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## Panama

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.

### Political and Economic Environment

President Juan Carlos Varela was inaugurated in July 2014 to a five-year term after winning the May 2014 presidential election with 39% of the vote in a three-candidate race. President Varela hails from the center-right Panameñista Party (PPa) and succeeded Ricardo Martinelli of the center-right Democratic Change (CD) party, who governed from 2009 to 2014. During his term, Martinelli was criticized at various junctures for his combative style of governing, although he remained broadly popular in large part because of the strong performance of the Panamanian economy.

The Varela Administration is the sixth successive 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.

President Varela served as vice president under the Martinelli government and also as minister of foreign relations for two years until Martinelli sacked him in 2011. The break in relations involved allegations by Varela of governmental corruption in the Martinelli Administration. The Varela Administration has pursued numerous corruption cases against public officials from the previous government, including former President Martinelli, who has been investigated over irregularities in a public welfare program, illegal wiretapping, and illegal pardons. The Panamanian government requested Martinelli's extradition from the United States in 2016. Pursuant to that request, U.S. marshals arrested the ex-president in Coral Gables, FL, in June 2017. Martinelli ultimately was extradited to Panama in June 2018, where he remains in prison awaiting trial for illegally wiretapping his opponents.

Panama experienced several high-profile corruption scandals that came to light in 2016. In April 2016, a group known as the International Consortium of Investigative Journalists revealed more than 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 2016, the U.S. Treasury Department 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 that emerged in late 2016 touching 12 countries worldwide, including Panama, involved the Brazilian construction firm Odebrecht. According to U.S. court documents, Odebrecht reportedly paid more than \$59 million in bribe payments in Panama to secure public works contracts between 2010 and 2014. In August 2017, Odebrecht agreed to pay the Panamanian government \$220 million in fines.

### Panama at a Glance

**Population:** 4.1 million (2017, IMF).

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

**GDP:** \$62 billion (2017, current prices, IMF).

**Real GDP Growth:** 5.4% (2017, IMF); 4.6% (2018, IMF est.)

**Per Capita GDP:** \$15,089 (2017, current prices, IMF).

**U.S. Trade:** U.S. imports, \$443 million (2017); U.S. exports \$6.3 billion (2017) (U.S. Department of Commerce)

**Legislature:** Unicameral 71-member National Assembly.

**Sources:** *International Monetary Fund (IMF); World Bank (WB).*

Because President Varela's PPa has had a minority of 16 seats in the 71-member National Assembly, the president has had to forge working coalitions with other parties to secure support for his legislative agenda. He initially worked with the center-left Democratic Revolutionary Party (PRD), but after that pact fell apart, the president worked with a portion of legislators from both the PRD and the CD to secure a working majority.

Panama's next presidential and legislative elections are scheduled for May 5, 2019. Because Panama's constitution does not allow for consecutive reelection, Varela is ineligible to run. As such, Varela's ability to secure support in the legislature is waning as the elections approach. In the 2019 presidential race, the three major parties already have selected candidates, with Laurentino ‘Nito’ Cortizo running for the PRD, Rómulo Roux running for the CD, and José Blandón running for the PPa. Some analysts already are predicting that Cortizo will win the presidency but will have to form a coalition in the legislature.

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.

Panama has one of the fastest-growing economies in the Americas. According to International Monetary Fund statistics, Panama's economic growth averaged almost 7.2% from 2010 to 2016. In 2017, the economy grew an estimated 5.4% (the highest in the hemisphere), and the forecast for 2018 is for 4.6% growth. In June 2017, Panama established diplomatic relations with China (and in turn cut ties with Taiwan) in a move supported by Panama's business community, which is looking to attract more investment from China. Since then, Panama and China have signed some 20 cooperation agreements and are negotiating a free trade agreement.

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.

### 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 2017, the United States exported \$6.3 billion in goods to Panama and imported \$443 million. U.S. services exports to Panama amounted to \$1.6 billion in 2017, while services imports from Panama amounted to almost \$1.3 billion.

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. (See CRS In Focus IF10982, *China's Engagement with Latin America and the Caribbean*.)

The same characteristics that made Panama a strategic U.S. partner—its transportation infrastructure (especially the canal), its use of the U.S. dollar as currency, and its large financial sector—also make Panama vulnerable to drug trafficking, money laundering, and other organized criminal activity. According to the State Department's 2018 *International Narcotics Control Strategy Report* (INCSR), transnational drug trafficking organizations, principally Colombian and Mexican groups, use Panama's remote Darién Province (bordering Colombia) and the country's coastline areas to move illicit drugs. Panama's antidrug cooperation with the United States is strong, according to the State Department, with the country viewed as an emerging regional leader in antinarcotics efforts.

According to the 2018 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.

Most U.S. assistance to Panama is security related, focused on improving Panama's ability to deter drug trafficking. The United States provided \$3.3 million in bilateral assistance to Panama in each of FY2016 and FY2017. For FY2018, the Trump Administration requested \$1.2 million, but Congress appropriated \$3.2 million in the Consolidated Appropriations Act, 2018 (P.L. 115-141) enacted in March 2018. For FY2019, the Trump Administration requested \$1.2 million, about a 63% reduction from FY2018.

Panama receives additional U.S. assistance from other sources. The Central American Regional Security Initiative (CARSI), implemented largely by the State Department and the U.S. Agency for International Development, supports programs aimed at expanding capabilities of Central American countries to interdict, investigate, and prosecute drug trafficking, money laundering, and other transnational crimes while strengthening judicial sectors. The Department of Defense provides support to Panama for drug interdiction and counterdrug activities, including support for training of law enforcement personnel, infrastructure, and equipment. The Peace Corps (with around 200 volunteers) and the Inter-American Foundation provide support for Panama's economic development. From all these sources, including bilateral assistance noted above, the United States provided almost \$25 million in assistance to Panama in FY2016 (latest full year available).

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