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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

Panama holds regular free and fair democratic elections and generally respects civil liberties and political rights, although corruption remains a challenge. 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; it is working in coalition with the National Republican Liberal Movement (Molirena), which has five seats in the assembly, providing the government with a majority. The next national elections, both legislative and presidential, are scheduled for May 2024; the constitution prohibits immediate presidential reelection for two terms.

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 as foreign minister for two years until Martinelli dismissed him in response 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. The United States extradited Martinelli to Panama in 2018; he was acquitted twice on illegal wiretapping, most recently in November 2021, and in July 2022 declared he would run for president in 2024. In December 2021, the former president's two sons pleaded guilty to money laundering in U.S. federal court in New York in a case involving Odebrecht, the Brazilian construction company; a corruption case against Martinelli and other defendants involving Odebrecht is ongoing.

Panama at a Glance

Population: 4.337 million (2021, IMF est.)

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

GDP: \$63.6 billion (2021, current prices, IMF est.)

Real GDP Growth (% change, constant prices, IMF): 2019, 3.0%; 2020, -17.9%; 2021, 15.3% est.; 2022, 7.5% forecast

Per Capita GDP: \$14,664 (2021, current prices, IMF est.)

Key Trading Partners: U.S. (20.3%), China (16.2%), Mexico (3.9%), Spain (3.7%), and Costa Rica (3.3%) (2021, total trade, TDM)

Sources: International Monetary Fund (IMF); World Economic Outlook Database, April 2022; Panama National Institute of Statistics, as presented by Trade Data Monitor (TDM).

Like other countries worldwide, Panama faced severe public health and economic impacts of the Coronavirus Disease 2019 (COVID-19) pandemic. As of late September 2022, Panama reported nearly 8,500 deaths (with a mortality rate of 196 per 100,000 people), according to Johns Hopkins University, and 74% of its population was fully vaccinated. The government has purchased vaccines from pharmaceutical companies, received vaccine donations from the United States (see below), and procured some vaccines through the COVID-19 Vaccines Global Access Facility, a mechanism developed by global health organizations to facilitate equitable vaccine distribution.

Panama's services-based economy averaged almost 6.2% growth annually from 2010 to 2019, according to IMF statistics, in large part due to the Panama Canal expansion and other large infrastructure projects. These projects include a metro system for Panama City; a third bridge over the canal; 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 channels, which doubled the canal's capacity.

Due to the pandemic, however, Panama's economy contracted 18% in 2020; poverty also increased, according to the World Bank, but would have been higher had it not been for targeted social programs. The IMF estimates that Panama's economy grew by 15% in 2021 and projects 7.5% growth in 2022. Increased mining and the metro system

expansion are contributing to growth, but a weakening of the global economy could dampen growth prospects. In July 2022, rising living costs sparked countrywide protests and road closures calling for price cuts on fuel, food, and medicines.

U.S.-Panamanian Relations

The record of close U.S.-Panamanian relations stems in 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 has strengthened relations and significantly liberalized trade. Because Panama has a services-based economy, it runs a large merchandise trade deficit with the United States. In 2021, the United States exported \$8.1 billion in goods to Panama (about half petroleum products) and imported \$756 million; U.S. services exports amounted to \$2.3 billion and services imports from Panama amounted to almost \$1.3 billion. The stock of U.S. foreign direct investment in Panama was \$4.6 billion in 2020, led by nonbank holding companies, wholesale trade, and finance and insurance.

Under the Biden Administration, high-level engagement with Panama is continuing. Secretary of State Antony Blinken and Secretary of Homeland Security Alejandro Mayorkas visited in April 2022 to discuss migration. President Cortizo participated in the White House's virtual Summit for Democracy in December 2021 and the June 2022 Summit of the Americas held in Los Angeles. In July 2022, Panama signed a memorandum of understanding with the United States (along with Costa Rica and the Dominican Republic) to strengthen supply chain resiliency.

Migration. Increased irregular migration through Panama's Darien Gap region bordering Colombia has become a high-profile issue and a humanitarian and security concern. Panama maintains that more than 133,000 migrants entered Panama through the Darien region in 2021. For 2022, as of late September, Panama estimates that more than 134,000 migrants had crossed through Darién, with Venezuelans accounting for a majority of the migrants.

Panama has worked closely with the United States and other regional countries to advance cooperation on migration. In April 2022, Panama hosted a regional ministerial on migration and signed a Bilateral Arrangement on Migration and Protection with the United States detailing collaborative commitments to improve migration management, expand efforts to stabilize displaced populations and host communities, and increase access to legal pathways and protections. At the Summit of the Americas, Panama signed the Los Angeles Declaration for Migration and Protection, which seeks to mobilize the entire region around actions to create conditions for safe, orderly, humane, and regular migration and to strengthen frameworks for international protection and cooperation.

Drug Trafficking and Money Laundering. According to the State Department's 2022 *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, with up to 30% of cocaine produced in Colombia passing through Panamanian waters. Nevertheless, according to the INCSR, Panama is among the region's most capable

partners in countering illicit narcotics. Panama has improved its compliance with international standards for anti-money laundering (AML) measures, but, according to the INCSR, deficiencies exist in information sharing, risk management, prosecutions of white-collar criminals, and implementation of a 2020 beneficial ownership law. The establishment of a bilateral AML/anti-corruption task force in 2021 led to an increase in non-drug-related money laundering investigations, although the INCSR asserted that Panama needs to prosecute these cases.

In 2019, the multilateral Financial Action Task Force added Panama to its list of countries with deficiencies in AML standards. Both the IMF and the World Bank are providing technical assistance to help Panama improve financial integrity. In 2016, the International Consortium of Investigative Journalists (ICIJ) released leaked confidential and legal records—the so-called *Panama Papers*—from a Panamanian law firm. The documents showed the use of Panama as an offshore tax haven by a wide range of celebrities, leaders, public officials, and criminals worldwide. ICIJ's October 2021 release of the *Pandora Papers* identified prominent Panamanians and international figures as using Panamanian offshore companies.

Concerns About China. Panama established diplomatic relations with the People's Republic of China (PRC) in 2017 (and cut ties with Taiwan) in an effort to attract more Chinese investment. In its 2022 posture statement, the U.S. Southern Command expressed concern that PRC-based companies are engaged in, or bidding for, several projects related to the Panama Canal. Some analysts view President Cortizo as being cautious in his approach toward China because of U.S. concerns and note that many planned Chinese projects have not been realized.

U.S. Assistance. The United States provided \$35.6 million in assistance to Panama in FY2020 from all agencies (<https://foreignassistance.gov/cd/panama/>). 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 (USAID) to improve its capabilities to interdict, investigate, and prosecute drug trafficking and other transnational crimes. For FY2023, the Administration requested \$1.2 million for State Department- and USAID-administered aid and an unspecified amount from regional and global programs administered by those and other agencies.

Among other aid spigots, the Department of Defense supports counterdrug activities, including infrastructure and equipment; the Inter-American Foundation supports grassroots development projects through grants to local organizations; and, until the pandemic, Panama hosted over 190 Peace Corps volunteers. The United States also provides humanitarian assistance to help Panama contend with the influx of over 144,000 Venezuelan migrants. USAID has provided \$4.8 million to support Panama's pandemic response, and since July 2021 the United States has donated over 503,000 vaccine doses.

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