

Word Count: 14,915

Leiden University

US-China Hegemonic Tensions in Latin America: Panama's Balancing and Bandwagoning Dilemma

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MA International Relations: Global Order in Historical Perspective

3 July 2020

Abstract

This thesis explores Panama's relations with the US and China, across history and more specifically in the 21st century, through a neorealist lens. Neorealist assumptions are applied to the case and Panama's bandwagoning and balancing strategies with the US and China are discussed as observed by historical trends and economic data such as Foreign Direct Investment (FDI), trade (Panamanian exports and imports from/to the US and China), foreign aid statistics, bilateral agreements, and diplomatic statements by high officials on economic and security issues. The study finds that China's hegemonic rise in Panama-China relations represents merely an indication of China's potential to be a long-term hegemonic challenger to US hegemony, and does not signify a shift in hegemony. Panama is seen to balance and bandwagon with both the US and China, choosing alignment depending on the perceived economic gains involved and potential threats to survival. Panama balances with their long-standing ally and regional hegemon, the US, to foremost secure survival in the long-term while in the short-term Panama bandwagons with China for economic gains. Panama's consideration of China as alternative to the US as a greater power for alignment demonstrates China's hegemonic character in LAC. Nonetheless, this case study shows that the US maintains its primacy and superiority as a hegemon due to its strong historical ties and yet unrivaled economic and military capacity.

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1. Introduction to the Hegemonic Dispute: The Rise of US-China Tensions

“We can’t allow China to continue to rape our country” said the President of the United States (POTUS) Donald Trump, during his presidential campaign (Vinograd & Jaffe, 2016). Under Trump’s administration, China has repeatedly been framed as a threat to the United States (US). While this offensive stance has since resulted in a trade war between both superpowers that has set back both their economies, other US-China tensions have escalated on issues of technology, security and politics (McDonald, 2019). Ongoing security issues in the South China Sea, Hong Kong’s diminishing autonomy and especially the recent COVID-19 pandemic, which Trump (2020a; 2020b) thinks of “the worst attack we’ve ever had” which “could have been stopped in China” who “instigated a global pandemic” with its “Wuhan virus”, have added fuel to the existing fire (Gaouette & Vazquez, 2020).

The tensions between the two, being the largest economies of the world, are having profound global repercussions. Weaker states are heavily being impacted, since the decision-making and foreign policies of these greater powers are affecting the status quo and world order as a whole. It is necessary, as an international relations scholar, to comprehend how these US-China tensions are developing, and explore how states are reacting to discern what can be done to avoid global disorder and safeguard peace.

By examining how US-China tensions play out, are responded to and adapted to, we will further our understanding of states’ behaviors with regards to these two superpowers and predict its potential impacts. In this thesis, a focus is laid on how the US has had, and works towards, maintaining a hegemonic status in the Latin America and Caribbean (LAC) region alongside China’s increasing regional influence. For this purpose, the extent to which an LAC state balances against and bandwagons with these two hegemonic contenders is analyzed. More specifically, the extent to which China in Panama can be seen to challenge the US hegemony in LAC, and how Panama balances and bandwagons between the two.

Panama is studied as case due to its unique geopolitical situation that combines a longstanding history with the US and a recent increasing Chinese influence. Panama’s geopolitical and geo-strategic location in the Isthmus offers a socio-economic and political context where both the US and China are actively pursuing geopolitical interests, serving as an adequate playing field for analyzing US-China tensions for power and influence in LAC. Developments in Panama

can influence the path of the rising power to supremacy (China) as well as contribute to prolonging the regent unipolar hegemony (US). This renders Panama a relevant and puzzling state to study.

With this in mind, the research question reads as follows: From a neorealist approach, to what extent does the role of China in Panama constitute a challenge to the US hegemonic role?

To answer the question, a structural realist or neorealist lens is applied to the Panamanian case to help explain and understand the dynamics, causes, and consequences of US-Panama-China state behavior per neorealist assumptions. Scrutinizing where and the extent to which neorealism helps to explain the triangular US-Panama-China relations and where it does not, allows for better insights and preparedness to understand and exercise international politics.

This paper originates from the neorealist presumption that a rise in power can provoke a confrontation between the rising or challenging state (China) and the ruling or threatened state: the hegemon (US). China's rise has widely been studied as a challenge to the US hegemony (Layne, 2008; Fergusson, 2012; Mearsheimer, 2014; De Wijk, 2019). Allison (2015) described this relationship under its Thucydides Trap theory in which he suggests that the US and China are destined for war because China's rising power challenges the existing US power who fears its hegemonic position might be lost if it does not act aggressively to preserve its security and status. This thesis aims to understand to what extent the rising China-LAC relations, with Panama as case, challenge the US's longstanding historical regional hegemony and how this affects state behavior in the region.

Despite the neorealist suggestions, today, we do not see US-China conflicts being executed in the realist conception of war, but rather through an economic variant: a trade war. In a post-Cold War era which is more pronouncedly defined by interconnected economic systems as the result of globalization, we see that it is economic warfare rather than military warfare that characterizes superpower (US-China) tensions. This is contrary to traditional neorealist theory that points out to war as method to resolving the balance of power and the contestation of a hegemon. Hence, this study centers itself to studying the economic activity of the US as hegemon, and China as potential hegemonic disruptor, in Panama. Sub-questions rise such as to what extent, and with what motive, is Panama balancing and bandwagoning against or with the US and China?

The lack of research on the China-LAC relations calls for attention due to the rapid development of their diplomatic ties, boosted by participation in China's economic

development strategy: Belt and Road Initiative (BRI) (Dussel Peters, 2019). The nascent nature and flourishing of these relations, in a time where everything changes faster than ever before and politics in one part of the world have global effects due to the interconnectedness and globalized international order regent, calls for academic attention.

It is thus a puzzle to understand what factors and interests have caused Panama, arguably the US's most important LAC ally, to consider China instead of the US in an increasing fashion. A neorealist perspective would claim that aligning, or bandwagoning, with the (regional) hegemon (in Panama's case the US) should be the rational choice to secure its survival, and thus its economy. However, US unipolar hegemony has been argued to be in decline and predicted to slowly come to an end (Layne, 2006).

I hypothesize that there is a shift in the balance of power, a transition from a US unipolar hegemony to a US-China bipolar hegemony as weaker LAC states such as Panama increasingly balance and bandwagon between the US as long-standing regional hegemon and China as novel rising economic power which offers economic gains. In addition, I hypothesize that Panama bandwagons with and balances against both powers by constantly aligning with the greater threat of the two to secure economic gains.

First, neorealism and its assumptions are explained, followed by the elucidation of relevant concepts. Second, we illustrate and evaluate the rise of US hegemony in LAC and the rise of China-LAC relations through a neorealist lens. Subsequently, we further analyze the US-Panama-China relations by applying the concepts of bandwagoning and balancing, and neorealist assumptions to the case. US-Panama-China economic data, discourse, historical events, tensions and trends are discussed with this regard, before providing a conclusion and explaining the limitations and suggestions for future research.

2. Realism and Structural Realism (Neorealism)

Realism is one of the main schools of International Relations (IR) theory. Realism sees states as the actors of international relations (great powers as the leading actors) where the distribution of power is paramount for the explanation of state behavior. Through realism, states are considered to be constantly on the look-out for how to increase their power, and pay attention to how much military and economic power other states have relative to each other. For a state it is crucial to become the most powerful state it can be and prevent other states in reaching similar levels of power, conserving the greatest power for themselves and dominating the rest, in other words to become and stay the hegemon.

Classical realists such as Morgenthau (1974) say that the drive for acquiring power is inherent to human nature and that the leaders of states, being humans with the will and determined goal of achieving power, direct states to that goal.

Structural realists, or neorealists, such as John Mearsheimer(2001), go beyond that explanation and state that it is the architecture or structure of the international system that pushes for the pursuit of power. Since there is no higher authority that can overpower the great powers and there is no certainty that states will not attack each other to obtain power, power is sought in the event they may be attacked.

Balance of power theory is central to the school of neorealism. Overall, states are deeply concerned with the balance of power and the need to maintain power, to increase it and protect themselves from rising powers. The rise in one state's power means the decline in the other's power, it is a zero-sum game (Keohane,1986). When neorealists talk about great powers such as the US and China, they view them trapped and forced to compete against one another for power, as if in an iron cage (Mearsheimer, 2007).

This thesis considers the US and China as great powers foremost in terms of superior economic capabilities. Hence, Schweller's (1994) theorization of bandwagoning for economic gains stands central to this study as foundation to understand Panama's state behavior towards the US and China. Specifically, Panama is considered as a weaker state which seeks to bandwagon for economic gains, due to an absence of threatening powers. Yet, as a neorealist theorization, the neorealist assumptions on balance of power and threat theory on which all neorealist theorization is based on must not be neglected as fundamental for understanding the case.

2.1 Neorealist Assumptions

According to Mearsheimer (2001; 2007) there are several assumptions made in neorealism, the first being that of an *anarchy* as ordering principle. It refers to the idea that there is no overarching entity that can punish or reward states. States are the central actors and thus depend on solely themselves for survival.

Secondly, there is the assumption that *all states have a certain level of military power* which could be used to attack another state and is necessary to protect themselves from being harmed by others.

Third, there is the *uncertainty of the intention* of states. This leads to states distrusting one another, and such distrust can lead to security dilemmas (Snyder, 1984; Glaser, 1997) where for example one state increasing military capabilities triggers the other to do so as well to prevent being overpowered. Moreover, a state can be a revisionist state which will use force to shift the balance of power, or a status quo state which is satisfied with the current balance in power.

The fourth assumption is that there is a *need for survival*. Survival is the top priority as without the survival of the state, there is no point in pursuing other goals. Thus, states work towards sustaining their political order by assuring their domestic autonomy and territorial integrity.

Lastly, is the idea that *states are rational*. Rational actors will look for rational solutions to problems, solutions in which their survival is protected and maximized. However, mistakes in the form of misinformation or irrational behavior of people in power can influence rational decision-making.

