



Panama: An Overview

Panama’s central location in the Americas (linking North and South America) and its transportation infrastructure—especially the Panama Canal, which connects the Atlantic and Pacific Oceans—make the country a global trade hub and a strategic partner for the United States.

Figure 1. Panama Map



Source: CRS.

Political and Economic Environment

In Panama’s May 5, 2019, elections, Laurentino “Nito” Cortizo of the center-left Democratic Revolutionary Party (PRD) won a narrow victory in the presidential race with 33% of the vote in a seven-candidate contest, and will be inaugurated to a five-year term on July 1, 2019. Cortizo defeated Rómulo Roux, candidate of the center-right Democratic Change (CD) party of former President Ricardo Martinelli (2009-2014), who received 31%, and independent candidate Ricardo Lombana, who received almost 19%. Cortizo made inequality and poverty his main campaign issues, including making health care more accessible. Opinion polls showed Cortizo comfortably winning, but support for Lombana, who as a political outsider ran on an anticorruption platform, more than doubled from opinion polls. Cortizo’s PRD also won at least 29 seats in Panama’s 71-seat Legislative Assembly, the most for a single party, but final results are pending.

Cortizo will succeed current President Juan Carlos Varela of the center-right Panameñista Party (PPa), elected in May 2014, who could not run since Panama’s constitution does not permit consecutive reelection. Cortizo will head Panama’s seventh civilian government since the December 1989 U.S. military intervention that ousted the military regime of General Manuel Antonio Noriega. The endurance of elected civilian democracy in Panama for almost 30 years is a significant departure from the country’s previous history of military rule, including the populist rule of General Omar Torrijos (1968-1981) and the increasingly repressive rule of Noriega (1983-1989). Noriega died in May 2017; after the U.S. intervention, he served prison time on drug charges in the United States and France and then

returned to Panama in 2011 to serve time related to charges for political killings.

Current President Varela served as vice president during the Martinelli administration and initially served as foreign minister for two years until Martinelli fired him, related to Varela’s allegations of governmental corruption. Once in office, the Varela administration pursued numerous corruption cases against officials from the Martinelli government, including Martinelli himself, who has been investigated over irregularities in a public welfare program, illegal wiretapping, and illegal pardons. Pursuant to an extradition request from Panama, U.S. marshals arrested Martinelli in Florida in June 2017; he ultimately was extradited to Panama in June 2018, where he remains in prison awaiting trial for illegally wiretapping his opponents. During his term, Martinelli was criticized for his combative style of governing, but he remained popular in large part because of the strong performance of the economy.

Panama at a Glance

Population: 4.159 million (2018, IMF).

Area: 29,120 square miles, slightly smaller than South Carolina.

GDP: \$65 billion (2018, current prices, IMF est.).

Real GDP Growth: 5.3% (2017, IMF); 3.9% (2018, IMF est.).

Per Capita GDP: \$15,679 (2018, current prices, IMF).

U.S. Trade: U.S. imports, \$462 million (2018); U.S. exports \$6.88 billion (2018) (U.S. Department of Commerce).

In 2016, Panama experienced several high-profile corruption scandals. In April, a group known as the International Consortium of Investigative Journalists revealed over 11 million files of leaked confidential financial and legal records—the so-called “Panama papers”—from the Panamanian law firm Mossack Fonseca. The documents showed the use of Panama as an offshore tax haven by a wide range of celebrities, leaders, public officials, and criminals worldwide. In May, the U.S. Department of the Treasury imposed sanctions on an alleged trade-based money-laundering network associated with the prominent Waked family of Panama. The action highlighted long-standing concerns regarding Panama’s efforts to combat tax evasion and money laundering. A third scandal in late 2016 involved the Brazilian construction firm Odebrecht and touched a dozen countries worldwide, including Panama.

Panama’s services-based economy has been booming since 2010, in large part because of the Panama Canal expansion and other large infrastructure projects, such as a metro system for Panama City; a third bridge over the canal (and a fourth one planned); and expansion of the country’s airport, roads, and highways. The Panama Canal expansion was completed in 2016, and included adding a new set of locks

and a new channel, which doubled the canal's capacity and allowed it to accommodate giant container cargo ships known as post-Panamax ships.

According to the International Monetary Fund, Panama's economic growth averaged almost 6.9% from 2010 to 2017. Economic growth slowed to an estimated 3.9% in 2018, but the forecast for 2019 is for 6% growth, among the highest in the hemisphere. Strong economic growth and targeted social programs have contributed to poverty reduction. Nevertheless, although the World Bank classifies Panama as having an upper-middle-income economy, inequality in the country remains relatively high, with sharp regional disparities. The World Bank maintains that poverty prevails in rural areas, particularly among indigenous people.

