

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

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.

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 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. Martinelli was extradited from the United States to Panama in June 2018; in August 2019, he was acquitted of ordering the illegal wiretapping of his opponents, but this verdict

was overturned in November 2020. He could face a new trial.

Like other countries worldwide, Panama is contending with the severe public health and economic consequences of the Coronavirus Disease 2019 (COVID-19) pandemic. Initially, the government’s strong response, with school and workplace closures, was credited with curbing the disease’s spread. Cases and deaths, however, surged from November 2020 to January 2021. As of May 27, 2021, Panama had reported over 6,300 deaths, with a COVID-19 mortality rate of almost 150 per 100,000 people (the highest rate in Central America) according to Johns Hopkins University.

According to the *New York Times* vaccination tracker, Panama had fully vaccinated 8% of its population as of May 27, 2021. The government has procured some vaccines through the COVID-19 Vaccines Global Access (COVAX) Facility, a mechanism developed by global health organizations to facilitate equitable vaccine distribution. It also has negotiated agreements with pharmaceutical companies. Its goal is to vaccinate 80% of its population.

Panama at a Glance

Population: 4.279 million (2020, IMF).

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

GDP: \$52.9 billion (2020, current prices, IMF est.).

Real GDP Growth (% change, constant prices, IMF): 2019, 3.0%; 2020, -17.9% est.; 2021, 12.0%, projected.

Per Capita GDP: \$12,373 (2020, current prices, IMF).

Key Trading Partners: U.S. (22.2%), China (12.5%), Mexico (4.9%), Spain (4.2%), and Costa Rica (4.1%) (2020, total trade, Panama National Institute of Statistics).

Note: IMF = International Monetary Fund.

Panama’s services-based economy averaged almost 6.9% growth annually from 2010 to 2017, according to the International Monetary Fund (IMF), 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 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 and allowed it to accommodate giant container cargo ships. Economic growth slowed to 3.6% in 2018 and 3% in 2019 but was still among the highest in the region.

Due to the pandemic, the IMF estimates the economy contracted almost 18% in 2020 but forecasts that economic growth will reach 12% in 2021. Increased mining and a metro system expansion are contributing to economic growth.

Before the pandemic, Panama's strong economic growth and targeted social programs had contributed to poverty reduction in recent years, although poverty remained higher in rural areas, particularly among Indigenous people, and inequality remained high. According to the World Bank, the pandemic led to an increased poverty rate of 14.9% in 2020, up from 12.1% in 2019, but poverty would have been much higher had it not been for government programs providing financial transfers to households.

During the 2019 election campaign, Cortizo pledged to reform the constitution, but his efforts have slowed considerably. In July 2019, Cortizo submitted to the National Assembly a package of reforms prepared by a consultative body consisting of business, labor, and civil society groups. The reforms aimed to strengthen the judiciary and the separation of powers and to improve public-sector transparency and accountability. The National Assembly amended the reforms in October 2019, watering down anti-corruption measures and banning marriage equality, among other controversial changes. Protests ensued, and in December 2019, Cortizo pulled the reform package and announced that his government would start the process over again and develop a new national dialogue to advance the constitutional reforms.

In November 2020, the Cortizo government launched a national dialogue to achieve consensus in such areas as health care, education, security, and the economy; constitutional reforms reportedly are part the agenda. Some civil society groups have united in a campaign to gather signatures (20% of those on the electoral registry) for a constituent assembly to reform the constitution.

On foreign policy issues, Panama established diplomatic relations with People's Republic of China in June 2017 (and cut ties with Taiwan) in an effort to attract more Chinese investment. Free-trade agreement (FTA) negotiations began under President Varela but have not resumed under President Cortizo. With regard to the crisis in Venezuela, Panama is a member of the Lima Group supporting a peaceful return to democracy.

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 FTA that entered into force in 2012 has 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 2020, the United States exported \$5.8 billion in goods to Panama and imported \$693 million. In 2019, U.S. services exports amounted to \$2.4 billion and services imports from Panama amounted to \$2.7 billion. The stock of U.S. foreign direct investment in Panama was \$5.3 billion in 2019, led by nonbank holding companies, wholesale trade, and finance and insurance.

Reflecting the close state of relations, then-President Varela visited the White House in 2017, where talks focused on shared priorities in combating transnational organized crime and irregular migration. Vice President Mike Pence also visited Panama in 2017; he reaffirmed the two countries'

historic friendship and committed to strengthen the partnership in security and prosperity.

Drug Trafficking and Money Laundering. The same characteristics that make Panama a strategic U.S. partner make it vulnerable to drug trafficking, money laundering, and other organized criminal activity. According to the State Department's 2021 *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, according to the INCSR "is a willing and effective partner in combating the narcotics trade," and its efforts resulted in significant maritime seizures in 2020.

Panama has improved its compliance with international standards for anti-money laundering (AML) measures, but according to the INCSR, numerous factors impede such efforts. These factors include "lack of capacity to identify bulk cash shipments, 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 added Panama to its so-called grey list of countries with deficiencies in their AML standards, and in February 2020, the European Union added Panama to its list of noncooperative jurisdictions for tax purposes. Both the IMF and the World Bank are providing technical assistance to help Panama improve financial integrity. In April 2021, the Cortizo government presented three bills to the legislature to strengthen Panama's AML regime.

Concerns About China. In recent years, U.S. officials have raised concerns about China's projects in Panama. In its 2020 posture statement, the U.S. Southern Command expressed concern that China's investment in "infrastructure on both sides of the Panama Canal could enable the Chinese military to threaten sea lanes vital to global commerce and the movement of U.S. forces." 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 about \$26 million in assistance to Panama in FY2019 (latest full-year data available, as reported by the U.S. Agency for International Development's [USAID's Foreign Aid Explorer database). 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 USAID to improve the country's capabilities to interdict, investigate, and prosecute drug trafficking and other transnational crimes.

Among other aid spigots, the Department of Defense supports counterdrug activities, including through the provision of infrastructure and equipment. The Inter-American Foundation supports grassroots development projects through grants to local organizations. Until the COVID-19 pandemic, Panama hosted over 190 volunteers working on agriculture, education, environment, and health projects. The United States is also providing humanitarian assistance to help Panama with the influx of migrants from Venezuela, estimated at over 120,000, as well as assistance to support Panama's response to the COVID-19 pandemic.

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