A winning strategy for the second Panama Canal

by an EIR research team

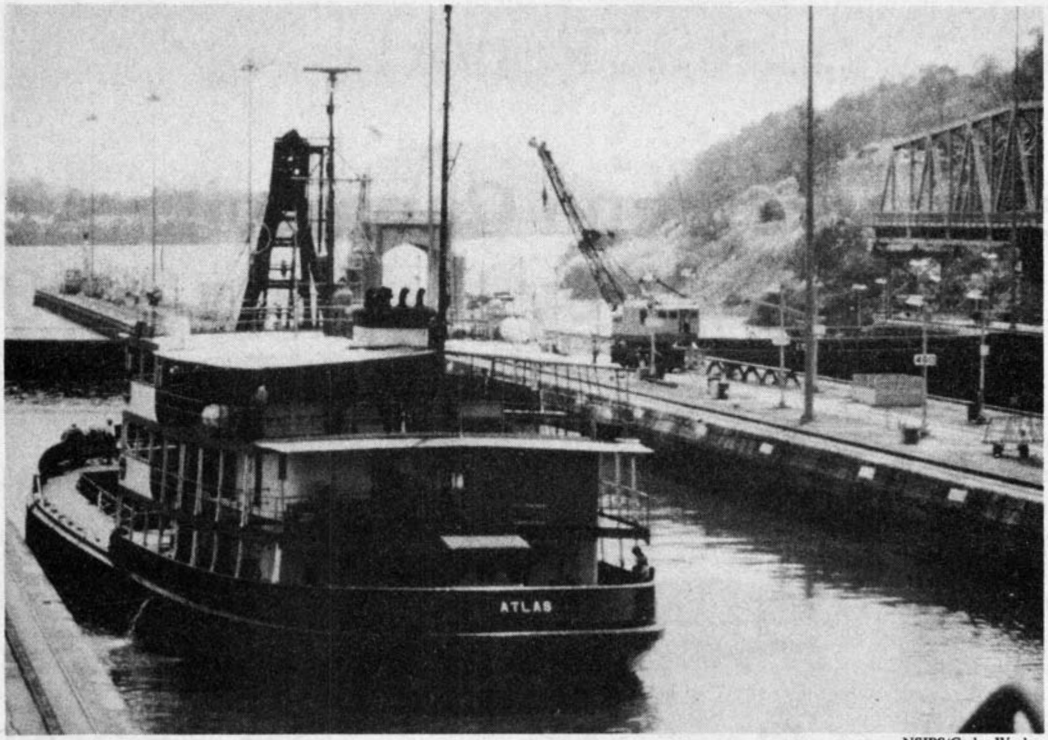
On Dec. 8, the United States, Japan, and the Republic of Panama signed an agreement to carry out a series of feasibility studies to investigate and settle upon the best way of facilitating expanded transport of goods across the Isthmus of Panama. Given the present obvious inadequacy of the Panama Canal and the fact that full feasibility studies have been under discussion since at least the end of World War II, one might initially be inclined to welcome this agreement and hope for its rapid implementation.

However, a closer look shows that this agreement is just another diplomatic maneuver to put off into the indefinite future the urgently needed detailed feasibility study and earliest possible construction of a second sea-level Panama Canal capable of handling the present and future generation of 200-300,000 deadweight ton bulk and cargo carriers. The agreement now in effect will investigate the second canal option only as one of several alternatives—such as building a third set of locks for the existing canal, or a parallel overland transport system—and the required engineering study for a second canal will be postponed until the other options have been ruled out.

As a new *EIR* study—reported in summary fashion below—demonstrates, a second canal is urgently needed, and any steps interposed at this point will make the Isthmus of Panama by the end of this century a critically congested bottleneck rather than a center for facilitating world trade.

A sea-level canal carries the single greatest promise and opportunity for the in-depth economic development of the Central American, Caribbean, and northern South American nations. It presents them with the golden opportunity of taking advantage of their strategic location and resources for the purpose of rapidly attaining the status of modern industrialized nations. Or, in stark contrast, they could continue on the present course of abiding by debilitating International Monetary Fund (IMF) conditionalities, which mean continuing economic decline, increasingly dangerous social instability, and the possibility of military involvement.

It is true that relative to the size of its population and economy, Panama is shouldering a very large foreign debt burden—3.3 billion balboas at the end of



NSIPS/Carlos Wesley

A new sea-level canal provides the best opportunity for launching the economic development of Panama and the surrounding region, since the canal constructed 100 years ago, shown here, will soon become an impossible bottleneck.

1983, which represents 75% of the GNP, almost 1,600 balboas per person. (The Panamanian balboa is equal to one U.S. dollar.) But this debt was quite justifiably incurred and disbursed for the purpose of well-conceived and necessary infrastructure and industrial development projects.

Repayment difficulties did not arise until after 1980, when the high interest-rate policy of U.S. Federal Reserve chairman Paul A. Volcker greatly and arbitrarily inflated the size of the debt and a concomitant large decline in Panama's terms of trade further cut the country's debt-service capability. Still, even in 1982, Panama's debt service as a percentage of exports was only about 14%, which compares very favorably with the large majority of developing-sector nations. Thus even on the basis of its own most questionable criteria, no justification can be found for the IMF's present massive intervention, which undermines Panama's productive capabilities.

Until 1980, Panamanian President Omar Torrijos had systematically prepared the country from the standpoint of infrastructure and social development programs (notably education) to be ready for its next great task—the construction of a second sea-level canal and the simultaneous transition from an "upper middle-income" developing nation (World Bank classification) to a modern industrialized country.

Driver of development

The new canal must be conceived as the principal "driver" for the economic transformation of the entire Central American and North-South American region. As such, it will be a keystone in achieving broader Ibero-American integration, including the formation of an alliance among debtors to better renegotiate their foreign debt and the establishment of an Ibero-American Common Market as per the policy specifications in Lyndon H. LaRouche's "Operation Juárez."

Through the development of new and expanded port facilities as well as new industrial processing capabilities, the canal will not only funnel world maritime trade as transit, but raw materials and semi-finished products can increasingly be captured, up-graded, and transshipped.

A percentage of certain raw materials passing through the present canal could be efficiently processed if good port facilities and industrial infrastructure were available. Bauxite, for example, could be refined using the abundant hydroelectric potential of Panama. In other cases, new trade flows will occur, taking advantage of the speed and convenience of a sea-level canal, and in some cases processing could well occur in Panama. Brazilian iron ore and Colombian coal could be combined to create steel in a carefully developed industrial city and then reloaded for export. Even during the construction period, the positive economic impact will be large-scale. Perhaps it is best identified by focusing attention on the close to 15,000 new relatively high-skill jobs that will be created. This amounts to a boost of 10% for the Panamanian industrial workforce—not counting the upgrading of significant parts of the present workforce or the large number of "downstream"-type of new jobs not directly involved in construction.

Even at the time of its excavation, the present Panama canal was only considered a first provisional step. What was then anticipated, can and must be completed now.