2.2 Conceptualizing Hegemony

According to realists, *hegemony* arises when a state maximizes their power in a top-down fashion by the use of material capabilities. In the Western Hemisphere that would be the US, even though it is often considered as a global hegemony, as no state would dare to contest or attack the most powerful state (Pape, 2005). Becoming a *hegemon* is the ultimate goal for any state under the realist lens, as it ensures the protection of the state's hegemonic survival. Therefore, hegemony is an agential phenomenon that occurs as the hegemon maintains its primacy and superior position. In Antoniadou's terminology, "hegemony is the hegemon's

period of rule as well as the international infrastructure created by this rule” and “this period/infrastructure ends/collapses with the decline and collapse of the hegemon” (2018, p.597).

Schmidt (2018; 2019) provides diverse means on how we understand the concept of hegemony in the field of IR and how these different forms of theoretical understanding can be applied to the debate on US hegemony. Having reviewed various conceptualizations of hegemony, Schmidt (2019) concludes that there are two main ideas that characterize a hegemony. Firstly, the idea that a hegemony exerts an “overwhelming or preponderant material power” (Schmidt, 2019, p.1). The second feature Schmidt recognizes as essential of a hegemony is that it must involve “the exercise of some form of leadership” (2019, p.1).

Furthermore, Schmidt (2019) describes that the realist conceptualization of a hegemony is defined through its overwhelming power and its ability to use that power to dominate others, where the hegemon is identified as “the most powerful state in the international system” (p.1). Such a state is unrivaled in terms of material power, represented by military strength and vast economic capabilities. In short, the greater the capabilities of a state, the greater its power. Capabilities are, according to Schmidt (2019, p.2), ambiguously recognized national attributes that typically refer to such matters as population size, military strength, economic capacity, and territorial extent. Ikenberry and Kupchan (1990, p.287-288) summarize these factors on which the superiority of a hegemon relies on by arguing that “the constitutive elements of hegemonic power include military capabilities; control over raw materials, market, and capital; and competitive advantages in highly valued good”.

Waltz (2010), who introduced neorealist theory, argues that overwhelming power is not ideal as it will provoke other great powers to counter that hegemon’s power by forming military coalitions and alliances which will contest and harm the amount of power of the hegemon. According to this view, this could ultimately dethrone the hegemon as these alliances attempt to balance power and distribute it differently. Being a hegemon draws attention and makes the hegemon a target for other rising powers to aim for.

2.2.1 Neorealists on US Hegemony

Aiming to understand the extent to which US hegemony is challenged through neorealism, neorealist ideas on US hegemony are considered.

Neorealists argue, under the alias of ‘unipolar pessimists’ that the United States’ position as a hegemony is relative and only temporary. Global domination is difficult and hegemony is only transitory. According to Schmidt (2019, p.7), most structural realists believe that holding a grand strategy of primacy is disadvantageous for the US as a consequence of hegemony being a momentary status and impossible to perpetuate due to the notion that balance-of-power politics will never cease to exist.

Contrary to unipolar pessimism, Brooks and Wohlforth (2008) dispute the idea that the US hegemony is challenged by China’s rise and defend the notion that a unipolar system where the US is the hegemon and continues to be ‘deeply engaged’ with its pursuit of hegemonic status is the ideal system for the benefit of the US and the world. Extending on this view, the unipolar overwhelming power that the US holds and exerts prevents global escalation of security conflicts and competition due to the unfeasibility of balance of power tactics (Brooks *et al.*, 2013). Contrary to this, offensive realists such as Allison (2015) and Mearsheimer (2014) see China’s rise unlikely to be tranquil.

Adding to this conception are Keohane’s (2019) hegemonic stability theory and Ikenberry’s (2000) liberal idea which explain that prosperity and peace have been largely accomplished precisely due to a unipolar US-led international order post-World War 2 which brought about institutionalization, interdependence, free trade, multilateralism and democratization to the international system. Meanwhile, Posen (2014) argues that the US must restrain their efforts of engaging deeply in primacy strategies and rather transit towards restraint and offshore balancing.

2.3 Strands of Balancing and Bandwagoning

Scholars trying to fill the gaps that balancing theory inherently posed led to the theorization of various strands of balancing. One of these divisions of the concept of balancing refers to the difference between what has been coined as *soft-* and *hard balancing* (Cladi & Locatelli, 2015).

The conceptualization of soft balancing is characterized by Stephen Walt (Cladi & Locatelli, 2012, p. 268) as the “conscious coordination of diplomatic friction in order to obtain outcomes contrary to American preferences – outcomes that could not be gained if the balancers did not give each other some degree of mutual support”. Soft balancing is thus considered the rational decision by non-hegemonic states to willingly limit the capacity of a superior power to dominate and reach its full potential (Cladi & Locatelli, 2015, p.32). Nevertheless, soft balancing remains a weakly supported phenomenon as empirically it lacks evidence and it challenges the central notions of balance of power theory because it does not aim to alter it nor is power asymmetry a real threat while ignoring military means to restrain power (Paul, 2005). While soft balancing focuses on bilateral and multilateral coordination, hard balancing attempts to increase the relative power of a state against a more powerful and threatening state by military expansion and alignments (He & Feng, 2008, p.365).

The *balance for autonomy* hypothesis refers to states maximizing their security by maximizing their autonomy (Mearsheimer, 2001; Cladi & Locatelli, 2012). This form of balancing can be associated with defection in a prisoner’s dilemma as the state finds itself between positive and negative incentives, defecting is the dominant strategy since one will mitigate the risks of the worst while maximizing their gains. In this manner, states do not bandwagon but neither do they hard balance

Next to balancing, there is *bandwagoning*. Bandwagoning refers to the alignment of a state with the threatening power to protect itself from attacks by that greater power, so to say to neutralize the threat, and/or to benefit from the spillover which the alignment can bring (Walt, 1987). Nevertheless, via his balance-of-threat theory, Walt claims that under most conditions, balancing is actually far more common than bandwagoning. Walt argues that imbalances of threat drive alliance formations as coalitions arise when one state or alliance is seen as dangerous reflected by its aggregate power, geographic proximity, offensive capacity and its perceived aggressiveness of its intentions (Schweller, 1994, p.75).

However, critics of Walt, such as Kaufman (1992), contest Walt’s claim with evidence from historical examples which support the argument that balancing is rather the exception and not the rule. Others emphasize Walt’s disregard of domestic factors that affect the alliances of smaller states with powerful states in specific of illegitimate elites and Third World states that are weakly positioned with respect to their societies (David, 1991b; 1992/93). David (1991a, p.236) introduces *omnibalancing* which “incorporates the need of leaders to appease secondary

adversaries as well as to balance against both internal and external threats in order to survive in power". He states that fragile Third World elites align with hostile powers to protect themselves through balancing out the prevalent foreign threats (Schweller, 1994, p.77). While Levy and Barnett (1992, p.35) stress that society plays a role in determining state behavior with regards to alliance formation by claiming that Third World leaders form alliances in order to secure needed economic and military resources to achieve domestic goals, respond to external and internal security threats and protect political positions. Despite his critics Walt's views and definitions are still seen as most relevant and reliable.

Schweller (1994) pushed forward the concept of *bandwagoning for economic gains or profit*. According to him, balancing and bandwagoning have mistakenly been assumed to be opposites motivated by the mutual goal of achieving greater security. Rather, he asserts that bandwagoning has been defined too narrowly as giving in to threats. He proposed an alternative theory of alliances based on the political goals of states by examining various reasons why states bandwagon besides for safeguarding peace. By focusing on the opportunistic aspect of bandwagoning, the alliance choices of states that are deemed threats and those which respond to threats, Schweller (1997) refined Walt's bandwagoning concept as a strategy states primarily adopt for economic gains and profit instead of for survival. By having no threat to balance against, a small state is more likely to bandwagon for economic gains, since the need for survival and more power remain.

Furthermore, others argue that small states should be incentivized to bandwagon on greater powers, as the US, since unipolarity can avoid bandwagoning's negative consequences such as overdependency and risking entrapment or abandonment (Laney, 2006; Cladi & Locatelli, 2015, p.33).

This thesis will take the neorealist assumptions and the definition of hegemony, balancing, and bandwagoning concepts into account and test to what extent and how their application to Panama's state behavior towards China and the US can shed light on the US-China hegemonic contest.

3. US Regional Hegemony and China's Recent Rise in Latin America and the Caribbean

3.1 The Hegemonic Role of the US in LAC

Historically, and presently, in neorealist terms, the LAC region has been the backyard of US hegemony as it overpowers LAC states in terms of economic and military power (Giolzetti, 2019).

On a geopolitical level, it is possible to argue that increased Chinese activity in the LAC region could be challenging the US's hegemony and its realist Monroe Doctrine (Fergusson, 2012). This doctrine, introduced by US President James Monroe in 1823, stated that the LAC region should not be considered a region of interest by European powers, that they should leave it in hands of the United States and respect the Western Hemisphere as the US's sphere of interest (Milestone Documents, 1995). The doctrine came in times of desperate need for the LAC region which was just starting to walk somewhat freely again after years of European domination and stands as the landmark of the US hegemonic status and interest in LAC. The Monroe doctrine prepared the stage for the US to legitimately pursue their interests in the region and give form to their foreign regional policy. In fact, historically, the Monroe Doctrine has been invoked several times, and in early 2018 former US Secretary of State Rex Tillerson praised the doctrine as he warned that Chinese ambitions in the LAC region were of imperial nature (Gramer & Johnson, 2018). However, the threat of China challenging the Monroe Doctrine and US vital interests in LAC has been argued to be a threat only to the extent the US perceives it to be one (Fergusson, 2012).

