



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. Map of Panama



Source: CRS.

Political and Economic Environment

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; he was inaugurated to a five-year term on July 1, 2019. Cortizo defeated Rómulo Roux of the center-right Democratic Change party of former President Ricardo Martinelli (2009-2014), who received 31% of the vote, and independent candidate Ricardo Lombana, who received almost 19% of the vote running on an anti-corruption platform. 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 made inequality and poverty his main campaign issues, including making health care more accessible. He also pledged to push for constitutional reform.

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 almost 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). 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.

Cortizo succeeded Juan Carlos Varela (2014-2019) of the center-right Panameñista Party, who could not run because Panama’s constitution does not permit consecutive reelection. Varela served as vice president during the Martinelli administration 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. Pursuant to an extradition request from Panama, U.S. marshals arrested Martinelli in Florida in June 2017; he was extradited to Panama in June 2018. In August 2019, he was acquitted on charges of ordering the illegal wiretapping of his opponents.

Panama at a Glance

Population: 4.159 million (2018, IMF est.).

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); 3.7% (2018, IMF est.); 4.3% (2019, IMF forecast).

Per Capita GDP: \$15,643 (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 July 2019, President Cortizo submitted to the National Assembly a package of constitutional reforms prepared by a consultative body consisting of business, labor, and civil society groups. The reforms aim to strengthen the judiciary, improve public sector transparency and accountability, and strengthen the separation of powers. The National Assembly finished debating and amending the reforms on October 23, 2019; the reforms now need to be approved again by the National Assembly in its next legislative session in 2020 and then approved by public referendum.

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 channel, which doubled the canal’s capacity and allowed it to accommodate giant container cargo ships.

According to the International Monetary Fund, Panama’s economic growth averaged almost 6.9% from 2010 to 2017. Economic growth slowed to 3.7% in 2018, and the forecast for 2019 is 4.3% growth (lower than the 6% forecast earlier in the year but still 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 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. Panama and China have signed some 30 cooperation agreements and are negotiating a free-trade agreement. Chinese President Xi Jinping visited Panama in December 2018, and then-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. 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 free-trade agreement that entered into force in 2012 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 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 \$1.7 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. In July 2019, Secretary of Commerce Wilbur Ross led the U.S. delegation to Cortizo's inauguration. In August 2019, then-Acting Secretary of Homeland Security Kevin McAleenan visited Panama to discuss cooperation on irregular migration; the Secretary toured Panama's border with Colombia in the Darien region.

Drug Trafficking and Money Laundering. The same characteristics that make Panama a strategic U.S. partner—its transportation infrastructure (especially the canal), free-trade zones, use of the U.S. dollar as currency, and 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 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. 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. Panama had been on the FATF list in 2014 but was removed in 2016, after it took efforts to improve its AML regulatory framework.

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, President Varela issued a statement asking for respect for Panama's sovereign decisions. In its 2019 posture statement, the U.S. Southern Command expressed concern about "China's effort to exert control over key infrastructure associated with the Panama Canal." Looking ahead, 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 \$27 million in assistance to Panama in FY2017 (latest full-year data available). 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 in FY2017 and \$3.1 million in FY2018 for military education and training and support to help Panama strengthen its strategic trade control system; for each of FY2019 and FY2020, the Trump Administration requested \$1.2 million for these programs. Panama also 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. 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.

The United States also provided almost \$3.6 million in humanitarian assistance from FY2017 to FY2019 to help with the influx of refugees and migrants from Venezuela in Panama, estimated at almost 95,000.

Mark P. Sullivan, Specialist in Latin American Affairs

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.