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ECONOMIC SANCTIONS AGAINST THE REPUBLIC OF PANAMA

BY

COLONEL KAY B. WITT, SC

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12 March 1990

U.S. ARMY WAR COLLEGE, CARLISLE BARRACKS, PA 17013-5050
Economic sanctions are one of the tools of diplomacy. They are used to persuade another government to change its behavior or policy. In the vast majority of cases economic sanctions are not an effective means of persuasion. There are notable exceptions, but they are the most predictable because of the special conditions under which they have been used. In the case of the US economic sanctions against Panama from 1987-1989, the outcome was predictable. The fragile and failing economy of Panama would be devastated.
sanctions were ineffective against the real target -- the de facto ruler of the country, General Manuel Antonio Noriega and the Panamanian Defense Forces. He had risen to power through a long and calculated career of corruption, deceit and betrayal of his fellow officers and his countrymen. His enormous wealth was the result of graft, drug trafficking, and other illicit means. His malevolent empire affected every facet of Panamanian life through either the military regime or the government-sponsored political party, both of which he totally controlled. In June of 1987 formal accusations of wrongdoing were leveled against him by his recently retired military deputy. As the people demonstrated against his regime, his rule grew more oppressive. Finally, after his sponsored candidate lost the May 1989 elections, which he subsequently annulled, the US imposed harsher economic sanctions. The overall goal was the removal of Noriega and the establishment of democratic rule for Panama. The sanctions were doomed to failure from the beginning. Other means were eventually necessary to remove Noriega and seat the rightful winners of the May 1989 elections.
ECONOMIC SANCTIONS AGAINST
THE REPUBLIC OF PANAMA

AN INDIVIDUAL STUDY PROJECT

by

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U.S. Army War College
Carlisle Barracks, Pennsylvania 17013
12 March 1990
ABSTRACT

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Economic sanctions are one of the tools of diplomacy. They are used to persuade another government to change its behavior or policy. In the vast majority of cases economic sanctions are not an effective means of persuasion. There are notable exceptions, but they are the most predictable because of the special conditions under which they have been used. In the case of the US economic sanctions against Panama from 1987 - 1989, the outcome was predictable. The fragile and failing economy of Panama would be devastated. The sanctions were ineffective against the real target -- the de facto ruler of the country, General Manuel Antonio Noriega and the Panamanian Defense Forces. He had risen to power through a long and calculated career of corruption, deceit and betrayal of his fellow officers and his countrymen. His enormous wealth was the result of graft, drug trafficking, and other illicit means. His malevolent empire affected every facet of Panamanian life through either the military regime or the government-sponsored political party, both of which he totally controlled. In June, 1987, formal accusations of wrongdoing were leveled against him by his recently retired military deputy. As the people demonstrated against his regime, his rule grew more oppressive. Finally, after his sponsored candidate lost the May 1989 elections, which he subsequently annulled, the US imposed harsher economic sanctions. The overall goal was the removal of Noriega and the establishment of democratic rule for Panama. The sanctions were doomed to failure from the beginning. Other means were eventually necessary to remove Noriega and seat the rightful winners of the May 1989 elections.
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ECONOMIC SANCTIONS AGAINST
THE REPUBLIC OF PANAMA

CHAPTER I
INTRODUCTION

In securing American policy objectives in the competitive
international arena the integrated application of all four "elements
of power" is essential. These elements of power are: political,
economic, socio-psychological, and military. The element of military
power can be further divided into non-violent and violent
applications. In its attempts to dislodge General Manuel Antonio
Noriega from his role as de-facto ruler of Panama, the United States
used all four of these elements of power from June 1987 through
December 1989. They were used with varying intensity,
sophistication, and resolve -- producing predictably poor results.