US foreign policy in Latin America has focused on preventing any extra-hemispheric powers from creating a base in the western hemisphere where it reigns (Long, 2015, p.4). The Monroe Doctrine was followed by the Good Neighbor Policy which attempted to reach the same goals of blocking external overriding threats to US regional hegemony during the decades to follow through partnership rather than deterrence. This created bonds and ties with the Latin American countries on which relations were built commonly resulting in dependency by LAC periphery on the US core (Bodenheimer, 1971). US influence in LAC was spurred by its democratization interventions, as it abandoned nonintervention, to prevent the emergence of threats and crises in the region, especially during the Cold War (Long, 2015). Exemplified through the imposition

of a military government in Cuba and then the taking of Panama, a US-led Pan-Americanism rose which gave way to ‘the American peril’ conveyed by the creation of protectorates in the LAC region “in guise of ‘dollar diplomacy’ characterized by the sending in of marines and financial supervisors” (Smith, 2005, p.74).

The infrequency of LAC interstate conflicts is often attributed to the US’s peaceful settlement of disputes by playing a direct role in the arbitration of regional conflicts bringing stability, trade and democracy to the LAC region (Long, 2015, p.5). Today, the nonpolicy of the US in LAC, as seen in Figure 1 by the decline in foreign aid (see Figure 5 and 6 in the appendix for Central America and Panama’s trends) to the region sparks questions whether the US still cares about the development and stability of its hemispheric neighbors since the data suggests a ‘Bad’ Neighbor Policy instead.

When President Laurentino Cortizo took office, he pledged to tackle corruption, and expressed concerns about the US neglect of the region: “we need, and we have asked, that they look toward the region more – the region, not just Panama” (Moreno, 2019; Eschenbacher & Moreno, 2019). Cortizo formalized the decline in US interest in the region and showed how Panama still refers to the US as a patriarchal figure.



Figure 1. US Foreign Aid Obligations to Latin America Region between 1952 and 2018 in Constant USD (2010 constant year). Graphic display of the most recent data as adopted from USAID Country Summary Dataset. Data Retrieved from <https://explorer.usaid.gov/data>

Whether as a response to the need of its regional neighbors or not, the US has recently devised a U.S. Strategy for Central America: a strategic framework outlining US diplomatic efforts and foreign assistance in this LAC sub-region. It aims to protect American citizens by addressing security, governance, and economic drivers of illegal immigration and transnational crime in the region through enhancing security, promoting prosperity, and improving governance (U.S. Department of State, 2019). However, this seems to be more of a signaling tactic rather than concrete action, as the decline in its foreign aid to the region casts a shadow.

3.2 China's Rise and Increasing Influence in LAC

China has been heavily investing, lending and increasing its position of power around the world in the last decades (De Wijk, 2019). As the second largest economy in the world and the largest one in terms of total GDP (PPP), China has material power in the global arena (World Bank, 2019). What has helped China to emerge and sustain growth, in the general secretary of the Chinese Communist Party (CCP), President of the People's Republic of China and chairman of the Central Military Commission Xi Jinping's view, is "The Road to Rejuvenation". Xi declared that the focus on leading the development of China to re-attain a certain degree of centrality on the global stage is the Chinese Dream (Xi, 2014, p.37). To reach this ideal, making allies, increasing partnerships and engaging diplomatically with the international community is necessary in his eyes. This would suggest China seeks to become a world leader seemingly through soft-balancing tactics. In Schmidt's (2019) conception of hegemony, China seems to rise as a potential hegemony as it fulfills hegemonic capabilities: China is first in population size, second in military strength and economic capacity, and through the BRI they are expanding their territorial extent (De Wijk, 2019; Chan, 2020). The 'Middle Kingdom' has regained great power in the political-economic arena and this has sparked research, media, and public interest to discuss and debate its rise and potential to shape a new global order (Lardy, 1994; Bergsten *et al.*, 2008; Shambaugh, 2013).

Xi Jinping's infrastructure mega-project: The New Silk Road or Belt and Road Initiative (BRI), often also called the One Belt One Road has set off China's expanding influence by increasing investments and loans to countries in need, foremost in Africa and Asia, but this has been criticized to be imperialistic (Okeowo, 2013; Pröbsting, 2014). The BRI is bolstering the development of infrastructure in many underdeveloped regions of the world which hold strategic potential for China (Dreyer, 2018). To a certain extent it resembles the US Panama

Canal project, though China's BRI encompasses the entire world. The BRI presents an ambitious programme that aims to increase the connectivity of China with other regions by land (Europe and Asia), air and sea (Africa and Latin America). This network is woven through large-scale infrastructure projects such as ports, railways, highways, flight routes, and even digital systems (Kuo & Kommenda, 2018).

In Xi's words "to develop the "One Belt One Road" the two sides need to follow the principles of discussion, joint development, and sharing of benefits" (Xi, 2014, p.348). Thus, China sees it is a win-win project enhancing connectivity, trade deals, and global access through its investments and loans. Through neorealism, the BRI can be seen as a balancing strategy as it gains allies around the world who shift their alliance from Washington to Beijing. By this soft balancing of US power through cooperation and commerce, China accelerates its rise to superpower status. Moreover, the heavy investing attracts smaller states to bandwagon with the Chinese economic capabilities for economic gains that help ensure their survival. We can see China's increasing alignment with more states, however whether this is to counter balance US hegemony or just a pragmatic strategy to increase their own power is unclear. This is because a rational state would avoid becoming a threat to the US.

Therefore, China selects their potential allies wisely, as they seek to invest in parts of the world where the US is absent. However, the US absence in LAC has allowed for China to enter the region which desperately seeks growth opportunities and investment (Werner, 2020). On the other hand, LAC relations offer high potential benefits to China such as access to raw materials and markets (RV Finance, 2019). LAC states are thus bandwagoning for economic gains, as China lures in allies by offering economic opportunities otherwise unattainable in the absence of the US.

In fact, according to the OECD (2018, p.3), BRI investments are estimated to add up to USD 1 trillion of outwards funding for foreign infrastructure over the ten-year period from 2017 onwards. The BRI is therefore being called the largest and most colossal construction project and infrastructure development of the modern era, and by this, President Xi shows China's preponderance and commitment to give the Chinese their dream: bringing China back to its global leadership position by 2049 (ODI, 2020).

Ironically, the major economic growth China has seen stems from the international liberal order set by the US in the 20th century as it resulted in its superior manufacturing industry.

Consequently, China gained welfare and economic development and it outgrew other ‘third world’ countries of the Global South (Shambaugh, 2013; De Wijk, 2019).

The LAC region is thus where China is now increasingly exerting its economic development strategy through lending and investment in infrastructure (Tulchin, 2019). The Chinese interest in Latin America began mostly in the 90s after Deng Xiaoping’s economic reform in the late 70s. Most of that initial interest in the LAC region was for obtaining primary resources such as oil, iron, gold, beef and in particular soy beans which are especially popular in China (Giraud, 2020). However, today, the service industry, namely providing transport systems, logistical parks, power plants, and (air)ports, are receiving greater attention (Tulchin, 2019).

President Xi has visited 11 LAC countries in the past six years (Cui *et al.*, 2019) while Trump has only visited Argentina as part of the G20 summit in 2018, which Xi had combined with its travel to Panama. While China shows leadership in the region, a clear-cut neglect seen from the US in recent years. Solely the Panama Canal and its strategic importance and symbolism to the US are causing the US to look back to its neighbor. In this sense, China has overtaken the US as diplomatic leader in LAC. Having invested USD 306 billion since 2000 – surpassing the World Bank and the Inter-American Development Bank in energy and infrastructure projects, China has become the largest funder of LAC in terms of infrastructure (Carvalho, 2019) and is currently Latin America’s second largest trade partner, placing second after the US (Guzman & Weinman, 2020). This exercise of regional leadership, a feature of a hegemon according to Schmidt (2019), supports its presentation as a hegemonic challenger to the US.

However, in terms of trade the US holds the superior position. The US leadership in trade again questions China’s challenge to US hegemony as it shows it is not the most powerful state in the international system (Schmidt, 2019). Still, the massive influx of Chinese capital into the region has been increasingly welcomed as economic gains are pursued, showing that LAC states are bandwagoning on surging Chinese economic opportunities, that increase their power and ensure survival (Tulchin, 2019).

In LAC alone already 19 countries have opted into the BRI and some even had to cut diplomatic ties with Taiwan for that sake (BeltRoad-Initiative, 2020). This is due to the One China policy which states Taiwan must be recognized as part of the People’s Republic of China, cutting Taiwan off is requested in order to acquire diplomatic relations with China. In 2017 Panama followed Costa Rica in doing so to sign the BRI (Wintgens, 2017). As more LAC countries sign into the BRI, China has been able to set a foot-in-the door in the region’s economy (Dreyer,

2019). A range of activities by the Chinese in LAC vary from projects such as developing a surveillance system in Ecuador, to funding a hydroelectric plant in Brazil, and increasing overall regional Chinese media presence (Jenner, 2019). These developments have resulted in China gradually becoming embedded into their partner LAC countries' economies.

The success of Chinese investments in LAC is partly linked to China's ability to tap into the needs of both regions (Werner, 2020). On the one hand there is the need for investment by LAC countries, and on the other hand we see an unending Chinese wallet that can spare funding in exchange for energy, resources, influence and development (Wu & Koh, 2014). Being a region with vast unexploited areas available for resource extraction and infrastructure development, LAC provides suitable conditions for China. With the decline of US interest in the LAC region, a widening gap of investment and attention has risen becoming a window of opportunity for China to deliver those economic gains in the LAC region which they cannot provide themselves (Soutar, 2020).

The effects that surge from China's rise in power and its large-scale BRI projects in the LAC region remain under-studied although these could not only have serious consequences for the economic sovereignty of those on the 'receiving' end of the relations but for the global economy and order.

Barczyk (2018) says, that we should see China as a sub-prime lender in Latin America now that states such as Ecuador and Venezuela both see debt distress due to Chinese loans-for-oil. Instead of having to repay the loans, the Chinese ask for oil instead as a form of alternate payment, leading to a depletion of resources, missed economic gains, and loss of territorial sovereignty since China controls the raw material, its market, and capital. Control of such a highly valued good, such as oil, is a hegemonic characteristic according to Ikenberry and Kupchan (1990). Moreover, this Chinese control over raw materials and capital, has been denominated as 'debt trap diplomacy', a warning to smaller states of the consequences that unsustainable Chinese deals can have on domestic and regional economics (Green, 2019; Hurley *et al.*, 2019).

