

The Cost of Corruption in Panama

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Corruption has plagued the region of Central America for centuries, reducing public wealth and undermining economic and democratic growth. Since the 1980s, democracy has been spreading throughout Central America. Some believed that the introduction of democracy would lead to higher standards of integrity within the region's governments. "Instead, political corruption is perceived to have increased with democratization."¹ Unfortunately, Panama has been far from immune to having corruption in its government. According to the 2013 Corruption Perceptions Index by Transparency International, Panama ranked 102 of 177 countries (the index ranges from least corrupt--Denmark--to most corrupt--Afghanistan, North Korea, and Somalia tied for last).² Although Panama is experiencing high levels of corruption, it is also seeing rapid growth, specifically in terms of international investment. This led me to wonder how exactly corruption is impacting Panama. With that being said, I ask: What are the costs of corruption in Panama and how do they negatively affect the impact of globalization? The cost of corruption can be broken down into four categories: political,³ social, environmental, and economic.³ In terms of Panama, corruption is threatening the legitimacy of democracy, negatively impacting the societal view of the political system, harming the environment, and reducing economic growth potential, specifically in terms of foreign direct investment (FDI), which is a benefit of globalization.

Through this paper, I will lay out my argument as follows. In section one I will provide background on the issue. In section two I will elaborate on my thesis and build my argument. In section three I will address counter-arguments, and finally I will conclude with a summary.

¹ J. Mark Ruhl, "Political Corruption in Central America: Assessment and Explanation," *Latin American Politics & Society* 53 (2011): 33, accessed April 11, 2014, doi: 10.1111/j.15482456.2011.00108.

² "Corruption Perceptions Index 2013," Transparency International, accessed March 7, 2014, <http://cpi.transparency.org/cpi2013/results/>.

³ "FAQs on Corruption," Transparency International, accessed March 7, 2014, http://www.transparency.org/howeare/organisation/faqs_on_corruption/2/.

Section One

Before I get into my argument, I would like to define corruption, explain globalization, and give a brief background on Panama's democracy.

I will start by breaking down the definition of corruption into grand and petty. Grand corruption occurs at the highest levels of government. In this type, government officials abuse their power by distorting policies to their personal benefit at the cost of the public good. Petty corruption is when low to mid-level public officials exchange small favors for money.⁴ Panama itself suffers from high levels of grand corruption and low levels of petty corruption. In an analysis of the types of corruption in Central America, Panama's low level of petty corruption is attributed to the low level of bureaucratic procedures, or red tape, and may also be impacted by the high level of gross domestic product (GDP) per capita. This same statistic of high GDP per capita predicts that Panama would have low levels of grand corruption. However, because of the low level of judicial independence, the trend has gone in the opposite direction.⁵

Next I will move to the definition of globalization. There are many definitions for globalization, but for the purpose of this paper I will use the following definition: "the closer integration of the countries and peoples of the world...the breaking down of artificial barriers to the flow of goods, services, capital, [and] knowledge."⁶ Through this definition, one can see all of the possible benefits that come from globalization. As this paper progresses, I will argue that corruption is a major barrier to fully achieving these benefits.

⁴ Ibid.

⁵ Ruhl, "Political Corruption in Central America," 52.

⁶ John Mubangizi, "Democracy and Development in the Age of Globalization: Tensions and Contradictions in the context of specific African Challenges," *Law, Democracy & Development* 14 (2010): 2, accessed April 11, 2014, doi: <http://dx.doi.org/10.4314/ldd.v14i1.5>.

Finally, I will give a brief overview and background on Panama's democracy. Panama has had a democracy since 1989 when Manuel Noriega was overthrown.⁷ The political structure has an Executive and a Legislative branch that politicians are elected to every five years. The third branch is the Judiciary branch. Here, members are appointed and approved by the other two branches.⁸ While in Panama there were several people we met with who believe there is not actually a balance of power within the political system, and that the president holds too much power. Taking a closer look at the five presidents that have served since 1989 gives insight into the type of democracy Panama has.

First, Panamanians elected and saw Guillermo Endara (1989) fail to strengthen their newly established democracy. Second, Perez Balladarez (1994) was accused of money laundering and involvement in drug trade. Third, Mireya Moscoso (1999) failed to follow through on her promises to tackle corruption and reduce poverty. Fourth, Martin Torrijos (2004) also failed to follow through on similar platform issues.⁹ Fifth, the current incumbent Ricardo Martinelli (2009) has been accused of numerous corrupt activities. This brief history of Panama's democracy shows how inefficient and undemocratic the presidency has been.