This paper examines the use of one of those elements -- economic
power. A brief history of economic sanctions will review reasons for
the use of sanctions and analyze the track record since 1915. Some
background information will explain why these measures seemed
appropriate in Panama. We will discuss the specific terms of the
sanctions to reveal their relationship with stated and implied US
goals. The overall effectiveness of the sanctions will be contrasted
with their actual effect on several segments of Panama's economy. We
will discuss what role the sanctions played in the eventual fall of
Noriega's corrupt empire. In the final chapter the lessons learned
will compare the actions in Panama with generally accepted guidelines
for the use of economic sanctions.
DEFINITIONS AND HISTORY OF ECONOMIC SANCTIONS

Economic sanctions are coercive policies or restrictions placed on one country by another or a group of countries. Generally they have one or more of the following goals:

-- To cause a modest change in the policies of a country or government.
-- To destabilize the target government.
-- To disrupt military adventurism.
-- To impair the military potential of a given country.
-- To cause major changes in the policies of the target country.¹

Economic sanctions have been a weapon in the diplomatic arsenal since the time of ancient Greece. Pericles' Megarian decree enacted in 432 BC, for example, played a major role in triggering the Peloponnesian War between Athens and Sparta.² Most examples of economic sanctions before World War I are associated with warfare. Only after this war did world leaders consider that sanctions might be substituted for armed conflict in some situations. In the years following World War II, the use of sanctions usually had some military implication. Dampening military adventurism and causing the withdrawal of troops from a border skirmish are examples of sanctions during this period. In more recent times sanctions have been used to help achieve foreign policy goals not necessarily associated with martial action. The "human rights" cause of the mid-1970s saw many economic and military assistance packages reduced for countries perceived to be human rights violators, to include many countries in Latin America.
The use of sanctions increased markedly in the post-war era, and became somewhat cyclical as shown in Chart 1 (page 4). Sanctions are one of the tools of diplomacy, an arrow in the diplomat's quiver to be used against a target nation. The willingness to use sanctions announces that the "archer" nation is willing to "loose the arrow" and interfere in the internal affairs of the target country.4

There are several possible motives for the imposition of sanctions. The United States has frequently imposed sanctions as a "demonstration of resolve". Even when it is unlikely that the behavior of the target nation will be changed, it may be important for the US to show its opposition to a policy or action of another nation. In these cases inaction could be interpreted as the inability or unwillingness to act on the part of the US, and foster loss of confidence by the domestic public in the government. The payoff for sanctions thus motivated is difficult to calculate, but the psychological impact of stating a strong position should not be underestimated. A parallel can be drawn between the use of sanctions and the three basic purposes of criminal law: to punish, to deter, and to rehabilitate.5 Judging the results of sanctions on a target nation is even more difficult than determining the positive effects of the law on criminals. Success or failure of sanctions can be measured by the changes in policies or actions of the nation targeted. Sanctions often fail for various and even contradictory reasons. They may be simply inadequate or too gentle; they may lack support from other countries; or their goals may be too elusive and not vulnerable to the sanctions applied. Hufbauer and Schott analyzed 103 cases of economic sanctions from the period 1915-1984.
Economic Sanctions Imposed
1915 - 1984

Number of Sanctions

Sanctions Imposed In 5 Year Periods

CHART 1
Series 1

Adapted from Hufbauer and Schott
and measured their success in terms of desired changes in policy or behavior of the target nation.

Since every case is different and has its own special set of circumstances, using this data as a basis for prediction of future events is precarious at best. These analysts conclude, however, that in most cases economic sanctions do not contribute very much to the achievement of foreign policy goals. But there are exceptions. When a very large country targets a very small nation to achieve modest goals, sanctions are often successful. The overall success of the 103 cases studied is shown in Chart 2 (page 6) wherein sanctions are determined to be successful when they contributed to a desired change in policy or action by the target country. The cumulative "success" ratio of 36% suggests that economic sanctions are probably not a productive course of action in most cases. In the case of Panama, it was indeed predictable that attempting to dislodge Noriega from his position as de-facto ruler of the country by the application of economic sanctions was not likely to be successful. We need to understand why the US went ahead with them despite this knowledge.