As mentioned, the Chinese are framing themselves and its BRI to be beneficial for all of those involved, a 'win-win situation' (Yang, 2019). But to what extent is it really a win-win situation? It seems that for POTUS Trump it is not a winning position who sees it as the mark of a new era of "great power competition" where foreign nations have started to "reassert their influence

regionally and globally” and “contesting (America’s) geopolitical advantages and trying (in essence) to change the international order in their favor” (The Hudson Institute, 2018).

Taking China’s vision of increasing their global leadership alongside its BRI that exerts its economic capacity across the globe and extends its territorial outreach, together with the LAC’s pursuit for economic development after the abandonment of the US sparking the need for increasing power and securing survival, a scenario has emerged in which China-LAC relations bring both parties together in alliances for economic purposes above all (Dollar, 2018).

4. Panama's Relations with the US and China: balancing, bandwagoning, and neorealist assumptions

As a small and peaceful state with high average economic growth and with no great threats to balance against, Panama should be inclined towards seeking economic gains through bandwagoning, instead of balancing powers and threats (Schweller, 1994; 1997). A balance of threat perspective would suggest Panama would, as a weaker Third World state, be threatened by a greater rising power such as China as it can easily overpower Panama in both economic and military terms, but so could the US. With whom does Panama side, with the US which is the (regional) hegemon, or with an enthusiastic China, to balance power? Does China come forward as a threat, or is it rather a bandwagoning opportunity to gain economically?

In this section we analyze the Panama's relations with China and the US through the neorealist lens. First, we examine the longstanding historical US-Panama relations as it is important to understand where US hegemony and preponderance in Panama originates from in order to better comprehend their recent relations. Subsequently, the recent economic and diplomatic relations of Panama with the US and China are discussed in depth with the help of economic data, discourse, and the five neorealist assumptions.

4.1. "A Man A Plan A Canal, Panama": Panama's subordination to the US

In 1903, with the support of the US, Panama gained independence from Colombia to which it had adhered to after independence from Spain in 1821. Panamanians had been revolting against Colombian governance in pursuit of independence. This moment was taken advantage of by the US who had in mind gaining leverage in the territory and forming a new LAC state ally with geostrategic potential. The US helped Panama's balancing for autonomy by sending troops to the Panamanian coastline in order to deter Colombian military interference with the Panamanian uprising (Smith, 2005). This event shows how Panama allied with the US to balance against the threat of Colombia which in turn posed a threat to Colombia. This historical event shows the beginning of a longstanding diplomatic bond with the US who proved its regional hegemonic status as its overwhelming power restrained the escalation of security conflicts between Panama and Colombia who saw balancing against the preponderance of the US as unfeasible (Brooks, *et al.*, 2013).

As a result of this balancing for autonomy strategy, Panama rapidly gained independence. However, in exchange for their support, the US requested Panama to give them rights to a specific Panamanian territory on which they would have control and sovereignty. The US was namely aiming to build and exploit this part of the Isthmus exposing the underlying interests in aiding Panama. Ultimately, Panama had no choice but to accede to the US demands since the US's primacy signified a threat to their national security if it did not cooperate. Panama thus decided to bandwagon with the US to protect itself from it as potential threat and ensure its survival in accordance to Walt's (1987) of bandwagoning. This led to a US controlled territory denominated as the Canal Zone, where the US under President Theodore Roosevelt launched one of the greatest engineering projects of mankind: The Panama Canal. Roosevelt took the construction as a major goal and even made his visit to Panama the first official visit abroad ever of a POTUS. The Panama Canal was inaugurated in 1914 after years of construction nuanced by casualties and innovation in an unprecedented engineering effort which set off a new commercial era. Today, it is not only considered as one of the world's greatest engineering wonders, but as the act that initiated the US's ascension to a hegemon in the Western Hemisphere, a symbol of US preponderance (Martinez-Gugerli, 2018).

While the US remained in control of the Canal Zone, it became the main beneficiary of the canal for decades, in extreme contrast to the sheer economic gains for the Panamanians. The US-Panama power asymmetry and the imbalance of benefits from the canal, together with feelings of US oppression and preponderance, led to civil unrest and violence to spark protests and riots across the country demanding renegotiation of the Panama Canal understandings between Panama and the US. As a consequence, in 1977, new negotiations between the governor of Panama (Omar Torrijos, a military leader who came to power thanks to a coup d'état in 1968) and the then POTUS (Jimmy Carter) resulted in the Torrijos-Carter Treaty. The power asymmetry had created dependence on the US, and this dependence was seen as a problem by Torrijos who saw the construction of autonomous capabilities as the optimal option to tackle the disputed situation, resulting once more in a Panamanian strategy of balancing for autonomy (Cladi & Locatelli, 2015). The new treaty guaranteed Panamanian autonomy over the Canal Zone over time and of the canal from 2000 onwards.

Soon after, Manuel Noriega, Torrijos' right-hand, assumed the governor role of Panama after Torrijos was killed in a mysterious plane crash. Noriega, maintained a military dictatorship and the US government hired him as an informant to the CIA on regional geopolitics and gather intel as he simultaneously worked closely with LAC drug cartels. Noriega can be recognized

as an illegitimate Third Country elite leader who omnibalanced its internal and external threats to protect its leadership position (David, 1991a). Precisely, Noriega appeased both the US and the drug cartels by omnibalancing their interests. Noriega allowed US military presence in the Isthmus while exchanging intel to the CIA to combat drug trafficking and concurrently aiding drug cartels to succeed. By balancing against both threats through simultaneous alignment, Noriega retained power.

In late 1989, Noriega was found to be a corrupt and tyrannical leader and POTUS Bush deployed 26,000 troops to Panama to oust him and secure the country in an effort to revert it to a democratic state. It was the first time after the Vietnam War that the US deployed an overseas mission and the first of its kind, the “Just Cause” operation (Farnsworth, 2019). Noriega was ultimately captured and jailed, showing the US preponderance in the region and Panama, proving it to be a vivid threat to be balanced against or bandwagoned with.

Washington’s controversial intervention left deep scars and traumas to Panamanian society who after the US invasion attempted to heal the wounds of decades of military dictatorship (1968-1989). Through successful elections, democracy was reestablished. The International Monetary Fund and the World Bank helped Panama develop liberal policies and economic growth and improvements came about attracting financial institutions and investors from around the globe. Panama achieved an average growth rate of 6% since its democracy was restored and its GDP almost doubled from USD 6.4 billion to USD 12.1 billion (Farnsworth, 2019; Dussel Peters, 2019). By December 31st 1999, as required by the clauses of the Torrijos-Carter Treaty, the last US troops and officials occupying Panamanian territory of the Canal Zone left and Panama gained full control of the Canal. Now, Panama is one of LAC’s most thriving economies (Farnsworth, 2019).

4.2. Panama balancing threats and bandwagoning for economic gains with the US and China

Despite diplomatic relations officially having started in 2017, the Chinese influence in Panama was already existent for almost 70 years as Beijing increased its economic leverage by increasing the presence of Chinese agents in trade and commerce in the country (Chen, 2018). According to Celada (2019) this was boosted by the shift from relations with Taipei to Beijing. Since then, Panama has been cashing in Chinese investments and state firms have obtained a

series of questionable concessions in Panama's logistics, electricity and construction sectors (Dettoni, 2018; Ellis, 2018).

Before signing the BRI, China Landbridge, a Chinese privately owned company, in the Chinese sense of the word, meaning it is subsidized by the Chinese government and does not act without its approval, had bought Panama's largest port located at Margarita Island off the coast from the Panama Canal (Thrower, 2019). This shows evidence of China's territorial expansion in the region, a hegemonic characteristic according to Schmidt (2019). China aims to convert it into a deep-water high-speed mega-port called the Panama Colón Container Port (PCCP) by investing in the expansion and modernization of its facilities, with the China Communications Construction Company (CCCC) which is the world's largest engineering group as contractor, to fully exploit the Panama Canal's Neopanamax expansion (GCR Staff, 2017; Bnamericas, 2019). Varela, Panama's former president, coined it as the most important Chinese investment at that time while laying the first stone (ibid). Nevertheless, this massive project brings discomfort to the US as it fears China will soon control the maritime traffic of the Canal through which two thirds of ships to or from the US pass (Youkee, 2018). China's intention to control canal ports can be seen as a direct challenge to the US, who built the Panama Canal and controlled the Canal Zone until 2000.

The highlight of China-Panama bilateral relations took place in late 2018 when President Xi visited Panama, marking it Panama's first ever official visit by a Chinese leader, over a hundred years after the US's first visit (revealing once again the strong historical US-Panama ties). President Varela visited Beijing earlier that year, where they reached 19 cooperation agreements regarding trade, infrastructure and tourism, and kicked off the beginning of a series of BRI projects (Wong, 2018).

Furthermore, after Xi's visit, a major BRI infrastructure project on the Panama Canal worth USD 1.4 billion was awarded to a consortium known as the Panama Cuarto Puente, comprised by the CCCC and the China Harbour Engineering Company (CHEC), which allows the consortium to build a massive bridge that connects the western suburbs to Panama City (Martinez-Gugerli, 2018). The to-be fourth bridge over the Panama Canal is expected to be delivered by the end of 2023 (Bnamericas, 2019) and is one of the many reflections of the sheer scale of China's Canal plans. This bridge can be interpreted as a symbol of Panama-China alliance balancing over the US-constructed Canal. The economic capacity and overwhelming

scale of China’s role in Panama is increasingly explicit while Panama continues to bandwagon with China for economic gains.

Another Chinese-led project is the design and construction of the Panama City-Chiriquí train which the Chinese government is planning and financing (Bnamericas, 2019). This railway will connect the capital city with the western province and run across 391kilometres, a project that is expected to cost around USD 4.1 billion (ibid). The project would literally show China’s overwhelming material power as it develops its new silk road in the region.

