



# Integrated Country Strategy

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## Panama

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## 1. Chief of Mission Priorities

The Country Team has four priorities in advancing U.S. national interests in Panama:

- Protect American citizen and business communities.
- Enhance democratic institutions and stability.
- Build law enforcement capacity and sustain effective cooperation.
- Expand economic opportunity and transparency through implementation of the Trade Promotion Agreement and promotion of U.S. commercial interests.

Pursuing these objectives serves U.S. interests in several ways. Besides concretely protecting Americans residing or doing business in Panama, fostering rule-of-law and economic prosperity engender a more stable neighbor and regional partner. Panama is also a major regional transit hub; identifying and mitigating criminals and criminal activity at a distance – before bad actors and activities reach our borders – strengthens U.S. security. These priorities are also mutually reinforcing and the political, economic, and social conditions exist in Panama at this moment to move our agenda forward.

Panama is a paradox: A rich and fast-growing country saddled with weak institutions and with many poor citizens left behind. Development of Panama's political institutions has not kept pace with economic growth. Given that 28 years have passed since Operation Just Cause, the 1989 U.S. intervention to remove General Manuel Noriega, and given the rapid growth of Panama's economy in recent years, it is reasonable to ask why political growth has not kept pace. More to the point: what, if anything, can the United States do to accelerate positive change?

Over the long-term, Panama will benefit from a stronger civil society and a more independent and professional press, both essential contributors to the success of the country's democratic system, which has few checks and balances on the powerful Executive Branch. We should continue to build strong and enduring institutional relationships with Panamanian influencers, consolidating and shaping these fundamental building blocks of democracy. We target our assistance programs to strengthen weak and developing institutions, include marginalized social actors, and increase the capacity of the Government of Panama (GOP) in key areas, especially the security sector.

We have already seen how programs, such as our support for Panama's transition to the accusatory legal system, can have direct and positive effects on quicker and more effective justice for the populace. This transition has brought greater transparency to the legal system.

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Our targeted cooperation with the GOP's *Programa Panamá Bilingüe* and a rewrite of the K-6 English curriculum has created new opportunities for underprivileged groups largely excluded from fully participating in Panamanian civil society. We should hone in on opportunities to promote a greater understanding of the United States by educating a new class of English-speakers, capable of working in a services-based, international economy, and better prepared to work with U.S. counterparts on law enforcement and building democracy.

President Juan Carlos Varela is in the fifth and final year of his administration and under the Panamanian constitution is unable to seek re-election. Panama's national elections in 2019 bring opportunities and pitfalls in the realm of political change. The shock of the publication in 2016 of the "Panama Papers" combined with the sanctioning for money-laundering by the U.S. Department of Treasury of a prominent Panamanian family that employed almost 5,000 people throughout its various offshoot businesses and the revelations related to tens of millions of dollars paid by Odebrecht to Panamanian officials will make corruption one of the key issues of the presidential campaign. The perception of unfairness in the sanctions designation relative to the light criminal sentencing and lack of an asset forfeiture order from the court in Miami damaged our ability to maintain trust with senior levels of the Panamanian government. Doors were not completely closed, but senior leaders were more likely to disregard our counsel. All of the major presidential candidates will court us and we should have an opportunity to reset relations with the new government that takes power on July 1, 2019. On the negative side, changes in administrations in Panama typically bring about wholesale changes in the governmental bureaucracy through the spoils system, which will reduce institutional knowledge and continuity, and could set back our efforts to help strengthen institutions.

Transparency International's 2017 Corruption Perception Index ranked Panama 96 out of the 180 countries surveyed with a perceived level of public corruption of 37 out of 100 (Note: the higher the score, the less perceived corruption). Public corruption is the biggest single obstacle to U.S. interests, and its tentacles reach all areas of the relationship. The extradition of Panama's last president, related to tens of millions of allegedly misappropriated funds, has dominated the five-year term of Juan Carlos Varela. As revelations over Odebrecht's political payments continue, as well as smaller disbursements by political parties to curry favor with the electorate, voters are losing confidence in the political and business elite that have, with this glaring exception, generally managed the country's affairs well. Corruption has the potential to destabilize the political order, is a vector for criminal elements to abuse Panama's geography and financial presence, and creates opportunity for our strategic competitors – especially China – to elbow out fair competition.