BACKGROUND

National security interests in Panama have traditionally centered on the Panama Canal -- its security and effective operation -- and on basing US military elements within Panama. All recent US administrations have worked with the military-dominated government which was in power from October 11, 1968 until midnight on December 20, 1989 under the successive control of General Omar Torrijos, Colonel Florencio Flores, General Ruben Dario Paredes, and then General Manuel Antonio Noriega. Since June of 1987 this relationship
Economic Sanctions
Success by Type of Policy Goal

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CHART 2

Adapted from Hufbauer and Schott
had deteriorated as a result of disclosure of various criminal and corrupt activities of the Panamanian Defense Forces (PDF) and General Noriega. The US had to face up to mounting credible evidence that Noriega and the PDF controlled much of the economy and the civilian government through carefully placed cronies loyal to them. Key issues were drug trafficking, graft, and widespread corruption. In the summer of 1987 Panamanian public outcry and violent demonstrations against the Noriega regime prompted elements of the US government to consider what action should be taken. The US response was complicated by the fact that despite the disclosure of serious problems, cooperation in the operation of the canal, unrestricted use of bases, and cooperation with US Drug Enforcement Agency officials continued. Indeed Panamanian cooperation was important to our capacity to operate out of our defense sites. These conflicting factors gave rise to differing views within the Reagan administration on what needed to be done. Finally in the summer of 1987 a series of policy objectives for Panama was announced:

-- PDF control of central government should cease, and civilian democratic rule should be established.

-- Freedom of the press and other constitutional rights of the Panamanian people, which had been suspended, should be restored.

-- Alleged drug trafficking and other corrupt activities of the PDF and General Noriega should cease.

-- PDF domination of such traditional civil functions as port control, aviation, immigration, customs, and police should be curtailed.
Finally, and most importantly, after the US federal indictments for drug trafficking and racketeering were made against General Noriega and others in February of 1988, the specific objective of removing him from power was declared.

Consequently, Panamanian President Eric Arturo Delvalle was subjected to increasing pressure from Panamanian opposition groups to remove Noriega in the fall of 1987 and the early part of 1988. Among those pressuring him was retired General Ruben Paredes, former commander of the PDF, a vocal critic of the Noriega regime. He suggested that if Delvalle really cared about the future of Panama and had "sufficient character," he would remove Noriega immediately. In late February 1988, Delvalle attempted to remove General Noriega from his position as PDF Commander. This attempt backfired: the next day, February 26 1988, the Noriega supporters in the National Assembly, undoubtedly at Noriega's direction, dismissed President Delvalle instead. It was now clear that Noriega held absolute power, as most Latin America observers already understood. He quickly appointed a loyal follower, Manuel Solis Palma, as minister in charge of the presidency, a euphemism for the latest toady of Noriega. On March 16 1988 there was a bungled coup attempt against him, led by one of his senior officers. This led to a purge of the PDF, leaving only those with presumed allegiance to Noriega in positions of responsibility. Manuel Antonio Noriega was thus firmly in control of the PDF and the GOP. The opposition continued to protest against his dictatorial control and his refusal to move toward democratic reforms. There was no real threat to him or his absolute control, however, from any Panamanian group, other than from within the military.
He maintained his power through periodic purges of the PDF and GOP to ensure that only those absolutely loyal to him were in positions of authority.

**THE US DILEMMA**

This situation posed a serious dilemma for the US for several reasons. The US was firmly committed to the conditions of the Carter-Torrijos Panama Canal Treaties of 1977. These treaties called for the turn over of the Canal to Panama at noon December 31, 1999. But many members of the US Congress were unwilling to contemplate turning over the Canal to the Noriega regime. Indeed, President Reagan and then National Security Council Director General Colin Powell indicated likewise. They feared it would soon become another opportunity for massive graft and corruption, which would reduce the operating efficiency of the Canal and perhaps violate the neutrality guaranteed by the second treaty which goes into effect once the first ceases on December 31, 1999. In early 1989 a resolution was introduced in the US Congress to prevent the turning over of the Canal to Panama as long as Noriega was the head of government. This resolution was never formally acted on, but served to demonstrate the "sense of the Congress" on the issue. Congress clearly wanted to see the Canal turned over to a democratically controlled government in Panama, one capable of carrying out the country's responsibilities under the treaties. These sentiments agreed with the thrust of US policy since June 1987.

The safety of US personnel in Panama, both military and civilian, was as well a concern as long as the Noriega regime was in control. From June of 1987 until his eventual fall in December of 1989,
harassment and abuse of US personnel increased in frequency and severity. Such activity, in fact, triggered the downfall of the Noriega empire.