Section Two

Now that I have provided definitions and background on the topic, I will elaborate on each of the four costs of corruption and explain how Panama is affected by each.

Politically, corruption is an obstacle to democracy because the legitimacy of the democracy decreases when the offices and institutions of the system misuse and abuse power.

⁷ "Panama," Shaping Changes, accessed April 11, 2014, <http://bti2006.bertelsmann-transformation-index.de/1349.0.html?L=1>.

⁸ "Political Structure," Embassy of Panama, accessed April 11, 2014, http://www.embassyofpanama.org/cms/generalinfo_political3.php.

⁹ "Panama."

Abuse of power in political office is especially harmful for newly established democracies,¹⁰ such as the fairly young Panamanian democracy. In section one I laid out the history of Panama's democracy, which provides insight into the picture Panamanian government officials have painted for their citizens. "Panamanian citizens perceive all branches of government as corrupt. The rise of criminality and the corrupt nature of the judiciary has led to further disillusionment, which could lead to a significant decline of the basis for democracy."¹¹

While in Panama we had a meeting with members of the Morgan & Morgan Group (MMG) to discuss issues such as this one. The entire panel agreed that corruption is on the rise in Latin America, and that it is unfortunately happening in Panama. More specifically, Carlos Ramirez, one of the panelists, said that he believes the corrupt courts need to be fixed because currently they are representing the state, not the people. This statement can be backed up with statistics from the Transparency International index on judicial independence. In 2011-2012, Panama was ranked 133 out of 142 nations, meaning the judiciary branch suffers greatly from outside influences such as government members, citizens, and/or firms.¹² Finally, one of the individuals we met with at the City of Knowledge informed us that Martinelli bought out members of opposing parties in the National Assembly to give him the majority. If this is indeed true, then it can be said all branches of the Panamanian democratic system are seriously corrupt. The people recognize this to be true, and ultimately corruption is taking a toll on the legitimacy of the democracy.

¹⁰ "FAQs on Corruption."

¹¹ "Panama."

¹² "Corruption by Country/Territory," Transparency International, accessed March 7, 2014, <http://www.transparency.org/country#PAN>.

This brings me to my next point. Corruption negatively impacts the social fabric of society. In essence, corruption “...undermines people’s trust in the political system...”¹³ Through my research and from my interactions with Panamanians, the public is fully aware that its government is corrupt and untrustworthy. With that being said, I anticipated Panamanian political self-efficacy to be low. Fortunately, the people, on a whole, still seem to have positive political self-efficacy. I base this assumption primarily on the fact that Panama has a high voter turnout. In the last presidential election in 2009, Panama’s voter turnout was 69 percent; compare this to 57.5 percent in the U.S. 2008 presidential election.¹⁴ This is a significant parallel because the U.S. is ranked 19 out of 177 nations in the Corruption Perception Index.¹⁵ Therefore, it can be said that U.S. citizens have a positive perception of the legitimacy of their democratic system. However, the polls indicate that Panamanians are more attuned to vote. Though there can be numerous reasons for these voter turnout rates, I find it interesting that while in Panama, no one indicated they had negative views about democracy. They did, however, say that they dislike the corruption that currently exists in their system. While in the City of Knowledge we met with Professor Guillermo Castro. Professor Castro said that the power of the government is very centralized and that there is not a separation of power. He said he believes the time for political reform has not yet arrived, but that the time will come. With that being said, I believe that although Panamanians see their government as corrupt, they still believe in the democratic system. Therefore, the social cost of corruption is visible and has the potential to get much worse.

¹³ “FAQs on Corruption.”

¹⁴ Zachary M. Seward, “58 countries with better voter turnout than the United States,” *Quartz*, November 6, 2012, accessed April 11, 2014, <http://qz.com/24186/58-countries-with-better-voter-turnout-than-the-united-states/>.

¹⁵ “Corruption Perceptions Index 2013.”

The environmental cost of corruption is seen in a lack of environmental regulations or in the lack of enforcement of existing regulations.¹⁶ For example, coal companies may bribe a politician to overlook high carbon emissions. In the City of Knowledge, we met with Professor Jorge Arosemena who said that there are plenty of environmental regulations; however, a company complying with those regulations is another story. This has been especially true in the case of people destroying mangroves in order to build. Professor Arosemena's mangrove example is just one example of how corruption is costing the country environmentally.

