretary of State for Inter-American Affairs Bernard W. Aronson appeared before a House committee on March 19 to discuss economic assistance to Panama and Nicaragua. Aronson said that in countries where democracy is fragile, the United States must give support to the new governments to stabilize their economies,

⁷² Ann Devroy, “Quayle Visit Resisted in Latin America,” *Washington Post*, 18 January 1990, A25, Wilson Ring, “Troops to Leave Panama, Quayle Assuring Latins,” *Washington Post*, 28 January 1990, A23.

⁷³ Andrew Rosenthal, “Panama-Latin Ties Linked to a Pullout,” *New York Times*, 19 January 1990, A14.

⁷⁴ Memo from Mark L. Edelman to Brent Scowcroft, Folder: Panama (2) [OA/ID CF 01082] [1 of 3], Eric Melby Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

grow, and allow the country's population reap the benefits of that growth.⁷⁵ The Bush administration pled Congress for continued support in their economic assistance plan.

Aronson elaborated Panama's future needs. The administration felt the Panamanian government could not achieve the goals of meeting current obligations, restoring credibility among its international creditors, and investing for the future, on their own. Therefore a second phase of assistance required \$158 million to "revitalize the private sector." This money would begin restoring confidence to Panamanians and unlock its financial system hindered with a crisis of confidence brought on by Noriega forcing the National Bank of Panama to finance its deficits. This contained a second part, \$140 million for a "short-term public investment program," which would provide funds for reconstructing an infrastructure badly decimated during the Noriega years and of equal importance, it would "provide a means for encouraging sound reform of economic policy."

The Administration also proposed \$130 million toward clearing Panama's arrears with the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank. By March 1990, Panama's owed \$600 million to international financial institutions and President Endara committed to match a U.S. contribution, if given, of \$130 million. The final component contained \$45 million for "public restructuring and development support," contributing "directly to policy reform." The Endara government asked for, and Aronson argued they would greatly benefit from,

⁷⁵ United States Congress, House of Representatives, *Testimony by Assistant Secretary of State for Inter-American Affairs Bernard W. Aronson*, 101st Congress, 2nd Session, March 19, 1990, This is an address by Bernard W. Aronson, Subcommittee on Foreign Operations of the House Committee on Appropriations.

technical assistance for managing public finances, budget planning, privatization, and tariff reform. In all, Aronson concluded, though “deep structural problems remain,” they can be “best addressed through the sort of assistance package that the Administration has presented.”

Congress delayed arguing over where to find the money for aid. Specifically, which defense programs to cut and how much money should be earmarked for Panama in the tight foreign aid budget. Congress had good reason to be reluctant in allotting such a large aid package. When Bush assumed the presidency, he also inherited a national deficit of \$2.8 trillion. During Reagan’s presidential tenure, the national debt tripled, creating divisions within Congress on how to solve the fiscal mess. Thus, Congress wondered how Bush could give \$500 million to Panama while its own debt was still in shambles.

While Bush became increasingly frustrated with Congress President Endara staged a hunger strike as an “act of commiseration” for his country. Endara feared all the “sacrifices of Panamanians and American soldiers will somehow be lost” because “people cannot eat democracy.” The strike began on February 28, Ash Wednesday, and received mixed reactions among Panamanians. One woman confessed “I am here because I sympathize with the President,” and “I want Mr. Bush to let go of that money because we are all hungry here and there is no work.”⁷⁶ “Panamanians most affected by the economic catastrophe generally seem supportive,” wrote the *Washington Post*, but businessmen, professionals and government employees felt Endara could make better

⁷⁶ Larry Rother, “Panama’s New Leader Fasts to Dramatize Need for Aid,” *New York Times*, 12 March 1990, A1.

use of his time by “putting in a full day at the presidential office and personally lobbying the United States and other countries to provide aid.”⁷⁷ The fast lasted thirteen days and proved to the U.S. Congress and administration that the country it invaded to help now teetered on the verge of collapse.

