

China's Beachhead at Panama Canal

by J. Michael Waller

Reporting from Balboa, Insight uncovers China's most recent political and economic maneuverings to obtain effective control of the [Panama Canal](#) as the U.S. leaves,

At the Panama Canal's only Pacific port a dozen huge construction cranes work massive new containerized-cargo facilities behind mounds of sand and concrete. Workmen clad in orange uniforms emblazoned with "Panama Ports Company" -- the innocuous English-language name in a near century-old bastion of U.S. maritime might -- operate the cranes and earthmovers alongside what once was the U.S. military's Southern Command headquarters known as SOUTHCOM. But the construction crews don't work for the Americans anymore. The Panama Ports Company is controlled by Communist China.

As U.S. forces pull out of Panama under the Carter-Torrijos treaties of 1977, Beijing's agents are moving in. And the Clinton administration is looking the other way, scrapping a 1995 plan to explore a continued U.S. military presence.

By all indications, China and its People's Liberation Army, or PLA, are building a beachhead to control the Panama Canal. Under the terms of a controversial lease, Panama gave Hong Kong-based [Hutchison Whampoa Ltd.](#) the right to build new port facilities in Balboa, the canal's only Pacific port, and a major Atlantic port in Cristobal, and to run them up to the next half-century. As Beijing increased its economic muscle in the country, [Panama's politicians gave Hutchison Whampoa the right to control anchorages on both ends of the canal, to hire new pilots to guide ships through the waterway, to block all passage that interferes with the company's business, to take control of key public roads near the canal](#) and to have right of first refusal for control of some former U.S. military bases.

"By most accounts, an unfair and corrupt contractual bidding process, which was protested by the U.S. ambassador to Panama, enabled the Chinese [Hutchison Whampoa](#) company to outmaneuver American and Japanese companies for the long-term lease on the canal ports," according to [Al Santoli](#), an aide to Republican Rep. Dana Rohrabacher of California. Santoli has traveled the perimeter of the Pacific monitoring Chinese maritime encroachments from the Philippines to Panama.

U.S. Ambassador to Panama William Hughes nearly was declared persona non grata for protesting the Hutchison deal when it was exposed three years ago, a U.S. official tells Insight. President Clinton responded by appointing Robert Pastor, an architect of the 1977 canal giveaway and an advocate for left-wing revolutionary causes, to replace Hughes. Senate Foreign Relations Committee Chairman Jesse Helms of North Carolina, one of the few lawmakers watching the Panama powder keg, blocked the nomination.

The Chinese company has exclusive rights to the ports on both ends of the canal. Ironically, in 1996 Panama asked a Seattle-based company to withdraw its successful bid for Cristobal on the grounds that the U.S. firm would have a monopoly, in light of its existing business in Balboa. The following year, Panama awarded both Cristobal and Balboa to Hutchison Whampoa. Between the ports lies the shortest land route for containerized cargo to be sent between the Atlantic and the Pacific from and to ships too large to cross the canal.

Beijing is in Panama for the long haul. Hutchison Whampoa has the right to extend its leases until the year 2047 or to transfer them to a third party. Already a Chinese corporation called Great Wall Panama has secured a lease as long as 60 years for an export zone on the bank of the canal on the Atlantic side.

"I have a sense that the U.S. is edgy about Hutchison Whampoa," former Panamanian vice president Guillermo "Billy" Ford tells Insight. But Washington has done little to pressure the corrupt government of President Ernesto Perez Balladares to reopen the bidding. Last year, Balladares hired Clinton strategist James Carville as his personal consultant in a bid to keep power beyond his constitutional term, which expires this month. Balladares says he will step down, but he has packed the new Canal Commission with his pro-Beijing cronies.

Hutchison Whampoa is more than a Hong Kong shipping giant. Company chairman Li Ka-shing is an important cog in the economic machinery of the Chinese Communist Party and the PLA. Li is a board member of the Chinese government's main investment arm, the China International Trust and Investment Corp., or CITIC, run by official PLA arms marketeer and smuggler Wang Jun.

According to Santoli, Li "has invested more than a billion dollars in China and owns most of the dock space in Hong Kong." Additionally, "Li has served as a middle man for PLA business dealings with the West," financing some of the controversial Hughes Electronics Corp.-Loral Space & Communications deals found to have been conduits for weapons technology to Beijing. He also has been a powerful ally of the Mochtar Riady financial empire of Indonesia -- the Lippo Group family that according to sworn testimony paid off Clinton's friends and political allies on behalf of Chinese military intelligence.

Hutchison Whampoa's port subsidiary, Hutchison International Terminals, or HIT, which in turn runs the Panama Ports Co., does substantial business with the PLA-owned China Ocean Shipping Company, or COSCO, which has been seeking to take over former naval facilities in Southern California. Some of Hutchison's board members consult to COSCO. China Resources Enterprise, or CRE, the commercial arm of Beijing's Ministry of Trade and Economic Cooperation, owns 10 percent of the Panama Ports Co. The Senate Governmental Affairs Committee has identified CRE as a vehicle for "espionage -- economic, political and military -- for China."

U.S. officials have been slow to realize the importance of Hutchison Whampoa and its global maritime network in Beijing's strategic planning. "Hutchison is trying to build a commercial empire in the Americas" a senior U.S. official in Panama tells Insight. "If you asked me three

years ago, I'd say Hutchison Whampoa was just a business concern. Logic would tell you that the PRC has more opportunity to influence Hutchison Whampoa than before."

As Santoli sees it, China appears to be positioning itself commercially and militarily along key naval choke points as they build their navy, the way the Soviets tried to do in the 1980s.

These choke points include bases in Burma to access the Indian Ocean; Hong Kong to project power into the South China Sea; the Straits of Malacca, where the PRC is expanding ties with Cambodia and building a naval facility on the Philippines-claimed Spratley Islands; the central Pacific, with a major land satellite-tracking station on Tarawa; the coast of Hawaii, with a major ocean-mining tract; the Caribbean, with new influence in the Bahamas and a growing security and intelligence relationship with Cuba; and, most important, the Panama Canal.

"If Red China gets control of the canal, it will get control of the government," says Panama City Deputy Mayor Augusto Diaz. "The Panama Canal is essential to China.... If they control the Panama Canal, they control at least one-third of world shipping."

Though the 1977 Carter-Torrijos treaty gives the United States the right to defend the Panama Canal militarily, the Clinton administration is allowing circumstances to develop in which U.S. defense of the waterway could become impossible without confronting the Chinese Communists. Panama has no standing army of its own and has been powerless to repulse Colombian guerrillas from its territory. All U.S. military facilities in the country will have been abandoned by December -- and a new Panamanian law gives Hutchison Whampoa "first option" to take over the former U.S. Naval Station Rodman and other sites, as well as an operating area at the former U.S. Albrook Air Force Station. "If they get their hands on Rodman, they'll have a lot on the Pacific side," notes local journalist Tomas Cabal. "Rodman is there at the first set of locks."