



## 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. Given its strategic importance to U.S. commerce and security, some Members of Congress have demonstrated interest in strengthening the U.S. partnership with Panama.

**Figure 1. Map of Panama**



Source: CRS.

### Political and Economic Environment

Panama reestablished representative democracy in 1989, following a U.S. military intervention that ousted the military regime of General Manuel Antonio Noriega. Since then, Panama has held regular free and fair elections and generally has respected civil liberties and political rights, although corruption has remained a challenge.

Current President Laurentino “Nito” Cortizo of the center-left Democratic Revolutionary Party (PRD) was inaugurated to a five-year term in July 2019 after narrowly winning the May 2019 presidential elections with 33% of the vote in a seven-candidate contest. Cortizo’s PRD also won 35 seats in Panama’s 71-seat unicameral National Assembly; it entered into a coalition with the National Republican Liberal Movement, which has five seats, providing the government with a legislative majority.

Cortizo has faced a series of political and economic setbacks over the course of his term, contributing to an 88% disapproval rating in February 2024, according to one poll. In July 2019, he introduced a package of constitutional and public sector reforms to reduce corruption and improve public services. The reforms were largely sidetracked by the COVID-19 pandemic in 2020 and stalled after a series of nationwide labor strikes and protests weakened support for Cortizo and the PRD.

The pandemic also took a toll on Panama’s services-based economy, which averaged almost 6.2% growth annually from 2010 to 2019 but contracted by 17.9% in 2020 due to the slowdown in international commerce and shipping,

according to the International Monetary Fund (IMF). Growth returned in 2021, with gross domestic product (GDP) expanding by 15.8%, and continued in 2022 with an estimated expansion of 10.8%. GDP growth slowed to an estimated 6.0% in 2023, and the IMF projects GDP growth of approximately 4.0% in 2024.

### Panama at a Glance

**Population:** 4.45 million (2022, IMF est.)

**Area:** 29,120 square miles, slightly smaller than South Carolina (CIA *World Factbook*)

**Gross Domestic Product (GDP):** \$87.24 billion (2024, current prices, projected, IMF)

**Per Capita GDP:** \$19,350 (2024, current prices, projected, IMF)

**Key Trading Partners:** United States (20.1%), China (15.0%), Japan (4.3%), Mexico (3.7%), and Costa Rica (2.5%) (2022, total merchandise trade, TDM)

**Sources:** Central Intelligence Agency (CIA) *World Factbook*, International Monetary Fund (IMF), Panama National Institute of Statistics, as presented by Trade Data Monitor (TDM).

Panama’s next elections are scheduled for May 5, 2024. Until February, polls had suggested that former President Ricardo Martinelli (2009-2014) was the front-runner for the presidential election in a crowded field of candidates, despite a prison sentence that constitutionally bars him from running for president. In February 2024, the Supreme Court of Panama upheld a July 2023 money-laundering conviction sentencing Martinelli to more than 10 years in prison. Panama’s electoral court formally annulled Martinelli’s candidacy on March 4, 2024. Martinelli was granted political asylum by Nicaraguan President Daniel Ortega and has been residing in the Nicaraguan Embassy in Panama since February.

According to a poll conducted in mid-February, José Raúl Mulino—initially Martinelli’s running mate from the Realizing Goals party—led the race with a 19.8% support. Rómulo Roux, the Democratic Change candidate and Martinelli’s former Minister of Panama Canal Affairs, followed closely behind with 19.6% of the vote. Incumbent Vice President José Gabriel Carrizo was next with 15.7% support, followed by former President Martín Torrijos (2004-2009), who had 11.8% support.

### U.S.-Panama Relations

Close U.S.-Panamanian relations stem 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. Some Members of the 118<sup>th</sup> Congress have sought to strengthen the partnership by increasing cooperation on commercial, migration, and

security matters. S.Res. 357, for example, would call on the President to engage with Panama and other members of the Alliance for Development in Democracy (ADD; Costa Rica, Dominican Republic, and Ecuador) to advance shared priorities and U.S. economic and security interests.

### Trade and Investment

A bilateral free trade agreement (FTA) that entered into force in 2012 (P.L. 112-43) has significantly liberalized trade. Because Panama has a primarily services-based economy, it runs a large merchandise trade deficit with the United States. In 2023, the United States exported \$11.2 billion in goods to Panama and imported \$527 million in goods, according to the U.S. Census Bureau. U.S. services exports to Panama in 2022 amounted to \$2.6 billion, and services imports amounted to \$2.4 billion. The stock of U.S. foreign direct investment in Panama stood at \$3.8 billion in 2022, an increase of 5% from 2021.