Moreover, as seen in Figure 2, China is now the second largest user, after the US who is still the number-one user of the Canal with approximately 68 per cent of transits originating from or destined to US ports (Panama Canal Authority, 2020; U.S. Department of State, 2019). China is however the largest user of the Colon Free Trade Zone (the largest free trade zone of the Americas) homing around 50 Chinese companies as it provides facilities for business to thrive in their expansion to the region for manufacturing, distribution, and services to LAC, especially so in line with the BRI project (Xinhua, 2019). Panama’s decision to bandwagon with China, not for protecting itself from it as threat (Walt, 1987), but rather to gain the spill overs of its material power as well as for economic gains (Schweller, 1994) shows to be a fruitful strategy for Panama in boosting their economic power and survival capacity.

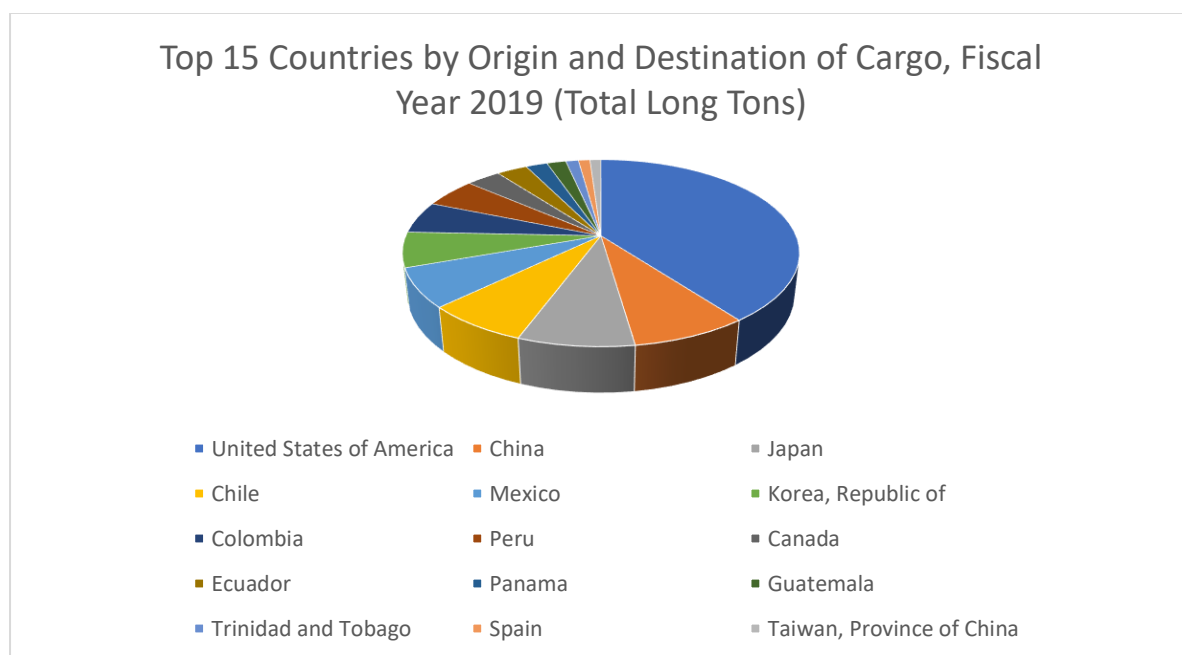


Figure 2. The Panama Canal Top 15 Countries by Origin and Destination of Cargo, Fiscal Year 2019. Data adopted from the Panama Canal Authority (ACP) (2020).

In response to worldwide increasing maritime trade, Panama had called for a referendum to expand its Panama Canal for USD 5 billion to remain a competitive player and improve its capabilities in services, logistics and trade. In 2007 it was approved and the new expanded canal was inaugurated in 2016 with the ceremonial passing of a Chinese COSCO container vessel through its brand new locks (Goh, 2017). While the expansion allows for larger cargo ships to cross the Isthmus, benefitting both China and the US, it was China that showed an exercise of leadership by participating in such a symbolic manner in the inauguration of the expansion.

In addition, since 2000, US influence in the region declined (see Figure 1) and Panama began to experience foreign direct investment (FDI) inflow “coupled with a higher rate of government spending, GDP growth rate and external debt as a percentage of gross national income” (Dussel Peters, 2019, p.232). According to Lloyd (2018) Panama’s ownership and control of the Panama Canal influenced its FDI inflow and in turn its economic growth and prosperity. In Figure 3 we see that FDI to Panama from China has grown by 2,127.5% between 2006 and 2018, outpacing the US’s 396.3% increase in the same time frame. This suggests that there is a rapidly growing wave of Chinese investments and cooperation. Still, the overall amount of US FDI in Panama is more than 31 times the Chinese, demonstrating US primacy and its unrivaled hegemonic position. Even so, China’s soaring investment rate year-on-year shows it is on course to becoming a contending power that could eventually challenge US hegemony in the region.

Panama is furthermore considered to be the “oldest” nation to be dollarized, being a symbol of the US dollar diplomacy in the region (Smith, 2005). Its national currency, the Balboa, has since 1904 been tied to the United States Dollar (USD) at an exchange rate of 1:1 (note it when referring to Figures). Roosevelt had it become an official currency in the country shortly after its independence from Colombia in order to facilitate business. Today, the USD is thus used in Panama as the official currency and Balboas are used only as coins. Panama has never had a central bank and by using the USD, Panama shields itself as reliance on the USD constitutes a form bandwagoning with the US whose currency offers protection from out-of-control inflation rates and ensures economic stability in so far the USD persists as a strong currency in the world economy. The USD renders Panama attractive to foreign investment as it eases doing business in the country. Hence, Panama enjoys the spill overs from bandwagoning with the US in this aspect. Nevertheless, it is a double-edged sword because it perils over-dependency on US economic stability and risks abandonment (Cladi & Locatelli, 2015). This asks Panama to be

cautious as they see themselves cornered into responding to the needs and developments of the US Central Bank which controls the currency. Panama is thus obliged into following the US since the fate of their currency ultimately depends on US decision-making. It is evident that the economic grounds on which Panama stands on are dominated by the US. Definitely, any positive or negative impact that the US suffers economically directly cascades down to Panama's economy. To this end, Panama, being a rational state, must preserve a stable relationship with the US.

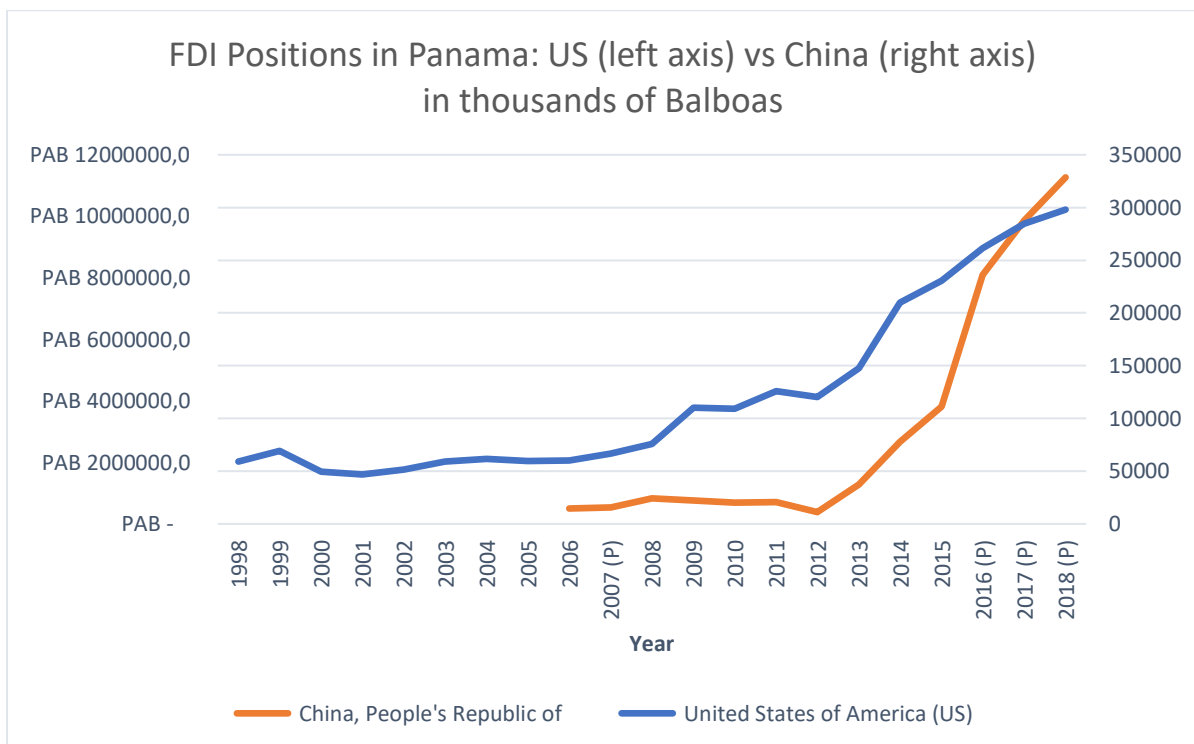


Figure 3. Foreign Direct Investment (FDI) Position of the US versus China in Panama (in thousands of Balboas) between 1998 and 2018. (P): Preliminary data. Graphic display of the most recent data as adopted from the Panamanian National Institute for Statistics and Census (INEC) on FDI (Inversión Extranjera Directa) into the Republic of Panama per country of origin as of 31st of December per year.

The dependency of Panama's economy on the US economy is stressed in their trade relations. Panama's trade relies heavily on the US as seen in in Figures 4 (exports) and 5 (imports). The US is Panama's principal partner in terms of its imports and exports, both surpassing Chinese trade. While imports from the US and China have both risen over time, it is the trend in Panamanian exports that calls our attention.