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Panama's rapid economic growth and strong bilateral ties to the United States provide many opportunities to expand trade and investment, and to continue advancements in consolidating democratic institutions. This consolidation of Panama's democratic institutions is the best long-term guarantee of strong bilateral ties and the enduring security of the Panama Canal and its port infrastructure.

A new development that will have long-term implications for U.S. interests and our Mission's engagement in Panama is China's growing influence here. In 2017, Panama unexpectedly established diplomatic relations with China, and the two countries have been on a fast track to enhance bilateral cooperation ever since. This new reality has implications for all of our ICS goals. Insulating Panama from external coercion and China's attempts to forge a new sphere of influence in Panamanian infrastructure, democratic institutions, security services, and the commercial sector will be vital to U.S. interests for many years to come. Our success in doing so in Panama will likely have regional implications for the same. As such, we will use our resources to protect and advance a rule-based order in Panama to guard against China's threat to human rights, anti-corruption measures and respect for democratic norms.

The entry into force of the Free Trade Agreement between the United States and Panama provides an opportunity to simultaneously strengthen Panamanian institutions and advance our goal of supporting U.S. businesses. Our mission will continue focusing on demanding a level playing field in government procurement, reducing government corruption, and unearthing opportunities for U.S. firms to win new business. Achieving greater transparency would stimulate confidence and improve the business climate for U.S. firms. With its twenty-nine agencies and offices, the embassy is uniquely positioned to guide new U.S. companies around the pitfalls in exporting to Panama, and to advocate for those companies already present in the market. The FTA is also a vehicle to focus attention on labor and environmental issues, and to build channels of communication between the NGOs engaged on these issues and the Government of Panama.

Panama's underdeveloped political system, lacking public educational system, and the structure of its economy have combined to create one of the most unequal distributions of national income in the hemisphere, with a Gini Coefficient of 0.5 (2016). Impoverished groups and regions, which have lagged in sharing in Panama's economic success, have begun to demonstrate their displeasure and/or turn to crime. Gangs are an attractive alternative to undereducated young people left out of Panama's economic growth, which has been at an average of six percent GDP over the last decade. Panama's GDP growth will continue to decline

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as the government winds down massive infrastructure spending programs, thereby exacerbating inequality and unemployment.

U.S. programs and attention are insufficient on their own to change this trend but can serve as catalysts for greater domestic awareness and remediation. With the departure of USAID from Panama in 2012, it is a challenge for us to maintain the role of catalyst. Thanks to economic growth, however, the Government of Panama has resources, which it can bring to bear, as does the private sector. Our heightened emphasis on corporate social responsibility and entrepreneurship aims to spur greater efforts by private companies—U.S. and Panamanian—to begin to bridge the gulf in wealth and education between Panama’s upper and lower classes.

Panama’s geographic location and business model make it a crossroads for international trade and finance, both licit and illicit. Our assistance has been effective in helping the Government of Panama extend services and reassert sovereignty over the Darien region, a sixty mile undeveloped area along the border with Colombia, reducing the influence of drug trafficking organizations. Regional instability, in Nicaragua and Venezuela, allows for the smuggling and trafficking of not only drugs, but also of weapons and illicit funds, in addition to increased migration. The uptick in undocumented migration from outside of the Western Hemisphere over the past few years created new challenges for Panamanian security forces. INL helicopters have helped these security forces multiply their presence in the Darien, providing the aerial transportation required to maintain three permanently manned joint border posts with Colombia as well as numerous other posts along choke points for migrant and drug smugglers. Law enforcement cooperation in the interdiction of illicit trade, principally drug and migrant trafficking, is excellent. To sustain this cooperation, we must take a broad view of security, promoting programs that improve Panama’s capacity to interdict drugs while remaining sensitive to Panamanian concerns that go back to Operation Just Cause that we wish to “take back” the canal. Panama remains justifiably proud of its decision to demilitarize following Just Cause and our support for Panama’s security forces must be accomplished without giving rise to the perception that we seek to remilitarize these forces. In our cooperative programs, we also must continue pressuring Panama to deport the most dangerous migrants crossing through its territory.