Over the past two years, the United States and Panama have collaborated on efforts to strengthen supply chains. This has included multilateral cooperation under the Americas Partnership for Economic Prosperity, a regional integration initiative, and the U.S.-ADD Consultative Dialogue on Supply Chains and Economic Growth. In July 2023, the Biden Administration announced a bilateral partnership with Panama to explore opportunities to strengthen the global semiconductor supply chain under the CHIPS Act of 2022 (H.R. 4346). The report accompanying the House-passed Department of State, Foreign Operations, and Related Programs (SFOPS) Appropriations Act, 2024 (H.Rept. 118-146 to H.R. 4665), would encourage the U.S. International Development Finance Corporation to prioritize infrastructure and port projects to develop secure supply chains in Panama and other ADD members.

### Migration

Large-scale northward migration through the Darién Gap region of the Panama-Colombia border has become a humanitarian and security concern for Panama and the broader region (see **Figure 1**). Migrants in the Darién face high risks of crime, disease, and injuries. Panama cooperates with neighboring Colombia and Costa Rica to regulate the flow of migrants through its borders and prosecute smugglers.

Nevertheless, the scale of migration in recent years has challenged Panama's border patrol, which devotes substantial resources to registration and biometric screening of migrants and rescuing those in distress. Panama estimates that more than 520,000 migrants entered through the Darién in 2023, with about 30% of migrants passing through in August and September. More than 60% of those who crossed into Panama were from Venezuela.

Panama also cooperates closely with the United States on migration matters, including to detect and detain potential security threats. H.Rept. 118-146 would direct the Secretary of State to submit a report on opportunities to support Panama in its management of migrant flows.

### Drug Trafficking and Money Laundering

According to the U.S. State Department's 2023 *International Narcotics Control Strategy Report* (INCSR), Panama's location makes it a major transit country for cocaine smuggling by transnational criminal organizations; up to 40% of cocaine produced in Colombia reportedly passes through Panama. Nevertheless, according to the INCSR, Panama is among the U.S. government's most capable partners in the region in countering illicit narcotics. The United States and Panama also collaborate on efforts to combat financial crimes, including through a bilateral Anti-Money Laundering and Anti-Corruption Task Force, operating since May 2021.

### Panama Canal Concerns

The Panama Canal is responsible for more than 6% of Panama's GDP, with more than 14,000 vessel transits in 2023. In recent months, the rise in temperatures in the Pacific Ocean, linked to the El Niño climate phenomenon, has resulted in severe drought conditions in Panama. Record low water levels have resulted in the first ever restrictions to the number of daily transits through the canal, capping crossings at 24 vessels daily. Prior to the restrictions, there were an average of 36 daily canal crossings. The 33% decrease in daily transits could disrupt supply chains, push up transport and consumer costs, and increase sailing times due to cargo diversions. Some 72% of transits through the canal are either toward or away from U.S. ports, according to the U.S. State Department.

In November 2017, Panama became the first country in Latin America to join the People's Republic of China's (PRC's) Belt and Road Initiative, which aims to develop China-centered global infrastructure, transportation, trade, and production networks. Some U.S. military leaders have expressed concerns that the presence of PRC-linked companies along the Panama Canal may present a security vulnerability for the United States. H.Rept. 118-146 would echo those concerns, and the report accompanying the Senate-reported SFOPS bill for FY2024 (S.Rept. 118-71 to S. 2438) would direct the Secretary of State to report to the Appropriations Committees on PRC influence in Panama.

### U.S. Assistance

The United States allocated \$12.5 million in bilateral aid to Panama in FY2022, including \$11.3 million in global health funding; \$500,000 for Nonproliferation, Anti-terrorism, Demining, and Related programs; and \$725,000 for International Military Education and Training. For FY2024, the Biden Administration requested \$1.2 million of bilateral aid for Panama. Neither FY2024 SFOPS bill would designate an overall funding level for Panama, but H.Rept. 118-146 would stipulate \$2 million in Foreign Military Financing for the country.

*This In Focus updates an earlier version written by former CRS Specialist June S. Beittel and former CRS Analyst Ramon Miro.*

**Leticia Chacon**, Analyst in Foreign Affairs

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