Endara visited Washington in April. The trip failed to further the economic aid process, as Bush and Endara focused their attention on combating drugs. Panama requested “bilateral discussions on a range of law enforcement to prevent narcotics trafficking and related criminal activity.” To combat illegal transportation of drugs, both countries agreed the American Embassy in Panama had to obtain authorization to board a ship and then takes law enforcement action against Panamanian flag vessels interdicted out at sea. The Ship Rider Agreement allowed for a Panamanian law enforcement official to participate in joint United States – Panama training for vessels suspected of carrying illicit drugs. The third and final drug agreement called for bilateral cooperation to control the international movement of chemicals used in processing illicit drugs. This would help combat the process of converting chemicals from legitimate uses to drug manufacturing. Beyond illegal narcotics trafficking, Bush and Endara agreed on reintroducing the Peace Corps to Panama, who, in 1971, withdrew.⁷⁸

The press ignored Endara’s visit. The *Los Angeles Times* only reported Bush nominating a Panamanian, Gilberto Guardia Fabrega, as administrator of the Panama Canal Commission. The *New York Times* and the *Washington Post* failed to

⁷⁷ William Branigin, “U.S. Aid Delay Said to Create Threat to Panama; President, in 11th Day of Fast for Hungry Citizens, Says ‘People Cannot Eat Democracy’,” *Washington Post*, 12 March 1990, 8.

⁷⁸ Fact Sheet on Agreements with Panama, Folder: Panama (Endara Government Issues) [OA/ID CF 00731], William T. Pryce Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

acknowledge Endara's visit. Panama began to fade from headlines as Middle East tensions increased. A border disagreement between Iraq and Kuwait, combined with questions raised by Congress regarding Iraqi dictator Saddam Hussein, began to dominate newspaper headlines. The United States found itself drawn into an Arab-Arab conflict and Panama no longer garnered the nation's attention.

By May 1990, five months after the United States removed Noriega, Congress had yet to approve of Bush's modified request for economic assistance to Panama. In order to help push the bill through Congress, Bush issued Executive Order No. 12710 on April 5, terminating the national emergency Reagan declared on April 8, 1988. Bush discontinued Reagan's sanctions.

Bush announced his original request for \$500 million on January 25, submitted a modified request for \$800 million for both Nicaragua and Panama on March 13, and pleaded with Congress to pass the legislation by April 5. In March, James Baker sent a letter to the Senate, asking that they move quickly in considering Bush's call for emergency aid to Panama. On April 2 he received a reply from Senate Majority Leader George J. Mitchell. The Senate's main worry regarded the "overall long-term goals of our foreign aid, and how the money for Panama and Nicaragua will be specifically utilized." He continued by adding, the approach to foreign aid on a "country by country basis and in one-shot emergency increments," has "provided no overall or long-term view of how the foreign aid requests are affordable in relation to other spending plans;

nor is there a clear explanation of the relationship between this request and our overall national security objectives.”⁷⁹

Bush appeared before the nation on May 16 and appealed to Congress. The President told of meetings with Congress to explain the content and urgency of this request but the “Easter recess came and went with no passage.” Frustrated with Congress loading the bill, he said it “tripled in size as extraneous items have been piled onto it” but “even worse, the additional amendments include provisions that I vetoed as reverently as last fall.” Bush believed prudence could not get the job done; he had to show his strength. “We’re now facing the Memorial Day recess,” and “I will call on the Congress to remain in session until it completes action on a bill that I can sign.” He concluded that “we must not let this procedural gridlock in Congress destroy the hopes for freedom in these two fledgling democracies.”

Bush’s plea worked. On May 24, Congress approved a \$4.4 billion emergency spending bill, including \$720 million in aid for Panama. The United States finally initiated the aid Panama needed, but no aid came quickly. In fact, Ricardo Chavira reported, “nearly a year after being installed by the U.S. invasion, the government of President Guillermo Endara is stumbling badly in the monumental chore of rebuilding a country devastated by corruption and the financial squeeze applied by the U.S. during

⁷⁹ Panama (Economic Issues) [OA/ID CF 00731] [2 of 4], William T. Pryce Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

the final two years of Noriega's reign."⁸⁰ In 1990, the U.S. only gave Panama \$130 million for its \$5 billion in foreign debt and only gave \$70 million in direct aid.*