With limited resources, we will focus our interdiction assistance on increasing Panama’s ability to respond in its territorial and riverine waters rather than further out to sea. We will heighten our emphasis on improving controls on money laundering vulnerabilities in the financial and trade sectors, including the Colon Free Zone, the largest free trade zone in the Western Hemisphere, and a hotbed for illicit finance. Our incipient agreement on the sharing of assets

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with Panama from a major money laundering case will facilitate advances in this area if there is the requisite political will in Panama. We will look for new ways to promote institutional reform in the security sector to better plan and allocate resources. We will continue making it clear to our Panamanian interlocutors that China's entry into security-related areas, especially technology, threatens our continued ability to provide security assistance.

The American resident community in Panama is large (an estimated 60,000 with more than 10,000 U.S. visitors estimated at any one time) and growing rapidly. The resident American community has been negatively affected by rising crime rates and the same lack of transparency in commercial and judicial matters that hurts the rest of the country; our citizens in Panama stand to benefit from the success of our law enforcement and legal system cooperation. Panama is rated as one of the most attractive locations in the world for retirement so we expect the American community to continue to grow. Through our consular section's increased outreach to local officials and community leaders, the embassy can strengthen the ties between the American community and Panamanian society, to mutual benefit.

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## 2. Mission Strategic Framework

### **Mission Goal 1: Make Our Extended Borders More Secure**

**Mission Objective 1.1:** Cooperate with Panamanian security forces to strengthen and expand their operational effectiveness to combat illicit trafficking in and around Panama, improve interdiction, prevent and prosecute crime, collaborate with regional partners, protect community needs, and strengthen its criminal justice institutions ability to combat TCOs.

**Mission Objective 1.2:** Help strengthen security institutions in Panama to facilitate the effective interdiction of illicit traffic and combatting of TCOs and Transnational Terrorist Organizations by increasing capacity, transparency, and professionalization of security and law enforcement institutions.

**Mission Objective 1.3:** Support Panama's efforts to build capacity to manage migration, combat human smuggling and trafficking in persons, identify and prevent travel to the U.S. of individuals with criminal, terrorist, or other illegitimate intentions.

### **Mission Goal 2: Protect the American Citizen and Business Communities**

**Mission Objective 2.1:** Protect American citizens, American businesses, and American interests in Panama.

**Mission Objective 2.2:** Promote access for U.S. business, education, and cultural exchange.

### **Mission Goal 3: Help Make Panamanian Institutions More Resilient, Transparent and Democratic**

**Mission Objective 3.1:** Support Panama's expansion of mechanisms for promoting transparent and independent institutions, while limiting official corruption and responding responsibly in identified cases of concern.

**Mission Objective 3.2:** Support civil society and an independent media to strengthen democratic institutions that can serve as check and balances.

### **Mission Goal 4: Promote More Open and Sustainable Economic Growth**

**Mission Objective 4.1:** Promote improved business climate, reduced inequality, and more sustainable development by encouraging Panama to focus on strengthening

economic institutions, including improving bilateral trade, transparency, and environmental protection.

**Mission Objective 4.2:** Encourage Panama to play a constructive role, in concert with the U.S. Strategy for Engagement in Central America, in enhancing opportunity and economic interconnectivity in Central America.

**Mission Goal 5: Protect U.S. National Interests in Panama in the Face of Growing Chinese Influence**

**Mission Objective 5.1:** Protect U.S. national interests in Panama in the face of growing Chinese influence

**Management Objective 1:** Reallocate spaces throughout the Embassy compound for higher efficiency and to accommodate changes in USG personnel levels as needed to further mission objectives.

### 3. Mission Goals and Objectives

#### **Mission Goal 1: Make Our Borders More Secure**

**Description and Linkages:** Because of its location, extensive and thinly populated coastline, and well-developed transportation infrastructure, Panama is a crossroad for drugs heading north and cash and weapons flowing south. It is also a point of convergence and arrival for migration and human smuggling to and through the Americas. A secure Panama will contribute to other Mission goals, including strengthening of democratic institutions, socio-economic development, and sustained growth. Helping Panama secure its borders helps keep ours secure. Doing so also supports the INL Bureau Strategy and Strategic Framework, which includes the goals of countering narcotics trafficking, strengthening the criminal justice sector, and stemming criminal network activity.