It is interesting to see that Panamanian exports (Figure 4) to the US have decreased significantly in the last decade while the exports to the Chinese market has stayed at a relatively constant

level. In fact, exports to the US were 10 times larger than to China in 2008, but since then, partially due to the 2009 economic recession, exports to the US declined rapidly to only representing 3 times the number of exports to China by 2017. Although, the US shows to be Panama's top export destination, its downward trend suggests the US and China are coming closer to levelling out, showing how China is coursing to become equally important in terms of exports from Panama, hinting to the rise of China in Panama's economic agenda and the relative downfall of the US.

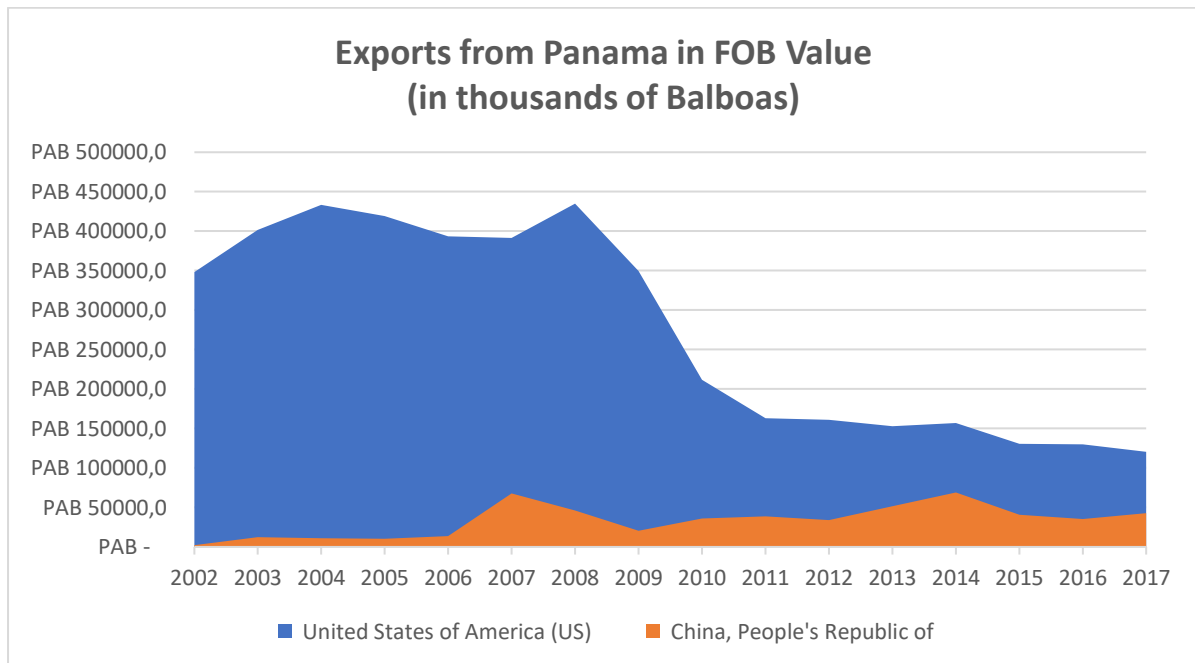


Figure 4. Panama Exports to the US versus China (in thousands of Balboas) between 2002 and 2017. Graphic display of the most recent data as adopted from the Panamanian National Institute for Statistics and Census (INEC). Data Retrieved from https://www.inec.gob.pa/publicaciones/Default2.aspx?ID_CATEGORIA=4&ID_SUBCATEGORIA=19

Considering this, it would be irrational for Panama to challenge any US interests. By maintaining its ties with China, who the US Secretary of State Mike Pompeo has warned to be engaging in “predatory economic activity” in the country, Panama is in reality turning its back to the US as it neglects their concerns (Wong, 2018). Pompeo, visited Panama City in late 2018 (a year after it cut diplomatic ties with Taiwan) to emphasize that Panamanians should be careful with dealing with China and made the statement that “when China comes calling, it’s not always to the good of your citizens” as deals might seem lucrative and beneficial for their national economy but that they are deceitful in reality as they “show up with deals that seem too good to be true” (Wong, 2018). Pompeo has been one of the most prominent figures in

Washington who has explicitly expressed the growing anxiety over China’s increasing influence in LAC in terms of economic activity.

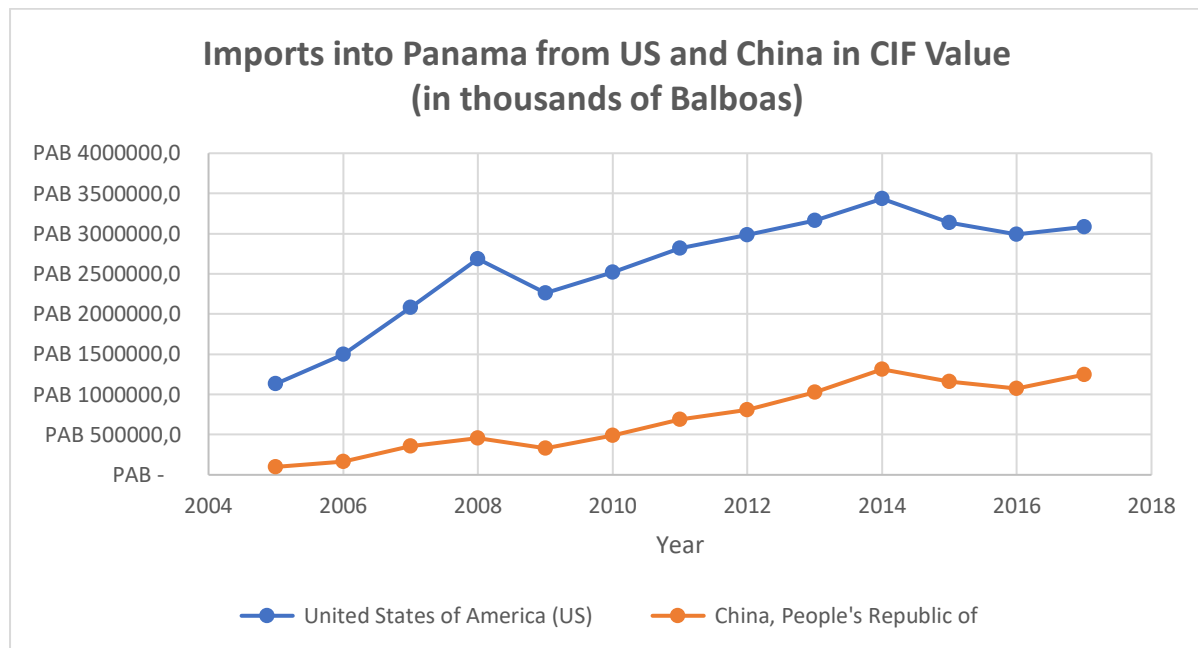


Figure 5. US versus China Imports from Panama (in thousands of Balboas) between 2005 and 2017. Graphic display of the most recent data as adopted from the Panamanian National Institute for Statistics and Census (INEC). Data Retrieved from https://www.inec.gob.pa/publicaciones/Default2.aspx?ID_CATEGORIA=4&ID_SUBCATEGORIA=18

Moreover, recalling that it was the US who orchestrated Panama’s independence and who completed the construction of the Panama Canal, which now is the country’s primordial source of income, the US can be seen as a ground layer of the Panamanian modern economy. Having meddled with Panamanian politics and economics for decades, the US undoubtedly became master of Panamanian politics as their leaders became US puppets, exemplified by Noriega. What is more, if these pseudo-leaders defied the US’s interests, measures of hard balancing of power such as a military invasion into the country are seen to be taken to restore the ‘order’ and status quo as envisaged by US geopolitical interests in Panama. It is this historical display and exertion of US power on Panama that shows how the US sees Panama as a child of its own, a protégé of the US in a certain sense. A child that is punished when posing as rebellious and grounded when disloyal. The US takes realist measures in their steadfast concern to maintaining order and control of Panama’s political economic landscape and vision for their own sake of safeguarding the status quo and power over the western hemisphere.

4.3. Panama's diplomatic trends and tensions with the US and China

By 2013, the US and Panama had agreed on 84 bilateral treaties since 1904, addressing matters such as fiscal and environmental cooperation, military assistance, education, tourism and trade¹. While according to the Chinese Embassy in Panama, Panama and China reached a staggering amount of 47 bilateral agreements since 2017 (MIRE, n.d.). Even though the amount of bilateral US-Panama agreements (84) is almost double the amount of China-Panama agreements, the latter have reached them in just over 2 years while the former reached their 47th agreement after 89 years of diplomatic relations. Hence, the US comes first in quantity but that is logical given its 109 years of relations (1904-2013) which is more than 50-fold the time that China-Panama relations have existed. This portrays the rapid influence of China in Panama while also raising questions on the rationality behind Panama's suggestively uncontrolled growth under President Varela and the Chinese underlying intentions.

In late 2019, Panama City hosted the 13th China-LAC Business Summit, showing its willingness to continue forging bonds with China and in serving as a hub of connectivity between the Chinese and LAC region (Liu, 2019). Yet, President Cortizo has drastically shifted the Panamanian stance towards Chinese commercial and diplomatic relations. Taking a step back from the accelerated process under Varela, Cortizo is seen to balance with the US against the 'predatory' nature of China by excluding China from news and information sessions organized by the Foreign Ministry, purposely rejecting propositions and delaying investment projects and reducing the scale of new bridges over the Panama Canal, all while keeping China without a long-term embassy settlement (Youkee, 2020). Despite these measures, Cortizo has stated he is open and confident about cooperating with China but on a more transparent and equal level (Eschenbacher & Moreno, 2019).

The US considers Panama to be its "principal partner in the region" and continues to see it as "a critical partner in the interdiction of illegal drugs destined for the US" since organized criminal activity contributes to security issues that harm Panamanian and regional democratic institutions and economic prosperity (U.S. Department of State, 2020). The US has a clear vision of how Panama should act and know exactly how to manipulate Cortizo, as they deny issuing visas and threaten with adding Panamanian elites to the 'Clinton List' (a list which

¹ List of Bilateral Treaties Between Us and Panama. Retrieved from <https://static1.squarespace.com/static/5ab93a9a0dbda396c09c62b0/t/5ad4c25d2b6a2842e68d904e/1523892829363/Lista+de+Tratados++bilaterales.pdf>

publishes businesses and individuals who benefit of money-laundering and drug trafficking) into acting how they believe is in the best interest for Panama and so itself (Youkee, 2020).