By mid-March, press coverage on Panama began to wane. The country no longer dominated headlines and many journalists gave more print space to returning soldiers than Panama's needs. Furthermore, Congress battled over the allotment of foreign aid and gained more attention than the individual countries receiving money. According to *Time*, from "democratic upheavals in Eastern Europe to anti-drug efforts in Latin America, the demand for U.S. economic assistance has risen dramatically," and the budget has little room for "growth in foreign assistance, and flexibility in allocating funds is limited by a power struggle between the White House and Congress over who should decide what goes where."⁸¹

Senator Robert Dole led the Senate discussions on foreign aid. As early as January, he saw the future problems with over-extending American generosity. He proposed that out of the \$17 billion aid a year, a "small amount—say 5 percent—be clipped from the earmarks of the larger traditional recipients and put in a pool for the Eastern Europeans and Panamanians."⁸² Though Congress did not accept Dole's suggestions, it raised issues and ultimately roadblocks in expeditious aid allotment.

All the while, Panamanians became disenchanted with their leadership. Endara did not have an easy task assuming the presidency and the anti-Noriega platform of Endara, Ford, and Arias dissolved with Noriega in a Florida jail cell. After three

⁸⁰ Ricardo Chavira, "Meanwhile, Back in Panama," *Time*, November 26, 1990, 38.

* See Appendix B for the July 1990 State Department Summary of economic aid to Panama.

⁸¹ Helen Dewar, "Voices Rise as Foreign Aid Does Not," *Washington Post*, 18 February 1990, A50.

⁸² "Sen. Dole on Foreign Aid," *Washington Post*, 18 January 1990, A22.

decades of dictatorship, the extreme privatization of businesses under Noriega and the weak institutionalized party system hindered Endara's ability to resolve political issues. Demonstrating his waning support, *Time* reported from Panama City that "knots of protestors already gather daily outside the presidential palace to decry the lack of action on the economy," holding placards that told Endara "YOU'VE BETRAYED US."⁸³

Six months after the invasion, Panama's leadership lagged, the economy struggled, and the drug problem soared. Latin American journalist, Ricardo Chavira reported drug trafficking and money laundering flourishing: "More than 13,000 lbs. of cocaine—worth \$153 million wholesale in the U.S.—have been seized since January."⁸⁴

Nevertheless, the Bush administration kept proclaiming success. Press Secretary Marlin Fitzwater said in April 1990 that "nine-of-ten Panamanians have a favorable opinion of President Endara."⁸⁵ Prior to the invasion, the Bush administration kept proclaiming success but after the aid passed in May, Panama disappeared in the papers. The Panamanian issue became moot to Americans, their attention shifted to the Middle East.

⁸³ G.J. Church and M. Duffy, "The Check is Not in the Mail," *Time*, May 15, 1990, 29.

⁸⁴ Ricardo Chavira, "Meanwhile, Back in Panama," *Time*, November 26, 1990, 38.

⁸⁵ April 28, 1990 Briefing Paper, Folder: Panama (General) January - April [OA/ID CF 00732] [1 of 4], William T. Pryce Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

CHAPTER IV

CONCLUSION

To fully understand the crisis with Panama, the pre- and post-invasion periods need to be examined jointly. From May 1989 to May 1990, George Bush acted with patience and prudence. While these characteristics aided him considerably during the Noriega crisis, they hindered that nation's economic recovery. These twelve months marked his first foreign policy test and according to his soaring approval rating, he passed admirably. Yet the crisis with Panama cannot be examined solely in regards to Noriega's removal; the president's actions also must be evaluated after the invasion.

Bush had a consistent foreign policy to remove Noriega from power. At best, Bush wanted this done by domestic Panamanian pressure, international diplomacy, or economic sanctions. Unfortunately, Noriega refused to step down. The May 7 elections and the October 3 coup attempt stimulated the administration to consider using force on Panama. Yet the administration acted alongside the OAS, pressuring the dictator with a concerted OAS solution.