**Mission Objective 1.1: Cooperate with Panamanian security forces to strengthen and expand their operational effectiveness to combat illicit trafficking in and around Panama, improve interdiction, prevent and prosecute crime, collaborate with regional partners, protect community needs, and strengthen its criminal justice institutions ability to combat TCOs.**

**Justification:** Panama is the number-one transit country for cocaine, with over 76 metric tons of narcotics seized in the last two years, the highest amount in the transit zone. Panama represents the “neck of the funnel” of drugs transiting northward from Andean production countries, and cash and weapons flowing south. The U.S. and Panamanian governments cooperate to interdict maritime smuggling entities, utilizing the U.S.-Panama Supplementary Arrangement on U.S. Coast Guard Assistance, known as the Salas-Becker Agreement. Given Panama’s importance in interdiction efforts, we need to help Panama achieve and maintain a high level of operational effectiveness in interdiction. The GOP and the USG also cooperate on regional operations focused on illicit trafficking. Finally, the ability of the U.S. to extradite third country nationals from Panama has helped both countries combat organized crime. Despite Panama’s successes in interdiction, the legal basis upon which it conducts interdictions remains open to interpretation, and that vagueness continues to present difficulties for Panamanian authorities. Panama must establish a legal interdiction basis not solely focused on elements of national security, but which also recognizes Panama’s role in regional and global security.

**Mission Objective 1.2: Help strengthen security institutions in Panama to facilitate the effective interdiction of illicit traffic and combatting of TCOs and Transnational Terrorist Organizations by increasing capacity, transparency, and professionalization of security and law enforcement institutions.**

**Justification:** Panama remains a crossroads for both licit and illicit trade, because of its location, extensive and sparsely populated coastline, and well-developed transportation infrastructure associated with the Panama Canal. TCOs move illegal contraband through Panama’s remote

Darién region, its coastline and littoral zones, its four major containerized seaports, international airports, and along the Pan-American Highway. TCO influence erodes citizen security and government authority. Central America Regional Security Initiative (CARSI) and Department of Defense programs help Panama meet these challenges. This assistance, subdivided into training, reform, and technical infrastructure programs, will augment GOP capacity and border control while providing safety to both Panamanian citizens and U.S. citizens in Panama. A secure Panama will contribute to other Mission goals, including strengthening of democratic institutions, socio-economic development, and sustained growth.

**Mission Objective 1.3: Support Panama’s efforts to build capacity to manage migration, combat human smuggling and trafficking in persons, identify and prevent travel to the U.S. of individuals with criminal, terrorist, or other illegitimate intentions.**

**Justification:** Panama’s strategic location and transportation logistics make it a natural hub and choke point for migration to and through the Americas. Maintaining security and projecting sovereignty in the undeveloped Darién region, Panama’s border with Colombia, is a significant challenge. Economic migrants and human smugglers make use of Panama’s location and relatively unregulated frontier to make Panama a major point of transit. For many, the final destination is the United States. A growing number of irregular migrants and trafficking victims stretch Panama’s capacity to manage the flow properly — including identifying victims and providing them with care, and identifying and preventing the transit of migrants of special concern.

**Mission Goal 2: Protect the American Citizen and Business Communities**

**Description and Linkages:** Protecting American citizen and business communities is at the core of our work and presence overseas. Embassy Panama is working with the GOP to ensure Panama has the best standard operating practices for interagency collaboration and communication, which may be activated in times of need. Embassy Panama is also determined to ensure U.S. business interests are protected and that they have a level playing field on which to compete. This goal also supports the National Export Initiative.

**Mission Objective 2.1: Protect American citizens, American businesses, and American interests in Panama.**

**Justification:** Protecting American citizens, American businesses, and American interests is at the core of every USG Mission. In the case of disaster relief or any other extenuating circumstance, all mission personnel is expected to safeguard and promote American interests and provide American citizen services. Embassy Panama is working with the GOP to ensure that Panama has the best operating systems in terms of interagency collaboration and communication that can be activated in times of need. It is at the best interest of U.S. businesses and American citizens that the Government of Panama is able to provide justice for and ensure safety of all within its borders. At the same time, Embassy Panama is working

arduously to ensure that U.S. business interests are protected and that they have a fair playing field on which they can compete.