Another indicator of Panamanian balancing with the US for economic gains is the US-Panama Free Trade Agreement which came into force in 2012: the Trade Promotion Agreement (TPA). Through the TPA, tariffs were eliminated and barriers to financial services and trading to US exports removed. Also, the TPA set high standards for investment processes and provided an outline in how to deal with issues related to trade conflicts and investments with the aim to enhance and enlarge trade between the US and Panama. Even though US-Panama trade has been seen to diminish over the recent years (Figures 4 and 5), the TPA has served as a way to eliminate obstacles to trade and investment as well as facilitating telecommunications, electronic commerce, intellectual property rights, labor protection and environmental conservation². The TPA supports Panama's strong bandwagoning strategy with the US. Meanwhile Panama and China have yet to sign an FTA.

4.4. Neorealist Assumptions on the US-Panama-China Relations

4.4.1. Anarchy and Survival

The anarchy principle of neorealism suggest that every state depends on solely themselves for survival. Survival is needed as without this there is no point in pursuing any state goal, including power and maintaining a hegemonic status if possessed. Through survival, states protect themselves and safeguard their ability to gain power. In this sense we can see that Panama has opted to strengthen their economic ties with China to maximize their economic power and bolster its survival. However, as a small state, Panama does not find itself in an anarchical order. This is because of superior material capacity of the US to function as an overarching entity that can punish Panama's actions. The preponderance of the US over Panama's political and economic system based on their (historically) strong economic ties such as sharing currency, massive trade relations, foreign aid and military assistance they provide Panamanians.

² Embajada de los Estados Unidos en Panamá. Tratado de Protección Comercial E.E.U.U. – Panamá. Retrieved at <https://pa.usembassy.gov/es/our-relationship-es/policy-history-es/usp-tpa-es/>

By joining China in diplomatic relations, Panama acted as a weak actor in the international system in search for gaining economic power and keeping its survival. But, with this Panama has also defied the regional threat that the US represents. On the one hand, Panama is rewarded economically by increasing its commerce and bilateral agreements with the greater power China represents, but on the other hand Panama risks being punished by the greater power of the US to which Panama became a subordinate since its independence and later evolved into bandwagoning (after balancing for autonomy) in order to both protect itself from the US as threat and gain from spill-overs.

From the perspective of the greater powers, the anarchic assumption supports China's move towards creating ties with Panama and LAC countries in general if China is deemed a hegemonic contender since then there is no overarching entity that can seriously threaten it. Nevertheless, the US-China tensions show that in practice, the US is fencing off the rise of China. Yet, China continues to strengthen ties with LAC states through diplomatic and economic relations. Improving interstate economic affairs tends to be positive as it pushes globalization, cooperation and development further in a liberal sense. However, increasing interstate economic ties also requests commitment that can become subordination if preponderance between greater powers and lesser powers is asymmetric. Smaller states such as Panama with weaker economic power are likely bandwagon with greater states with stronger economic power such as China and the US to ride on their success and spark economic gains.

4.4.2. Rationality, Uncertainty of Intentions, and Military Threat

Ever since abolishing their army, Panamanians rely on military assistance from the US. With the fresh memories of the overwhelming power of the US military from the "Just Cause" operation to oust Noriega (see Figure 7 in the Appendix to see USAID spike in 1990 as a result of the invasion), Panama' rationality should warn it to not contest US interests. Historical events such as the mentioned should imply that Panama takes a cautious approach to foreign relations as to not act in opposition to US interests. However, Panama's abandonment of Taiwan (who the US recognizes as legitimate state) as diplomatic partner and tying with China instead completely disregards US foreign policy interests. It is true that Panama has its own autonomy and is free to choose to bond with China over Taiwan, however it must not forget the neorealist assumption that the US and China are also, next to being the two largest economies, in possession of the two largest military powers and that these could theoretically

be used, since state intentions are unpredictable, to attack Panama for power-gaining and survival reasons.

Moreover, the issue that the US fears from the increasing ties between Panama and China is not so much their economic agreements as its impact on its interests in Panama. Panama, being a geographically strategic location, serves as bridge between North and South America, a crucial place for combating narcotrafficking. Besides, the Panama Canal which connects the planet's two largest oceans is, as the US knows, a highly strategic location for military assembly and presence for naval vessels. Historically, the US has dominated the Canal Zone area both economically and in military terms, but since its retreat with the turn of the Century, space has opened. The US, not being able to discern the intentions of China in the Panama Canal region, fears that Chinese presence here can evolve into a military one which could potentially result in a security dilemma (WSJ, 2018). The US distrust in Panama-China relations could trigger a security dilemma (Snyder, 1984) where for example the presence of Chinese capital at both ends of the Panama Canal in the form of ports can encourage the US to increase its military capabilities in Panama to prevent a Chinese threat and shield itself from being potentially overpowered or lose leverage in Panama.

With the development of a navy that can operate on a global scale and over 2 million troops at their disposition, the People's Liberation Army (PLA) is the world's largest combat force and modernizing their military has been a top priority for the Chinese government over the course of the last decennia (Chan, 2020). The increased Chinese military activity across the globe and its tightening secrecy that raises uncertainty as to whether their intentions are purely multilateral with their meddling in the geostrategic country (ibid).

As uncertainty dominates the relations between Panama and China, it is difficult to discern what the position of China in Panama is. Even if it turns out that China purely seeks economic relations and nothing else, the uncertainty instilled on US leaders can cause them to feel tempted to acting militarily for the sake of protecting the current balance in power in the region as a status quo state which wants to keep its preponderance. Following from this notion, as Waltz's (2010) argument that too much makes a target, the uncertain Chinese power in Panama can lead to US to hard balance against it, giving way to the Thucydides trap as illuminated by Allison (2017).

Similarly, China deals with uncertainty in how to act and move forward as the US seriously questions its LAC partners' and Panama's recognition of Beijing over Taiwan. Recent leaks of

mobile communication from ex-president Varela, called the ‘Varelaleaks’, reveal in a conversation that Varela had with Panama’s Maritime Authority boss Jorge Bakarar that Varela allegedly received a sum of USD 143 million for disbanding diplomatic ties with Taipei and choosing for Beijing, which supposedly was a donation from China to Panama for commencing diplomatic relations (Chacón, 2019). This raises suspicion as to the nature of Chinese deals in the region and worsens the uncertainty and unease of Washington regarding Beijing’s increasing influence in Panama.

From a neorealist perspective it is believed that instead of trying to maintain their hegemonic position, the US should adapt and adjust appropriately with the unavoidable decline of its hegemonic position due to the rise of competitive powers (Posen, 2014; Schmidt, 2019). Instead, the US previously ordered its heads of missions to the Dominican Republic, El Salvador and Panama, to return to the US to discuss the shift from Taipei to Beijing in the region. China’s Ambassador to Panama, Wei Qiang (2018), expressed discomfort with this action, suggesting in a tweet that the US was being hypocritical and losing its credibility as a state showing “pure arrogance”.

Further US actions that show its efforts to restrain China’s expansion in Panama were seen when the US derailed China’s plans to build a new embassy on an island off the shore of Panama City which would have led to a Chinese flag being raised close to the entrance of the Canal (Youkee, 2018). The US pressured ex-president Varela to withdraw the option for it, which meant the second pushback against a Chinese embassy being built in Panama City (ibid). This shows foremost the US concern and consideration of China as a threat to its hegemony since it tries to block this extra-hemispheric power to override US’s existing primacy. At the same time it shows how Panama continues to align with the US and its interests, especially recently with Cortizo’s restricting of China’s rising influence. The US framing of China as a threat to its status quo order, require Panama to figure out a strategy to balance both nations’ interests for economic gains. Panama’s struggle is its need to maintain a malleable position to the US hegemony it bandwagons with (Kaufman, 1992) while developing an alliance with China to secure society’s needed economic and domestic goals (Levy & Barnett, 1992).

5. Conclusion

“They (US) need to pay more attention...While they’re not paying attention, another one (China) is making advances”³ – Laurentino “Nito” Cortizo, President of the Republic of Panama

With the rise of China as a contending world power that seeks to regain its status as world leader alongside the US decline in LAC interest, this study aimed at answering the question to what extent the role of China in Panama constitutes a challenge to the US hegemonic role. To that end, this thesis has shown, by means of a neorealist analysis of how Panama has dealt with China and the US in historical and recent times through socio-historical, economic, diplomatic and military relations, that the US hegemony is losing strength, but not collapsing, to China’s rise. Hence, a shift in hegemony is not possible to conclude, however, the increasing short-term involvement of China does show a nascent trend which if sustained could escalate to long-term contesting of US hegemony, raising the notion that world order as we know it is nearing a crossway.

Moreover, the hypothesis expecting a shift in the balance of power, from a US unipolar hegemony to a US-China bipolar hegemony as Panama increasingly balances and bandwagons between the US as long-standing regional hegemon and China as novel rising economic power which offers economic gains, is rejected. This is because a concrete shift in the balance of power is not seen, merely an indication of China’s potential to shift the balance of power is observed. The US retains its unipolar hegemony, while China’s rise shows the start of a trend towards a possible bipolar hegemony. Moreover, Panama constitutes too narrow a case for generalizing a shift in the global balance of power.

Nevertheless, Panama is seen to bandwagon with the US in the long-term and China in the short-term, supporting the expectation that Panama would increasingly balance and bandwagon between the US as long-standing regional hegemon and China as novel rising economic power due to the long-term nature of US-Panama relations and the short-term recent booming Panama-China relations. Overall, our findings also show how the US still retains a superior position in both economic and military capacity. However, the rate at which China is rising

³ Eschenbacher, S., Moreno, E. (2019, May 6). Exclusive: U.S. must cultivate Central America or lose out to China: Panama. Reuters. Retrieved online from <https://www.reuters.com/article/us-panama-election-cortizo-exclusive/exclusive-u-s-must-cultivate-central-america-or-lose-out-to-china-panama-president-elect-idUSKCN1SC09H>

shows its long-term hegemonic potential. Whether it is China's intention to challenge or rather accommodate (Foot, 2006) to US hegemony remains uncertain. But, China's rise in the global arena, as economic and military power, as seen by Panama's case, confronts the hegemony of the US, at least to a certain extent.