On foreign policy, Panama established diplomatic relations with China in June 2017 (and in turn cut ties with Taiwan) in a move designed to attract more investment from China. Panama and China have signed some 20 cooperation agreements and are negotiating a free trade agreement. Chinese President Xi Jinping visited Panama in December 2018, and President Varela visited China twice, most recently in April 2019. With regard to the crisis in Venezuela, Panama is a member of the Lima Group supporting a peaceful resolution to the crisis and has recognized Juan Guaidó as Venezuela's interim president.

U.S.-Panamanian Relations

The track record of close U.S.-Panamanian relations stems in large part from the extensive linkages developed when the Panama Canal was under U.S. control (1914-1999) and Panama hosted major U.S. military installations. Relations have been strengthened by a bilateral free-trade agreement that entered into force in 2012 and significantly liberalized trade in goods and services. Because Panama has a services-based economy, the country historically has run a large merchandise trade deficit with the United States. In 2018, the United States exported almost \$6.9 billion in goods to Panama and imported \$462 million. U.S. services exports to Panama amounted to \$1.6 billion in 2017 (latest available), while services imports from Panama amounted to almost \$1.3 billion. The stock of U.S. foreign direct investment in Panama was \$4.7 billion in 2017 (latest available), led by nonbank holding companies, wholesale trade, and finance and insurance.

Reflecting the close state of relations, President Varela visited the White House in June 2017, where talks focused on shared priorities in combating transnational organized crime and illegal migration. Vice President Mike Pence visited Panama in August 2017; he reaffirmed the two countries' historic friendship and committed to strengthen the partnership in security and prosperity. In October 2018, Secretary of State Mike Pompeo visited Panama and reaffirmed the partnership on bilateral and regional issues, including Panama's advocacy for the restoration of democracy to Venezuela and Nicaragua.

Pompeo also raised concerns, however, about China's investment in Panama and about what he referred to as predatory economic activity. The Trump Administration has viewed China's engagement in Latin America with suspicion; in September 2018, it recalled its top diplomats from Panama, El Salvador, and the Dominican Republic for consultation—all three countries had switched their

recognition from Taiwan to China. At the time, President Varela issued a statement asking for respect for Panama's sovereign decisions.

The same characteristics that made Panama a strategic U.S. partner—its transportation infrastructure (especially the canal), free trade zones, use of the U.S. dollar as currency, and its large financial sector—also make it vulnerable to drug trafficking, money laundering, and other organized criminal activity. According to the State Department's 2019 *International Narcotics Control Strategy Report* (INCSR), transnational drug trafficking organizations use Panama as a transit country to smuggle cocaine to the United States and other markets. Panama's antidrug cooperation with the United States is strong, according to the INCSR, with Panama viewed as a trusted strategic partner and regional leader in interdicting illicit drugs. The State Department cautioned, however, that the increasing volume of drugs from Colombia and the spillover of criminality from neighboring countries exceeds Panama's capabilities services to manage these challenges alone.

According to the 2019 INCSR, although Panama has improved its anti-money laundering (AML) regime, numerous factors impede the country's efforts to combat such activity, including inexperience with money-laundering investigations and prosecutions, inconsistent enforcement of laws and regulations, corruption, and an under-resourced judicial system. Panama had been on the multilateral Financial Action Task Force's so-called gray list of countries with deficiencies in their standards to deter money laundering and combat terrorist financing, but it was removed in 2016 after efforts to improve its AML regulatory framework. In March 2019, the European Union rejected a proposal that would have included Panama on a blacklist of countries unwilling to cooperate against money laundering and terrorism financing.

Most U.S. aid to Panama is security related, focused on improving Panama's ability to deter drug trafficking. For bilateral assistance, the United States provided \$3.3 million to Panama in FY2017 and \$3.1 million in FY2018; for each of FY2019 and FY2020, the Trump Administration requested \$1.2 million for military education and training and support to help Panama develop a strategic trade control system meeting international standards. Panama also receives support from U.S. regional programs, such as the Central American Regional Security Initiative, implemented by the State Department and the U.S. Agency for International Development, aimed at improving the capabilities of Central American countries to interdict, investigate, and prosecute drug trafficking and other transnational crimes. The Department of Defense also supports drug interdiction and counterdrug activities, including infrastructure and equipment. The Peace Corps (with over 190 volunteers) and the Inter-American Foundation provide support for Panama's economic development. From all these sources, including bilateral assistance, the United States provided almost \$27 million in assistance to Panama in FY2017 (latest available).

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