**Mission Objective 2.2: Promote access for U.S. business, education, and cultural exchange.**

**Justification:** Panama has traditionally not based procurements on bottom-up needs assessments. Projects carried out are sometimes for political gain and do not necessarily correlate with what the population needs. This hinders the ability of American, domestic and international companies to access fair grounds for competition and investment. It also affects the human and economic development of the Panamanian people.

**Mission Goal 3: Help Make Panamanian Institutions More Resilient, Transparent and Democratic**

**Description and Linkages:** The strengthening of democratic institutions is at the core of the U.S. Strategy for Central America which includes strong governance as a key component for a stable region. By strengthening local institutions, including the justice system and media independence, we increase their ability to withstand corruption which almost always undercuts our interests. This will also make it more difficult for external actors to influence decisions in a way that runs counter to U.S. interests.

**Mission Objective 3.1: Support Panama's expansion of mechanisms for promoting transparent and independent institutions, while limiting official corruption and responding responsibly in identified cases of concern.**

**Justification:** In spite of that fact that Panama is a willing, and integral, partner on key bilateral priorities, many of Panama's institutions are weak and vulnerable to corruption. The lack of a well-established and developed civil service career system for apolitical professional government employees, coupled with the reliance on political appointees to fill the majority of mid-level or higher positions, fosters a culture of political favoritism. Government and civil society members have stressed that the independence of the judiciary has diminished significantly, and that judges, and the institution as a whole, are subject to political pressure, principally from the executive branch. The Embassy has historically benefitted from excellent access to Panamanian officials at all levels, and desires to maintain that access and influence to ensure continuity and progress on our goals and objectives.

**Mission Objective 3.2: Support civil society and an independent media to strengthen democratic institutions that can serve as check and balances.**

**Justification:** The Embassy is firmly committed to the development and institutionalization of a vibrant Panamanian civil society. However, Panama's civil society suffers from significant marginalization and is largely unable to leverage its influence to spur governmental action towards transparency, democratic institutionalization, and accountability. Civil society

organizations suffer from weak institutional development and minimal funding, significantly limiting their efforts. Moreover, the majority of civil society organizations are lightning rods for political controversy, which hinders their ability to establish effective, long-term partnerships with the government.

The GOP and political parties have targeted media outlets, pressuring them to provide less than objective accounts of events and to engage in poor media practices. Media outlets require external support to build their commitment to providing fair and balanced media coverage, and resisting undue pressure. Social media's rise in popularity is due, in part, to perceptions of bias within dominant media outlets. The Embassy, therefore, seeks to leverage the positive view of the United States shared by the majority of Panamanians to advocate for increased press freedoms and access. We will also partner with the GOP to highlight the benefits of an independent media and publicize their critical role in the maintenance of a healthy democracy.

#### **Mission Goal 4: Promote More Open and Sustainable Economic Growth**

**Description and Linkages:** Despite a steady GDP and a relatively low unemployment rate, inconsistent application of the law, lack of public consultation on major economic policy decisions, and limited transparency hinder Panama's attractiveness for investment and increase social unrest. Panama's posture on regional trade and investment — as well as investments in regional infrastructure — can significantly enhance the economic prospects of its northern neighbors. The Strategy for Central America also identifies the creation of economic opportunity as an effective way to curbing transnational criminal activity such as narcotics trafficking and illicit migration.

**Mission Objective 4.1: Promote improved business climate, reduced inequality, and more sustainable development by encouraging Panama to focus on strengthening economic institutions, including improving bilateral trade, transparency, and environmental protection.**

**Justification:** Panama has enjoyed some of the highest economic growth in Latin America in the past decade, growth that has been accompanied by low unemployment among workers in the formal economy and the achievement of an investment grade rating for Panama's sovereign bonds. Most observers predict continued strong growth in the coming years due to sound and consistent macro-economic policies, an ambitious program of infrastructure investment, and Panama's increasing success leveraging its geographic position, and the Panama Canal, to transform itself into a logistical and services hub for the region.