The harassment and abuse constituted a form of low intensity conflict that combined with psychological operations to attack the morale of Americans. It also tested the reactions of Washington, the US Embassy, USSOUTHCOM, and the Panama Canal Commission. The varied forms of this low intensity conflict were modulated for domestic political and security reasons. The political opposition was effectively intimidated and serious confrontation thus avoided. The population was denied a free media while clever and deceitful propaganda substituted for objective reporting. Fed by the US inconsistency in policy and inept application of economic and other sanctions, the Noriega propaganda machine deluged the Panamanian public with misinformation and outright lies.

Endnotes


3. Ibid., p. 25.

4. Ibid., p. 9.

5. Ibid., p. 10.

6. Ibid., p. 80.

7. Ibid.


9. Ibid.

10
CHAPTER II
US SANCTIONS

To achieve the goals set in the fall of 1987, the US decided to put severe budgetary pressure on the Noriega's regime by imposing economic sanctions. Yet the US did not want to put undue stress on the Panamanian economy. In April of 1988, after much discussion and debate, the US took the following measures:

-- Suspension of all US economic and military assistance.
-- Curtailment of all official loans from multilateral lending institutions.
-- Suspension of Panama's sugar quota and trade preferences available under the Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP).
-- Assistance to Panamanian President Eric Arturo Delvalle in freezing Panamanian assets in the US which ultimately led to the closure of domestic Panamanian banks in March 1988.
-- Suspension of payments to the Noriega regime from the Panama Canal Commission (PCC), the trans-isthmus pipeline, and of all direct and indirect payments or purchases of goods and services by people and organizations in the US and US citizens and organizations in Panama.¹

In August 1989, as additional sanctions, the US extended the list of Panamanian businesses that were not to be patronized by US firms or agencies. Those businesses were selected because of their involvement with or ownership by Noriega.² In November, the US further increased the pressure by announcing that vessels of Panamanian registry would not be serviced in US ports effective January 31, 1990.
The latter had tremendous potential impact because the Panamanian "flag of convenience" is flown on over 3,300 ships, which is over 14% of the free world's merchant fleet of over 23,000 vessels. In contrast, Liberia, which is second in the free world in ship registry, flags 1,400 ships, about 6% of the fleet. (There are approximately 2,434 merchant ships of Soviet registry, however no options for "flag of convenience" status are available for this fleet.) Panama's domination in the flag-of-convenience registry of merchant ships is illustrated in Chart 3 (page 13). The anticipated hue and cry from the maritime industry at the prospect of the tremendous costs to re-flag would place additional pressure on the Noriega regime. Also, the potential loss of revenue to the GOP from licencing fees and other related income from the registry process would be substantial, further deepening the fiscal crisis as ships were necessarily re-flagged. The effect of this sanction is a moot point, however, since the invasion by the US took place on December 20, 1989 and was therefore never fully implemented.

**DESIRED EFFECTS OF THE SANCTIONS**

These US sanctions were designed to force the Government of Panama (GOP) to move toward the stated US objectives. The most important objective was the removal of General Noriega from his position as Commander of the PDF and de-facto head of government. If he had been the popular and benevolent leader he vociferously portrayed himself to be, he would have opened a dialogue with the opposition organizations and moved toward objectives similar to those suggested by the US. However, he consistently revealed himself as a corrupt and power-hungry dictator who never had any intention of sharing or relinquishing power under any circumstances.
Registry of World’s Merchant Fleet
Top Ten Countries

Chart 3

Ships Registered

Adapted from World Almanac
In this situation the application of economic sanctions was not appropriate for the attainment of the objective of removing Noriega and ensuring the movement toward a democratic government. Effective sanctions normally cause the targeted country's economic conditions to deteriorate from the pressure applied. Then, theoretically, the government's leadership will respond by considering objectives at least similar to those proposed by the US. But despite the US economic sanctions, Noriega continued to gain power; in fact the likelihood of dislodging him became even more remote. The sanctions did have serious effects, however, and we will examine these with respect to seven specific groups in Panama.

**ACTUAL EFFECTS**

The first intent of the sanctions was to demonstrate resolve, both for the citizens of the US and for Panama. The Reagan administration wanted it clearly understood that it was disapproving of the Noriega regime and its dictatorial methods. Since the issue of the turn over of the Canal was an important and emotional issue in the US as well as in Panama, the imposition of sanctions, no matter how severe, established that the US was serious in its resolve to change the conditions in Panama.