Noriega rebuffed the initial diplomatic attempt by OAS envoys to persuade the dictator to resign. It was not until Venezuela introduced the Panama Resolution to the OAS on November 16 that Noriega felt isolated from other Latin American states. The overwhelming margin by which the resolution passed demonstrated to Noriega that he could not garner international support with cries of American imperialism. He stood alone. Rather than acting in the best interest of Panama, Noriega believed in his own

invincibility and declared America the enemy, publicly embarrassing the United States and President Bush.

The economic sanctions failed to drive Noriega from power. In his book, *Panama: The Whole Story*, Kevin Buckley argued these sanctions were only a postponement for a military invasion, the result Bush wanted. Yet, in conjunction with OAS diplomatic pressure, the American economic sanctions created a political and social atmosphere that gave the dictator only two options. He could have removed himself gracefully, continuing to live a luxurious life, or become more belligerent and hostile towards the United States. Noriega had numerous opportunities to step down and retire in wealth. The May elections, the September presidential changeover, or the October Giroldi coup attempt, all provided him with that opportunity. Instead, the dictator declared himself Maximum Leader of the State. Then the December 17 attacks on American military personnel, President Bush decided he no longer could rely on patience and restraint.

In *The Panamanian Problem* by Guillermo de St. Malo A. and Godfrey Harris, and the *Noriega Years* by Margaret Scranton, contend that no policy consensus existed in 1989. They failed to recognize that Bush aimed to replace the Panamanian dictatorship with a democracy through joint OAS–U.S. efforts and economic sanctions. In a letter to the hemispheric Presidents, Bush asked for their support, and for the democratic community to be “clear and united about the signals it sends when democratic institutions are threatened anywhere in the hemisphere.” He continued his plea by writing that by allowing military subversion of democratic elections, the

hemisphere only voices rhetorical opposition, and by resorting to “normal relations with an illegitimate regime, we send a dangerous signal throughout the hemisphere” that encourages “other groups and individuals hostile to elected government to take similar actions.”⁸⁶ Noriega’s increased belligerency, and the OAS’s failed attempts to remove the dictator, forced President Bush to resort to a military invasion.

In the invasion’s aftermath, the White House and Congress failed to create a plan to help the struggling country. Endara’s January 9 letter and Barletta’s memo both contained a framework for allotting economic aid to Panama. Only *after* that advice did Bush send his \$500 million aid bill to Congress. Bush relied on AID’s financial contributions while piecing together an aid bill, a strategy that failed because of Congress’ delay.

In *Panama and the United States*, Michael Conniff felt that U.S. economic aid did not pull Panama back to stability. It would not be for another year, in 1991, before Panama’s economy showed signs of recovery. Rather than U.S. aid being the catalyst, the resurrection came in the form of construction of commercial housing so that by 1992 “employment had recovered somewhat and the economy grew at a modest rate.”⁸⁷ At any rate, Conniff touched on the crucial issue when analyzing the post-invasion period. The United States did not bring Panama back to an economically stable country—only internal improvements through political stability could accomplish this goal. While the

⁸⁶ President Bush writing a letter to hemispheric Presidents, Folder: Panama (1) [OA/ID CF 01082] [4 of 7], Eric Melby Files, National Security Council.

⁸⁷ Conniff, *Panama and the United States*, p. 170.

Bush administration failed at giving sufficient help in 1990, the invasion allowed Panama the opportunity to fix their economic, social, and political problems.

Almost all books that examine the 1989 invasion failed to acknowledge Bush's actions from May 1989 to May 1990. During this year, multilateral efforts failed to remove Noriega, Bush acted rationally until removing the dictator became the best option, and Congress supported democracy for Panama. Bush and Congress viewed Noriega's removal as the ultimate objective. They wanted a democratic Panama but not at too high of a price.

On a larger scale, this trend has repeated itself. Most recently, President George W. Bush opted to remove Saddam Hussein from his Iraqi dictatorship with little consideration of the necessary future steps. Hussein became the White House's token 'bad guy' and his removal deemed necessary, but like Panama in 1989, he was removed without the necessary future planning.

In the long run, Bush's 1989 Panama invasion removed Noriega from office, put him in jail, and popularized Bush with the American public, who lost the wimp image. From May 1989 to May 1990, he shed Reagan's shadow, developed into a hemispheric leader, which prepared him for international leadership later that year—when Saddam Hussein invaded Kuwait.