Weak institutions hinder efforts to protect Panama's rich natural heritage, which supplies the Panama Canal with water, serves as a carbon sink, sustains the livelihoods of indigenous and Afro-Panamanian communities, and serves as a home for multiple unique species.

Weak institutions also harm U.S. businesses, investors, and residents. Inconsistent application of the law, lack of public consultation on major economic policy decisions, and limited

transparency hinder Panama's attractiveness for investment and increase social unrest. Some U.S. businesses have cited the lack of transparency as the reason not to bid on government procurements. Additionally, both private and commercial U.S. investors are embroiled in property disputes stemming from the lack of land records in Panama and inadequate government administration of the titling system. The implementation of the TPA offers tools to help address some of these concerns, given its requirements for criminalization of bribery, greater procedural transparency in government bids, and high standards for protection of investments. These same relatively weak institutions must implement and enforce TPA provisions, necessitating significant follow-up. The U.S.-Panama TPA will continue to give U.S. exporters a slight competitive advantage, but Panama will increasingly feel pressure to protect local producers as duties ease on sensitive agricultural products. A strong civil society and vigilant press, along with better-trained and transparent government institutions, will reduce these barriers to investments and economic growth.

**Mission Objective 4.2: Encourage Panama to play a constructive role, in concert with the U.S. Strategy for Engagement in Central America, in enhancing opportunity and economic interconnectivity in Central America.**

**Justification:** Panama's strong economy, importance in hemispheric trade, strategic location, and logistics expertise provide an excellent platform to assist other Central American states in strengthening their economics and providing opportunities to their citizens. Panama's government rightly views itself as a regional leader, and the president notes that the country has the financial and human resources to assist — and a moral duty to do so.

The U.S. Strategy for Engagement in Central America provides a holistic framework to address the underlying causes of violence, instability, and migration in the Northern Tier countries. Panama can provide expertise and technical assistance and coordination within this framework. Panama is active in regional Organization of American States (OAS) working groups. The current Secretary General for the Secretariat for Central American Economic Integration (SIECA) is Panamanian. Panama's robust economy and strong growth rate attracts investment and migrants. Panama's posture on regional trade and investment — as well as investments in regional infrastructure — can significantly enhance the economic prospects of its northern neighbors.

**Mission Goal 5: Protect U.S. National Interests in Panama in the Face of Growing Chinese Influence**

**Description and Linkages:** The National Security Strategy identifies China as the United States' top competitor. As highlighted in the previous four Mission goals and corresponding with the Strategy for Central America, Embassy Panama is committed to protecting U.S. national interests in Panama in terms of security, economy, and democratic institutions in the face of growing Chinese influence. We are working arduously to remain Panama's partner of choice,

ensure a level playing field for U.S. businesses to compete, and strengthen democratic institutions by combatting corruption and promoting transparency.

**Mission Objective 5.1: Protect U.S. national interests in Panama in the face of growing Chinese influence.**

**Justification:** The GOP switched recognition from the Republic of China to the People's Republic of China in June 2017. In their first year of diplomatic relations, the PRC made significant advances in the political, economic, and social spheres of Panama. It is within the utmost interest to the U.S. government that we preserve the influence that we have in Panama, in order to support our other Mission goals, and especially to protect the neutrality and uninterrupted operations of the Canal.

## 4. Management Objectives

**Management Objective 1:Reallocate spaces throughout the Embassy compound for higher efficiency and to accommodate for changes in USG personnel levels as needed to further mission objectives.**

**Justification:** Since the design and construction of the current embassy compound, the Mission's interagency community has grown by 40 percent. The addition of more agencies and personnel led to the reconfiguration of spaces, combining disparate agencies into established offices, and overall overfilling of the buildings. We have begun simple reconfigurations and space allocations, but we need the support of a full space-planning team from Overseas Building Operations (OBO) to establish the most space efficient configuration of existing structures. Additionally, many reconfiguration projects require OBO design, permitting, and potentially contracting. Their involvement in space planning will assist with this process and ensure fully compliant and well-utilized spaces.