Second, the sanctions' effects on the US military personnel and Department of Defense civilians stationed in Panama was very negative. In the direct sense, payment of license fees, water, telephone, and electric bills was illegal until exceptions were developed to avoid placing servicemembers and civilian employees in direct violation of local laws. The indirect effects on this group were also serious.
Harassment of US personnel by the PDF became common, and the potential for confrontation and inadvertent entanglement in local demonstrations caused US officials to implement severe restrictions on personnel movement. This deteriorating situation significantly reduced the quality of life and dramatically raised the level of anxiety in the US community.

Third, the effects on US citizen employees of the PCC were similar. While physical confrontations were rare (but not unknown), the anxiety and tension levels rose. Early retirement of valuable, experienced employees increased dramatically. Some of these key managerial personnel were a great loss to the Canal Commission, not only for their day-to-day contributions, but for their knowledge base and institutional memory that would be instrumental in passing the Canal over to Panama in 1999. The backlash effect from their premature departure will last for many years.

Fourth, the large US business community in Panama was all but devastated. Its inability to legally pay taxes and some other fees to the GOP immediately strained their relationship with their host country. Faced with confiscation of property or other assets because of nonpayment, many companies found loopholes and surreptitious ways to pay their taxes and thus avoid confrontation with the GOP. Further, numerous exceptions to the sanctions were granted, enabling US firms to continue business without directly violating Panamanian law. Meanwhile, some of these businesses' methods of evading or skirting the sanctions could result in prosecution by the US. Both these actions, exceptions and evasions, undermined the intent of the sanctions and lessened their effect, perhaps by as much as 50%.
Even so, without a doubt the sanctions harmed US businesses and the Panamanian treasury far more than they harmed Noriega himself.

Fifth, the effects on the Panamanian citizen employees of the PCC was especially frustrating. Well over 80% of the canal workforce is Panamanian. The PCC withholds taxes and other fees owed to Panama by these employees and pays the fees directly to the GOP. With the sanctions in place, that money was being placed in escrow, automatically causing these employees to be in violation of local law for nonpayment of taxes. This situation left them open to prosecution and confiscation of property assets. These people were really caught in the middle. They are, as a group, loyal and dedicated US employees. Many are third-generation Canal workers. Through no fault of their own, they were in a most difficult position. They wanted to remain loyal to the PCC and to the US, but they had been placed in direct confrontation with the GOP.

Sixth, consider the impact of the sanctions on the plight of the average Panamanian citizen. As a result of the freezing of GOP monetary assets in the US and the reduction of payments to the GOP, most banks in Panama closed for nearly four months in the spring of 1988. When conditional openings were eventually announced, severe restrictions were placed on depositors' ability to withdraw funds. Many small firms, including some banks, went out of business permanently. Unemployment doubled to about 25%. In Colon, the second largest population center, located at the Northern terminus of the canal, unemployment was estimated at 60%. The General Accounting Office (GAO) testimony before the House Foreign Affairs Committee in July 1989 indicated that Panama's Gross Domestic Product (GDP) had
fallen 10-15% overall -- and nearly 30% in the construction industry. Between July and December of 1989 GDP fell another 10% to about 25% below normal.

Thus the average Panamanian bore the brunt of the sanctions. For the most part these people can be characterized as friendly toward the US and generally in favor of the US presence, which they recognize as contributing significantly to the economy and stability of their country. But they were understandably confused by what they saw as mixed signals from the US. On one hand, they saw the Americans identifying Noriega as an oppressive dictator, with which they agreed. But, on the other hand, they saw the means the US applied to dislodge him impacted on them, not on Noriega. Yet, most Panamanians continued to support us.

Lastly, but most importantly, the sanctions had no significant effect on General Noriega and his loyal followers. The reasons are relatively simple: his personal wealth was largely independent of the government or normal private enterprise. His income from connections in the local business community, which were known to be extensive, still complemented his private fortune. But the primary source of his incredible wealth was his connection with drugs, racketeering, and other illicit activities -- all of which were not significantly affected by the sanctions. Similarly, his various supporters in the military and civilian sectors were relatively autonomous of the legitimate economy impacted by US sanctions. Therefore, the sanctions actually were counterproductive because they weakened the opposition at little cost to Noriega and the government's control. Another factor that defeated the sanctions
was the use of the dollar as currency in Panama, and the ease of obtaining dollars in the international market. The US never used a potentially strong economic weapon -- the blocking of interbank transfers of US dollars.