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APPENDIX A

Manuel Antonio Noriega is hardly known by most Americans and those that recognize his name only recall the drug-dealing dictator of Panama. Yet a decade before the American invasion of that country, an official in the Jimmy Carter administration wrote the following letter:

December 14, 1978

Teniente Coronel Manuel Antonio Noriega
Commandante De G-2 Del Estado
Mayor de la Guardia Nactional de la Republic de Panama

Dear Colonel Noriega:

As the New Year approaches, I want you to know that the Drug Enforcement Administration very much appreciates all of the support and cooperation which you have extended to our agency during the last year.

The professionalism of your agency is well respected by us, as is your leadership.

Please know my colleagues join me in wishing you well and thanking you for the excellent efforts which have contributed substantially to the ongoing battle against drugs which the international law enforcement community is embarked upon.

My very best regards and best wishes for a very happy and successful New Year.

Sincerely,

Peter B. Bensinger
Administrator, U.S. Department of Justice
Drug Enforcement Administration⁸⁸

⁸⁸Folder: Panama [OA/ID CF 00741] [2 of 9], Nicolas Rostow Files, National Security Files, GHWBL.

APPENDIX B

10 July, 1990. State Department Summary of Assistance to Panama to Date.

United States Assistance to Panama

Summary:

The agency for International Development (AID), through the Office of Foreign Disaster Assistance (OFDA), beginning in January provided \$1.5 million to Panama for the care and feeding of over 3,000 people displaced in Panama during and after Operation "Just Cause." In February, AID "borrowed" \$32 million and \$10 million housing investment guarantees from available funds to initiate an emergency assistance program. Of this, AID has executed agreements providing \$32.625 million to the Government of Panama (GOP), and has provided \$7.638 million to date. Highly visible activities to provide housing for displaced families from the El Chorrillo area of Panama City, small business restoration, emergency employment, and restoration of public services and their activities are well underway. The Department of Justice received and disbursed \$1.2 million from this total to provide much-needed training for the new police forces. Nearly eighty percent of the \$420 million approved by the U.S. Congress in May under the "fiscal 1990 Emergency Assistance Act" is expected to be obligated in the month of July and disbursed shortly thereafter, although almost none of the funds have been expended to date. Certain delays have been the result of objections by Foreign Minister Linares. It appears these problems have now been largely overcome, and the first agreement for \$243.85 million will be signed July 3. The first tranche disbursement from package should occur shortly thereafter. It will provide funds for, inter alia, priority GOP investments in agriculture, health, and infrastructure. The funds also include \$130 million as the U.S. contribution to a Support Group to help Panama clear its arrears to international financial institutions (IFI's), thus paving the way for new lending to Panama. The funds will be channeled through the U.S. Department of the Treasury to the IFI's as part of a Support Group effort by OECD nations. A separate agreement to provide \$107.9 million for private sector reactivation credits is expected to receive final clearance shortly and is tentatively scheduled for signing on July 9. Final clearance on this agreement was deferred for a period of two weeks to permit AID to determine whether a substantial portion of the grant would be needed as a liquidity "safety net" to forestall a run on Panamanian banks and to discuss GOP mechanisms, proposed terms, and the timeframe for making credit available to the private sector. The remaining \$68.3 million will be obligated in agreements over the next few months to provide commodities and technical assistance in support of public administration, financial policy reform, private sector training, policy reform, administration of justice activities, export promotion, and natural resource conservation. The Department of

Justice received \$6.7 million from this total as soon as the money was available to continue police training activities and reimburse regional funds for monies expended in Panama. Additionally, a "Food for Progress" food commodities grant agreement for \$4.5 million will be signed in July."

U.S. Assistance to Panama:

Foreign Disaster Relief Efforts:

Total expenditures to date: \$1.5 million. Status: This project has provided temporary shelter and food for 3,111 people from the El Chorrillo area who were left homeless after Operation "Just Cause." The Red Cross is responsible for day-to-day management of the facilities and food, with funds and oversight from AID. Funds for this program were drawn from the Office of Foreign Disaster Assistance (OFDA) budget.

