



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. Within Central America, it is arguably the closest strategic partner of 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 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 legislative majority. 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.

Cortizo succeeded Juan Carlos Varela (2014-2019) of the center-right Panameñista Party. Varela served as vice president and foreign minister during the Ricardo Martinelli administration (2009-2014). 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 charges, most recently in November 2021. In July 2022, Martinelli declared he would run for president in 2024. In January 2023, the U.S. Department of State designated Martinelli and his immediate family ineligible for entry into the United States

under existing anti-corruption authorities due to Martinelli’s involvement in corruption in Panama.

Panama at a Glance

Population: 4.45 million (2022, IMF est.)

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

GDP: \$71.1 billion (2022, current prices, IMF est.)

Real GDP Growth (% change, constant prices, IMF):
-17.9% in 2020; 15.3% in 2021; 7.5% in 2022 (2023 est.), 4.0% in 2023 (projected)

Per Capita GDP: \$16,173 (2022, current prices, IMF est.)

Key Trading Partners: United States (20.1%), China (15.0%), Japan (4.2%), 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).

In July 2019, President Cortizo introduced a legislative package of constitutional and public sector reforms intended to reduce corruption and improve public services. The reforms were largely sidetracked by the onset of the Coronavirus Disease 2019 (COVID-19) pandemic in 2020 and stalled after a series of nationwide labor-related strikes and protests weakened public support for Cortizo and the PRD. In June 2022, Cortizo announced he had been diagnosed with a rare blood disorder but said he planned to serve through the end of his term in July 2024. Should the president be unable to complete his term, under Panama’s constitution, current Vice President José Gabriel Carrizo of the PRD would assume presidential duties. The next national elections, both legislative and presidential, are scheduled for May 2024.

Panama experienced severe public health and economic impacts as a result of the pandemic. As of March 2023 (latest data available), Panama reported around 1 million confirmed COVID-19 cases and 8,609 deaths, a mortality rate of 199 deaths per 100,000 people—the highest in Central America. Panama’s services-based economy, which averaged almost 6.2% growth annually from 2010 to 2019, according to International Monetary Fund (IMF) statistics, was especially vulnerable to the pandemic-induced global economic contraction in 2020. The sharp slowdown in international commerce and shipping caused Panama’s economy to contract by 17.9% that year. Growth returned in 2021, with GDP expanding by 15.3%, and the trend continued with an estimated 7.5% expansion in 2022. Increased copper mining revenues, a recovery in private investment, and strong activity related to the Panama Canal are contributing to the recovery. Tightening financial conditions since 2022 have dampened expectations for

GDP growth in 2023 to a projected 4%, according to the IMF.

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. A bilateral free-trade agreement (FTA) that entered into force in 2012 has significantly liberalized bilateral trade. Because Panama has a services-based economy, it runs a large merchandise trade deficit with the United States. In 2022, the United States exported \$12.0 billion in goods to Panama and imported \$523 million in goods, according to the U.S. Department of Commerce; U.S. services exports to Panama in 2021 (most recent year available) amounted to \$2.3 billion, and services imports amounted to \$1.3 billion. The stock of U.S. foreign direct investment in Panama stood at \$3.5 billion in 2021, a decrease of 11% from 2020. The bulk of U.S. investment in Panama is held in nonbank holding companies at \$3.1 billion, followed by wholesale trade at \$736 million and mining at \$123 million.

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 Summits for Democracy in December 2021 and March 2023 and in the June 2022 Summit of the Americas held in Los Angeles. In July 2022, Panama signed a memorandum of understanding with the United States (after joining Costa Rica and the Dominican Republic in the Alliance for Development in Democracy) to strengthen supply chain resiliency.

Migration. Large-scale northward migration through the treacherous Darién Gap region of Panama bordering Colombia has become a humanitarian and security concern for Panama and the region (see **Figure 1**). Migrants in the Darién face widespread criminality—including sexual violence—and a high risk of disease and injuries. Large concentrations of migrants also imperil Indigenous communities in the Darién, which are unprepared to receive them, and in other ecologically fragile areas.

Many migrants pay smugglers to guide them through the most difficult parts of the land route and to enter Central America by boat across the Gulf of Urabá on the Caribbean Sea. Panama cooperates with neighboring Colombia and Costa Rica to regulate the flow of migrants through its borders and prosecute smugglers. However, the scale of migration in recent years has challenged Panama's border patrol, which must devote substantial resources to registration and biometric screening of migrants and to rescuing those in distress. Panama estimates that over 250,000 migrants passed through the Darién in 2022, nearly twice the 2021 number. The majority of migrant encounters in 2022 were of Venezuelans, estimated at 150,327; followed by Ecuadorians (29,356); Haitians (22,435); Cubans (5,961); and other nationalities. According to Panama's National Migration Service, 127,678 migrants entered Panama through the Darién during the first four months of 2023—a sixfold increase over the same period in 2022. The United Nations predicts that up to 400,000

migrants, including families with children, may travel through the Darién in 2023.

Panama has worked closely with the United States and other countries in the region to advance cooperation on migration. Panama is a signatory of the 2022 Los Angeles Declaration on Migration and Protection, and it hosts some 145,000 resident Venezuelans, according to the International Organization for Migration. In April 2023, Panama, Colombia, and the United States announced a two-month coordinated campaign to combat migrant smuggling through the Darién and longer-term efforts to deter irregular migration through the region.

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 Panama. 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 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.

Concerns About China. Panama established diplomatic relations with the People's Republic of China (PRC)—and cut ties with Taiwan—in 2017. In November 2017, Panama became the first country in Latin America to join China's Belt and Road Initiative (BRI), which aims to develop PRC-controlled global infrastructure, transportation, trade, and production networks. Then-President Varela touted Panama's participation in the BRI as an opportunity to improve Panama's infrastructure and its connectivity to Asia. These projects have raised concerns among U.S. military leaders that the heavy operational presence of PRC-linked companies along the Panama Canal may present a security vulnerability for the United States. The Varela administration also signed some 30 cooperation agreements with China and began FTA negotiations. Since then, the Cortizo administration has canceled several planned Chinese projects, citing their lack of feasibility and the failure of some PRC-linked firms to fulfill obligations, and has suspended the FTA talks. China remains Panama's second-largest trading partner.

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 to build on Panama's COVID-19 response; \$500,000 for nonproliferation, anti-terrorism, demining, and related programs (NADR); and \$725,000 for International Military Education and Training (IMET). For FY2024, the Biden Administration requested \$1.2 million for aid administered by the State Department and the U.S. Agency for International Development, in addition to support for regional and global programs administered by those and other agencies.

This In Focus updates an earlier version written by former CRS Specialist Mark P. Sullivan.

June S. Beittel, Analyst in Latin American Affairs

Ramon Miro, Analyst in Latin American Affairs

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