The final cost of corruption is economic. Corruption drains the national wealth because politicians take a cut of the public wealth for themselves. "Corrupt politicians invest scarce public resources in projects that will line their pockets rather than benefit communities..."¹⁷ During our meeting at MMG, Eduardo E. Morgan briefly touched upon this issue by explaining a lack of transparency in government contracts. He gave an example of the building of a pricy highway. He said government projects are required to use a bid system when choosing contractors. Unfortunately, in the case of the highway and several other projects, Morgan said the government seems to be choosing its own contractors over the bid system. Furthermore, in the category of economic costs, one can see that corruption hinders "...the development of fair market structures and distorts competition, which in turn deters investment."¹⁸ This brings me to the reduced benefits of globalization.

According to a Brookings article by Shang-Jin Wei, corruption reduces the benefits of globalization. Wei writes, "Research in the mid-1990s showed that corruption is a hindrance to economic growth. More recent research showed that more corrupt countries receive less benefits of globalization." More specifically, Wei argues that corrupt countries do not fully benefit from

¹⁶ "FAQs on Corruption."

¹⁷ Ibid.

¹⁸ Ibid.

FDI.¹⁹ However, Panama's FDI seems to be an area in which the country is having no problems. In January-September 2012, FDI was at \$3.33 billion. This was a 21 percent increase over the investments from 2011.²⁰ This leads me into section three where I will discuss counterarguments.

Section Three

First, I state that corruption hinders benefits of globalization such as FDI. However, Panama is experiencing exceptional amounts of international investment. "Panama actively encourages foreign investment, and with few exceptions, the Government of Panama makes no distinction between domestic and foreign companies for investment purposes. Panama continues to enjoy the strongest economic growth in Latin America."²¹ One might say that this is proof corruption is not negatively affecting globalization. The counterargument would say that when it comes to FDI, a lack of red tape and low bureaucracy gives Panama a major advantage. For example, "According to the World Bank, red tape is so thick in Costa Rica that it takes 77 days to start a business, but a new enterprise can open to the public after only 19 days in less-bureaucratic Panama."²² This competitive advantage makes Panama a more appealing option than a much less corrupt Costa Rica, which comes in at 49 on the corruption index.²³

In response, I pull directly from the United States 2013 Investment Climate Statement on Panama. It reads, "While international indices generally rate Panama as one of the best countries in Latin America for business and investment, poor rule of law, lack of judicial independence, a shortage of skilled workers, high levels of corruption, and poorly staffed government institutions

¹⁹ Shang-Jin Wei, "Corruption and Globalization," Brookings, April 2001, accessed April 11, 2014, <http://www.brookings.edu/research/papers/2001/04/corruption-wei>.

²⁰ "2013 Investment Climate State-Panama," U.S. Department of State, accessed April 12, 2014, <http://www.state.gov/e/eb/rls/othr/ics/2013/204711.htm>.

²¹ Ibid.

²² Ruhl, "Political Corruption in Central America," 49-50.

²³ "Corruption Perceptions Index 2013."

all add risk and complication to business dealings.”²⁴ This statement shows that even though Panama may appear to be the best place in Central America to invest, corruption, low judicial independence, and results of corruption like poor rule of law, makes Panama risky. Therefore, to those who point to high rates of investment in Panama to prove corruption does not affect globalization, I say that the risk associated with Panama has deterred investment on some level. Furthermore, if the investment climate gets any riskier, Panama could see investors pull out while others may never come in.

The next counterargument that one may raise is that corruption is culturally accepted in Panama. In a way, I would agree. Looking back to the history of Panama’s political system, the country has suffered from many corrupt leaders. Within the last 25 years, Panama went from functioning under a corrupt dictator to functioning under several corrupt democratically elected presidents. Citizens were already used to corruption in their government, and since Panama has had corruption in its democracy essentially since its inception, the people are used to having a corrupt democracy. However, in response I say that just because a culture accepts corruption as a norm does not make it right for a politician to take advantage of the public good. Furthermore, corruption has a negative impact on the perception of what democracy is supposed to be about—the people.

In conclusion, corruption in Panama is costing the country, but that cost is not as high as it could be. Politically, corruption is undermining the legitimacy of democracy. Socially, Panamanians have become untrusting of their government. Environmentally, lax regulations are negatively impacting natural resources such as mangroves. Finally, the public wealth is being reduced due to grand corruption. Altogether, these four costs combine to make a risky environment for FDI. As of now, low bureaucracy gives Panama a strong enough competitive

²⁴ “2013 Investment Climate Statement-Panama.”

advantage to keep FDI high. However, there is no guarantee that this competitive advantage will last. Ultimately, this means that corruption is lowering the benefits of globalization, and it has the potential to reduce them even more.

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