Emergency Assistance Package of February 1990

Total amount committed: \$32 million, \$10 million HIG
 Agreements executed: \$32.85 million
 Total expenditures to date: \$7.638 million

Elements

A) Rehabilitation of the "24 de Diciembre" apartment building complex in El Chorrillo

Total amount committed: \$2.5 million
 Total expenditures to date: \$1.7 million
 Expected completion date, July 1990; October 1990

Status: Reconstruction work on the "24 de Diciembre" apartment complex to provide housing for 450 families will be completed on July 3 and the buildings will be turned over to the Government of Panama. The first 45-60 families are expected to move into the building on July 6. Work on eight other buildings is underway by the three Panamanian firms contracted by the Minister of Housing, and should be completed in October 1990.

B) Small Business Restoration

Total amount committed: \$5.0 million
 Total expenditures to date: \$2.01 million

Expected Completion Date, January 1991

Status: Money is being channeled through a private, non-profit organization. Some 200-300 businesses looted in the aftermath of Operation "Just Cause" will benefit; 176 loans totaling \$2.0 million have been approved to date.

C) New Housing for Chorrillo Displaced Persons

Total amount committed: \$13.265 million

Total expenditures to date: \$1.787 million

Expected Completion Date, January 1991

Status: Up to 1,800 families will receive home purchase vouchers for \$6,500 each to build new homes or purchase existing homes. Qualifying families who wish to purchase homes for over \$6,500 will have access to housing investment guaranty resources. To date, 1,200 passbook accounts have been issued, and some 200 houses are already in varying stages of construction.

D) Emergency Employment

Total amount committed: \$7.0 million

Total expenditures to date: \$0.771 million

Expected Completion Date, January 1991

Status: The Ministries of Education and Public Works have begun using private Panamanian firms to hire as many as 2,800 people to carry out repairs to basic infrastructure such as public schools, street repair, storm drainage cleaning, and natural resource conservation activities.

E) Restoration of Public Services

Total amount committed: \$4.5 million

Total expenditures to date: \$0.080 million

Expected Completion Date, January 1991

Status: Technical assistance, equipment, spare parts and essential commodities are being provided as requested by Ministry of Planning and Economic Policy. Expenditures for this component are expected to accelerate substantially in the next several weeks as the GOP approves the final specifications already prepared.

F) Police Training

Total amount committed: \$1.2 million

Total Expenditures to date: \$1.2 million

Completed

Status: These funds were spent by the International Criminal Investigative Training Assistance Program (ICITAP) of the Department of Justice, for technical assistance and training for the national police and technical judicial police.

-Supplemental Assistance Package of May 1990
(Fiscal 1990 Dire Emergency Assistance Act)

Elements:

A) Economic Recovery Program

1) Normalization of Relations with IFIS

Total amount planned: \$130 million

Total expenditures to date: None

Expected Completion Date: early summer/early fall

Status: The disbursement of the U.S. contribution will not occur until a \$130 million contribution from other donors is assured and a Treasury bridge loan of \$150 million has been arranged. (Panama has already set aside \$130 million of its own as its contribution to the Support Group effort.) Treasury is actively contacting other potential donors to convene a support Group and hopes to obtain commitments from other countries on their contributions by mid-July. The arrears clearing is expected to occur in late summer or early fall.

2) Public Investment Program

Total amount planned: \$113.85 million

Total expenditures to date: None

Expected completion date:

First tranche (\$29.85 million) early July

Second tranche (\$42 million) fall 1990

Third tranche (\$42 million) Spring 1991

Status: This component aimed at providing budget support to the GOP for priority investments in agriculture, education, health, infrastructure, and others, was approved by AID in early June 1990. Conditions precedent to disbursement relating to economic policy reforms were negotiated and informally agreed with GOP officials prior to being sent to Washington for final approval. An interagency group in Washington amended the program approval document to better track with language from the Congressional Conference Report recommendation. (The Congress urged Panama to complete a Kerry Amendment agreement (re money laundering) with the U.S. and make steady progress toward a mutual legal assistance agreement (MLAA) before receiving aid). Foreign Minister Linares objected to the "new" conditionality and delayed signing of the program approval document by over two weeks. Ambassador Hinton repeatedly appealed to President Endara and Minister of Planning and Vice President Billy Ford to try to reach prompt agreement while at the same time protecting a position of importance to the U.S. Foreign Minister Linares' objections have now been overruled,