Endnotes

3. Charles N. Griffin, Panama Update, pp. 4-7.
6. Ibid.
CHAPTER III

CONCLUSIONS

Given the decline in Panama's economy and the corresponding loss of quality of life along with the loss of many constitutional liberties, it seems logical that the Panamanian people would demand relief from the situation through their leadership. But their leader, Noriega, was effectively immune from their desires and their suffering. Even so, the May 1989 elections dramatically revealed that the opposition party received at least 70% of the vote. This clear mandate for return to civil rule was easily countered, however, by Noriega's government crudely declaring the election invalid because of "foreign interference". Although the Organization of American States took the usual steps of condemning his handling of the election and his leadership in general, he was still in charge after the elections, -- seemingly stronger than ever.¹ To solidify his control, the Panamanian National Assembly (whose members were appointed by Noriega and his cronies), named him Maximum Leader, and Head of Government on December 16, 1989. The assembly went further by declaring that the Republic of Panama was "in a state of war with the United States," which turned out to be a colossal and perhaps decisive blunder, even though it was intended as a minor psychological operation.²

WHY DIDN'T THE PEOPLE REVOLT?

Why didn't the people rise up and overthrow him, as would surely have happened in many other countries, such as Korea, the Philippines, and Chile? One explanation is that the Panamanian people do not seem to possess the temperament to rise to physical
violence in solving political problems. The Panamanian people may also simply be psychologically indisposed to handle their own affairs. Theirs is a transactional political culture given to solving conflict through deals. Given the existing situation, it is doubtful they could have mustered a force to compete with the fanatical loyalty of the leadership of the PDF, the soldiers they led, and the arsenal of weapons they had. Moreover, the US gave conflicting signals of its intentions through bluster, threats, sanctions, and military exercises, but no decisive initiatives or indications of substantive support to the opposition. Some observers believe that Panama has had close ties with the US for so long that the people simply expect the US to come to their aid in any crisis. Indeed many Panamanians felt strongly that the US created the "Noriega monster" through former connections with agencies of the US government. Therefore, they viewed it as a US responsibility to remove him, by whatever means.

**WHY SANCTIONS DIDN'T WORK**

As we have seen, the track record for economic sanctions causing major changes in political or military policies of a target country is not good. At best, and given all the right conditions, the chances are less than equal; some predict a "success" rate of less than 15%. Sanctions alone were no more likely to remove Noriega from power than sanctions against Chicago would have removed Al Capone. Neither of them were vulnerable to that particular method of pressure, regardless of how much pain and suffering it caused the community around them. Causing the Panamanian people to suffer by depressing their economy was not the way to oust a wily dictator who was immune from his country's economic conditions.
WHY THE US USED OTHER MEANS

The US used other diplomatic means in conjunction with the economic sanctions. The OAS was encouraged to get actively involved in finding a means to remove Noriega, which they did to some degree. Any solution the OAS was to suggest, however, would only carry the force of words. The Latin American countries feel so strongly about avoiding intervention in the matters of another, that physical intervention would never be an acceptable solution to removing Noriega. In fact, OAS cooperation in an economic embargo would be extremely unlikely.

The US also mildly supported the opposition political parties and funded a clandestine radio station. During the May 7, 1989 elections the US had two large teams observing the elections. Never, however, did the US develop a cohesive strategy that incorporated opposition efforts in a decisive way.

On December 16, 1989 Noriega consolidated his position with the empowerment as "Maximum Leader", followed by the imprudent declaration of "a state of war" with the US. The following day, following the murder of an off duty US Marine officer, it became clear to President Bush that all diplomatic means to oust him had failed. To wait any longer to exercise the one option sure to remove him would only increase the cost of that option in lives on both sides. The shooting death of Marine Lieutenant Robert Paz and the harassment of a Navy couple on December 17 provided the trigger for an already cocked and primed plan we have come to know as operation Just Cause. The launching of this operation acknowledged the failure of all preceding diplomatic means for toppling Noriega from his
perch. It also opened the new phase of democratizing Panama -- a formidable challenge for the future.