Moreover, the hypothesis that Panama bandwagons with, and balances against both powers by constantly aligning with the greater threat of the two to secure economic gains is also rejected. This is because Panama is further seen to bandwagon with the greater threat to balance for autonomy and ensure survival. Panama attempts to find an equilibrium between China and the US, but this is a difficult task since its smaller size in terms of both economic and military power render it powerless in challenging the greater powers' interests.

Yet, Panama's flexibility in balancing and bandwagoning choices demonstrates that it considers China as a substitute for the US. Panama's proliferation of bilateral agreements with China, and its exponential receiving of Chinese FDI illustrate how Panama is metaphorically riding a Chinese dragon, where sky is the limit for economic gains. But, the US's threatening power due to its proximity and its longstanding historical influence shows to be influential as Cortizo's Panama now holds a relatively firmer position towards China. This supports Morgenthau's (1974) argument of state behavior being directly dependent on the human nature of its leader. Similarly, Trump's 'America First' policy points not towards an effort to remain as the global hegemon but rather to 'first' looking inwards as the US under Trump prioritizes national matters. This neglect of the LAC weakens the US's regional hegemony and facilitates hegemonic disruption by China (Newmann, 2011).

Whether the US can maintain its hegemony and leadership position of the international liberal order in times where POTUS Trump challenges most of the US's own liberal order's notions and by what means this can or not change, through new presidential leadership or else, remains unclear. Furthermore, whether the international system legitimizes China as the much needed leader of a stray liberal international order, or provides it with an alternative conceptualization remains a question to be studied (Schweller & Pu, 2011).

The figures seen throughout the paper and in the appendix section were created by the use of economic data collected from Panama's National Institute for Statistics and Census (INEC) and were analyzed in order to discern the trends in economic activity of the US-Panama-China relations. Unfortunately not all the data points are revised statistics, and in some cases preliminary (P) data had to be used. To better grasp the impact that the signing of diplomatic

ties with China had on Panamanian trade statistics and FDI, it is advised that new figures are constructed as soon as the newest data is published.

Furthermore, to advance the literature, it is recommended that different approaches to analyzing the present case are applied. Keohane (1986) states that realism is “better at telling us why we are in such trouble than how to get out of it” (p.198), and that “it helps us determine the strength of the trap, but does not give us much assistance in seeking to escape” (p.199). Keohane (1986, p.199) reminds us that beyond the analytical power that structural realism has in examining real international relations, one must reflect critically with other “theories that attempt to explain rules, norms, and institutions” which “help us to understand how to create patterns of cooperation that could be essential to our survival”. Through a liberalist lens, for example, the effects that rules, norms, and institutions that have risen from the international structure have on the case can be explored. This can help further understand US-Panama-China state behavior and what it is that must be accounted for when analyzing and treating international relations between these actors.

An actual and relevant case study for future research on LAC and Panama’s position regarding the US-China hegemonic debate is analyzing by their COVID-19 assistance and leadership to such weaker states. The pandemic is threatening states’ survival and affecting overall global order itself, impacting public health, exacerbating poverty and destabilizing economies. Moreover, long-term consequences of an uncontrolled outbreak in LAC can have dire impact on both national and regional US interests. It would be interesting to see to what extent the US and China are filling this medical assistance void, since exercising leadership and maintaining the status quo are hegemonic traits.

Finally, neorealists are encouraged to persist contemplating the pursuit for economic gains as a bandwagoning strategy. Assessing the need for economic gains as a key driver of state behavior will continue to gain significance in IR as the global economy increasingly unifies and trade wars between great powers become more frequent and severe. To this end, strengthening of economic ties and economic threats should increasingly be included in neorealist balance-of-power analyzes.

In sum, this thesis has shown how China’s increasing presence in Panama, as part of LAC, can be seen as a short-term (economic) strike to US hegemony, and signals China’s rise as a hegemonic contender, a phenomenon that must be studied further across space and time.

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Appendix

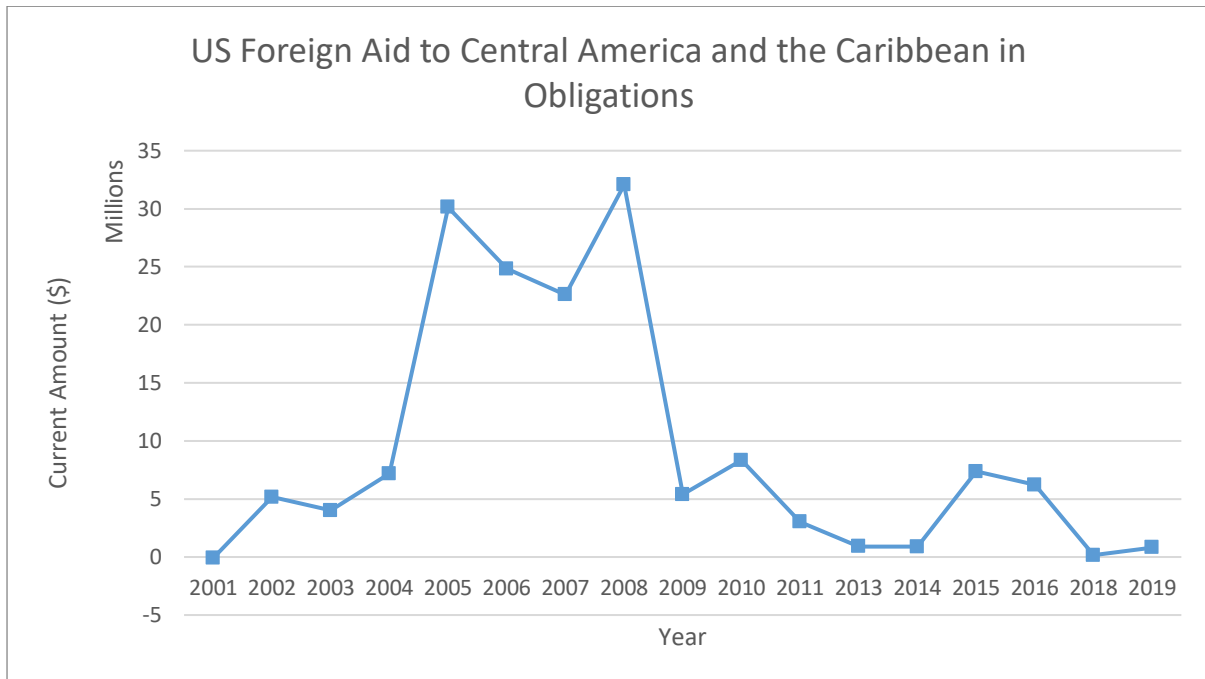


Figure 6. US Foreign Aid Obligations to Central America and Caribbean Region between 2001 and 2019 in Constant Amount of USD (constant year 2010) . Graphic display of the most recent data as adopted from USAID Country Summary Dataset. Data Retrieved from <https://explorer.usaid.gov/data>

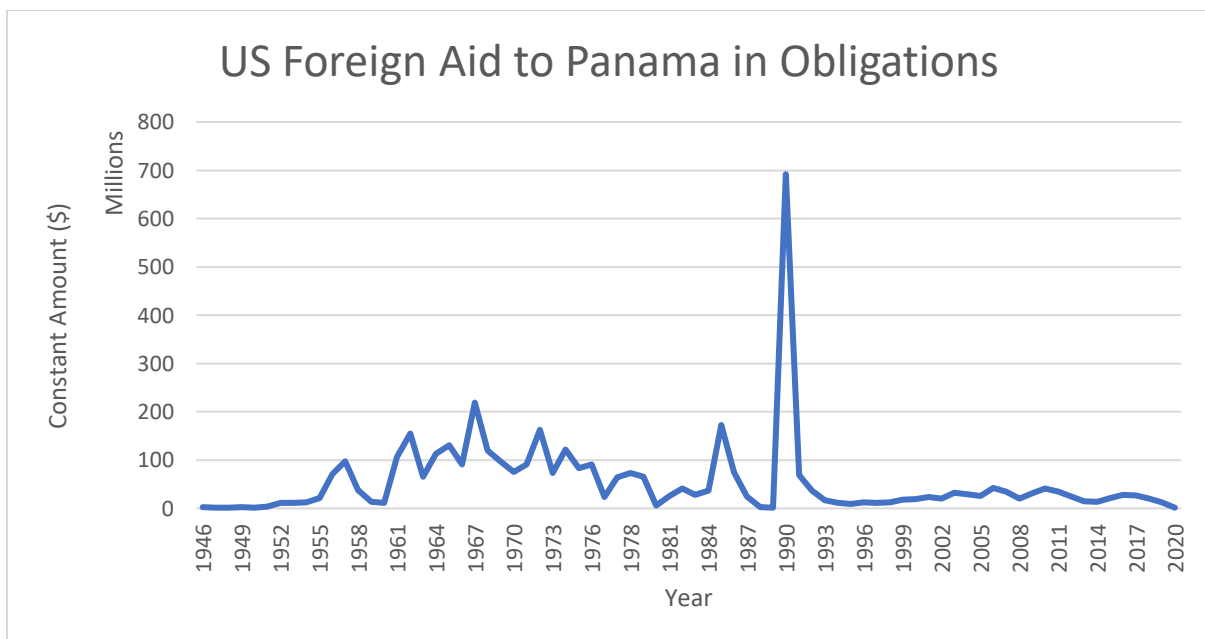


Figure 7. US Foreign Aid Obligations to Panama in Constant Amount (constant year 2010) of USD from 1946 (vo) to 2020. Graphic display of the most recent data as adopted from the USAID Country Summary Dataset. Data Retrieved from <https://explorer.usaid.gov/data>