and the grant agreement is scheduled to be signed the morning of Tuesday, July 3. Disbursement of the initial tranche is expected soon thereafter. The program has been split into three tranches for two reasons. First, because the grant will become available late in the Panamanian fiscal year, the full amount of funds cannot be easily absorbed into the 1990 investment activities. Second, the policy reforms needed to assure economic growth in the future will take time to be implemented and for the disbursements to track with GOP performance. Also, the Panamanians will need time to comply with the conditions established by the U.S. Congress in the conference report of the Appropriations Committees.

Note: The AID program approval document for disbursement of these funds will be signed on July 3.

B) Private Sector Reactivation Credit

Total amount planned: \$107.9 million

Total expenditures to date: None

Expected Completion Date: ongoing to September 1991

Status: This project, designed to provide \$107.9 million to assist in the reactivation of the country's private productive sector, was initially reviewed by an inter-agency group on June 15, 1990. Approval of the proposed design was deferred for a period of two weeks to permit AID to determine whether a substantial portion of the grant would be needed as a liquidity "safety net" to forestall a run on Panamanian banks, and to discuss GOP mechanisms, proposed terms, and a timeframe for making credit available to the private sector. These discussions, as well as consultations with the Panamanian private sector, have now been completed. AID is expected to approve the final project design this week. The agreement is tentatively scheduled to be signed July 9. Obligation of the funds should occur around mid-July and, assuming rapid GOP compliance with policy conditionality, funds would be released shortly thereafter.

C) Project Assistance and Other

Total Amount Planned: \$68.0 million

Total Expenditures to date: \$2.0 million

Expected completion date: ongoing through FY 1991

- 1) Public Administration and Policy Reform: \$17.6 million
 - a. Judicial and penal reform: \$8.0 million
 - b. Financial management reform: \$6.0 million
 - c. Economic policy reform: \$3.6 million
- 2) Environmental Protection, Canal Watershed: \$10.0 million
- 3) Human Resources Development: \$19.0 million

- a. CAPS scholarship program: \$6.0 million
 - b. Rural youth agricultural training: \$.05 million
 - c. Private sector productivity training: \$0.5 million
 - d. Improvement of police services: \$12.0 million
- 4) Democratic Initiatives: \$1.5 million
 - a. Professionalism in journalism: \$0.5 million
 - b. Electoral Tribunal: \$0.5 million
 - c. Other: \$0.5 million
 - 5) Export and investment promotion: \$3.5 million
 - 6) Chorrillo housing amendment: \$3.0 million
 - 7) Reimbursement to ICITAP-police training: \$1.2 million
 - 8) Reimbursement to OFDA-repair apartments: \$2.5 million
 - 9) OFDA-Care for displaced 6/90-3/91: \$1.9 million
 - 10) USIA-Training and exchange programs: \$0.5 million
 - 11) Peace Corps-natural resource management:\$0.1 million
 - 12) AIFLD-Labor development program:\$0.5 million
 - 13) USAID/Panama operating expense budget: \$6.0 million
 - 14) Project development and support: \$0.7 million

Status: Upon the signature of the major components for the economic recovery program and private sector reactivation, AID and other USG agencies will prepare the above projects with the GOP. Most are expected to be designed and initiated over the next four months. An urgent need existed for continuation of police training activities throughout the design and approval period. Accordingly, \$5.5 million of the \$12 million for police training was provided immediately to the Department of Justice for such activities. Of the \$5.5 million, \$2 million has already been obligated.

Food for Progress

AID expects to sign the first "Food for Progress" agreement (\$4.5 million) with Panama soon, which will provide vegetable oil and pre-cut wood to Panama this fiscal year.⁸⁹

⁸⁹ State Department Summary of Assistance to Panama to Date 10 July, 1990, Folder: Panama (General) May - August [OA/ID CF 00731] [1 of 4], William T. Pryce Files, National Security Council, Bush Presidential Records: White House Staff and Office Files, GHWBL.

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