**REVIVING THE PATIENT**

The cumulative effect of all the means used to depose Manuel Noriega devastated the Republic of Panama economically. In the Panama City area there was extensive physical devastation as a result of the military intervention. The US nearly killed the patient with the remedies used to cure him. Now starts the long and very expensive task of reviving the infrastructure of the country. This will be a lengthy and expensive process for both the Panamanian people and the US. Worse yet, if it is not done carefully and with full cooperation of all the factions vying for power in Panama, the patient could still die. By mid-January of 1990 there were reports of serious disagreements among the political parties that formed the coalition that defeated Noriega's party in the May elections. Hopefully their patriotic ideals will bind them together to enable the new government to take root and succeed.

**LESSONS LEARNED**

Hufbauer and Schott offer nine "commandments" for policymakers to use as a guide in considering the use of economic sanctions. Several of these help illustrate "where we went wrong" and explain why economic sanctions, as they were applied in Panama, were doomed to failure as a means of dislodging General Noriega. They are as follows:

1. "Don't have unrealistic expectations of what economic sanctions can do." The correlation between economic deprivation and political willingness to change is very low. In the case of General
Noriega, it wasn't even a factor, because he personally was never deprived of anything. Further, he demonstrated that he didn't care about the economic condition of his fellow countrymen by retaining his power and refusing to enter into dialogue for the conversion to democratic control of the country. That any of the economy survived at all is something of a minor miracle. The price was high, however, as the declining economic indicators revealed.

2. "Sanctions are most effective against the weak and helpless." Panama would be classed as weak and helpless compared to the US, but Panama was really not the target. Noriega and his government were. Therefore predictably the sanctions devastated Panama, but left the General and his minions comparatively unscathed. Ironically, the sanctions actually strengthened Noriega in relative terms, because they weakened those portions of the society that formed his opposition. Most Panamanians were severely impacted by the sanctions. They were necessarily occupied with supporting their families on a day-to-day basis and had little time, energy, or money to support the opposition cause.

3. "Sanctions can succeed against allies and trading partners, but beware the cost." Again, at first glance the guidance would indicate sanctions would be effective. But look again: While Panama is certainly a trading partner and ally, Panama itself was not the target. Therefore, just as with the proceeding rule, the target that was damaged was not the one the US aimed at. The destruction of the Panamanian economy was basically "collateral" damage in the campaign to displace Noriega.
4. "Impose the maximum cost upon the target country." Certainly the country did receive a maximum volley from the sanctions. In short order the government coffers were empty. Repayment of international loans simply stopped. Money was borrowed wherever possible. Loans from Libya and other countries were allegedly attempted, indicating the degree of Panama's desperation to keep the economy alive. Noriega ensured that those whose loyalty he needed, particularly the military, were paid, although some payments were made in the form of script, redeemable only at government controlled stores. Again, his personal fortune was kept intact, and as the real target for sanctions, he was unaffected.

5. "Apply sanctions decisively and with resolution." Assuming that sanctions were a reasonable and useful weapon in this battle, they would have had to been applied vigorously and consistently to be effective. They were, however, diluted perhaps 50% through numerous exceptions and the invention of numerous evasion techniques. The sanctions were also applied in an incremental fashion, allowing Noriega to adjust to the inconveniences created. The US did not impose some of the potentially most damaging sanctions: the curtailing of inter-bank transfers of US dollars, cutting all US trade with Panama, and the stopping of all service to Panamanian flagged ships in US ports. Perhaps that is well in retrospect. If the full weight of the sanctions intended had been applied, the patient would have probably died before the cancer was removed.

There are other "commandments." But these few serve to emphasize that in the special case of Panama and General Manuel Antonio Noriega, economic sanctions, even when coordinated with other
diplomatic means, were inadequate in attaining the stated objective. The US ineptitude in developing a coherent policy for dealing with Panama and its inconsistency in the application and exercise of the basic elements of power, contributed significantly to the morass. Unfortunately under these circumstances this particular target became vulnerable to the only arrow left in the quiver practically guaranteed to hit the mark. And hit the mark it did. But to have had to use it does not speak well of the archer's talents with respect to the other arrows he fired first. A more careful and deliberate development of a coherent and consistent policy coupled with more skillful application of all the other elements of power would have conceivably obviated the use of the ultimate and most undesirable element, violent military power.

Endnotes


