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Panama: An Overview

Panama's central location in the Americas (linking North and South America), large financial sector, use of the U.S. dollar as currency, and 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. Map of Panama



Source: CRS.

Political and Economic Environment

Like other countries worldwide, Panama is contending with the Coronavirus Disease 2019 (COVID-19) pandemic. The government's strong response, with school and workplace closures, has been credited for curbing the spread of the disease. As of May 22, 2020, the country had 291 reported COVID-19 deaths.

Current President Laurentino "Nito" Cortizo of the center-left Democratic Revolutionary Party (PRD) won a narrow victory in Panama's May 2019 elections, receiving 33% of the vote in a seven-candidate contest. Cortizo's PRD also won 35 seats in Panama's 71-seat National Assembly, the most for a single party; it is working in coalition with the National Republican Liberal Movement (Molirena), which has five seats in the Assembly, providing the government with majority support. During the campaign, Cortizo pledged to reduce inequality and poverty, make health care more accessible, and reform the constitution.

Cortizo heads 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 more than 30 years is a significant departure from the country's history of military rule, including the populist rule of General Omar Torrijos (1968-1981) and the increasingly repressive rule of Noriega (1983-1989).

Cortizo succeeded Juan Carlos Varela (2014-2019) of the center-right Panameñista Party. Varela served as vice president during the Ricardo Martinelli administration (2009-2014) and 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 Martinelli government officials, including Martinelli himself, who was investigated over irregularities in a public welfare program and illegal wiretapping and pardons. Martinelli was extradited from the United States to Panama in June 2018. In August 2019, he was acquitted on charges of ordering the illegal wiretapping of his opponents.

President Cortizo's plans for constitutional reforms have slowed. In July 2019, Cortizo submitted to the National Assembly a package of reforms prepared by a consultative body consisting of business, labor, and civil society groups. The reforms aimed to strengthen the judiciary, improve public sector transparency and accountability, and strengthen the separation of powers. The National Assembly amended the reforms in October 2019, watering down anti-corruption measures and banning marriage equality, among other controversial changes. Protests ensued, and in December 2019, Cortizo pulled the reform package and announced that his government would start the process over again and develop a new national dialogue process to advance the constitutional reforms.

Panama at a Glance

Population: 4.2 million (2019, IMF est.).

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

GDP: \$68.5 billion (2019, current prices, IMF est.).

Real GDP Growth: constant prices, 3.7% (2018, IMF); 3% (2019, IMF est.); -2.1% (2020, IMF forecast)

Per Capita GDP: \$16,245 (2019, current prices, IMF).

Key Trading Partners: United States (25%), China (10%), Mexico (5%), Costa Rica (4%), and Spain (4%) (2019, total trade, Panama National Institute of Statistics).

Panama's services-based economy had 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 airports, roads, and highways. The Panama Canal expansion was completed in 2016 and included adding a new set of locks and channel, which doubled the canal's capacity and allowed it to accommodate giant container cargo ships.

According to the International Monetary Fund (IMF), Panama's economic growth averaged almost 6.9% from 2010 to 2017. Economic growth slowed to 3.7% in 2018 and 3% in 2019 but was among the highest in the region. Due to COVID-19, the IMF forecasts a contraction of 2.1% in 2020; other observers project a deeper recession.

Panama's strong economic growth and targeted social programs contributed to poverty reduction in recent years.

The 2020 economic downturn could jeopardize those gains. Although the World Bank classifies Panama as having an upper-middle-income economy, inequality remains high. 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. President Xi Jinping visited Panama in December 2018, and then-President Varela visited China twice, most recently in April 2019. Panama and China have signed some 30 cooperation agreements. Negotiations for a free-trade agreement (FTA) began under President Varela but have yet to resume under the Cortizo government. 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. Under President Cortizo, Panama joined the United States and 10 other countries in September 2019 in invoking the Rio Treaty to facilitate a regional response to the crisis.

U.S.-Panamanian Relations

The 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. A bilateral FTA that entered into force in 2012 has strengthened relations and significantly liberalized trade in goods and services. Because Panama has a services-based economy, it runs a large merchandise trade deficit with the United States. In 2019, the United States exported \$7.7 billion in goods to Panama and imported \$452 million. U.S. services exports amounted to \$1.7 billion in 2018, and services imports from Panama amounted to \$1.5 billion. The stock of U.S. foreign direct investment in Panama was almost \$5.1 billion in 2018, led by nonbank holding companies.

Reflecting the close state of relations, then-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.

President Trump spoke with President Cortizo by phone in early May 2020. According to a State Department readout of the call, the two leaders discussed their countries' ongoing efforts to confront COVID-19. President Trump reportedly offered resources to help support critical care and thanked President Cortizo for his administration's continued support for a democratic transition in Venezuela.

Drug Trafficking and Money Laundering. The same characteristics that make Panama a strategic U.S. partner also make it vulnerable to drug trafficking, money laundering, and other organized criminal activity. According to the State Department's 2020 *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 proving itself as a "willing and effective partner in confronting drug trafficking."

According to the 2020 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 non-drug-related money laundering investigations and prosecutions, inconsistent enforcement of laws and regulations, an under-resourced judicial system, and corruption. In June 2019, the multilateral Financial Action Task Force (FATF) added Panama to its so-called gray list of countries with deficiencies in their standards to deter money laundering and combat the financing of terrorism.

Concerns About China. U.S. officials have raised concerns with Panama about China's investment in Panama and its alleged predatory economic activity. In September 2018, the Trump Administration recalled its top diplomats from Panama, El Salvador, and the Dominican Republic for consultation because all three countries had switched their recognition from Taiwan to China. At the time, then-President Varela issued a statement asking for respect for Panama's sovereign decisions. In its 2020 posture statement, the U.S. Southern Command expressed concern that China's investment in "infrastructure on both sides of the Panama Canal could enable the Chinese military to threaten sea lanes vital to global commerce and the movement of U.S. forces." Some observers see President Cortizo as being more cautious in his approach toward China because of U.S. concerns.

U.S. Assistance. The United States provided a total of almost \$20 million in assistance to Panama in FY2018 (latest full-year data available). Most U.S. aid to Panama is security related, focused on improving Panama's ability to deter drug trafficking. Panama receives assistance from U.S. regional programs for Central America implemented by the State Department and the U.S. Agency for International Development to improve Panama's capabilities to interdict, investigate, and prosecute drug trafficking and other transnational crimes.

Among other U.S. aid spigots to Panama, the Department of Defense supports drug interdiction and counterdrug activities, including through the provision of infrastructure and equipment. The Inter-American Foundation provides support for grassroots development projects in Panama through grants to local organizations. Until the COVID-19 pandemic, when Peace Corps volunteers were evacuated worldwide, Panama hosted over 190 volunteers working on agriculture, education, environment, and health projects. The United States also provided almost \$2.7 million in FY2019 to help with the influx of refugees and migrants from Venezuela in Panama, estimated at almost 95,000. U.S. agencies announced in early May 2020 that they were providing \$750,000 of previously announced health assistance to help Panama care for COVID-19 patients

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