



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 significant 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.

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. The United States extradited Martinelli to Panama in 2018; he

was acquitted twice on illegal wiretapping, most recently in November 2021, and reportedly is considering running 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.

Panama continues to contend with the severe public health and economic effects of the Coronavirus Disease 2019 (COVID-19) pandemic. Deaths surged from November 2020 to January 2021 and in June and July 2021. As of January 4, 2022, Panama reported over 7,400 deaths (with a mortality rate of 175 per 100,000 people) and 58% of its population was fully vaccinated, according to Johns Hopkins University. The government has purchased vaccines from pharmaceutical companies, received vaccine donations from the United States (see below), and has procured vaccines through the COVID-19 Vaccines Global Access Facility, a mechanism developed by global health organizations to facilitate equitable vaccine distribution.

Panama at a Glance

Population: 4.337 million (2021, IMF est.).

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

GDP: \$60.1 billion (2021, current prices, IMF est.).

Real GDP Growth (% change, constant prices, IMF): 2019, 3.0%; 2020, -17.9%; 2021, 12.0% est.; 2022, 5.0% est.

Per Capita GDP: \$13,861 (2021, current prices, IMF est.).

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

Sources: International Monetary Fund (IMF), World Economic Outlook Database, October 2021; Panama National Institute of Statistics, as presented by Trade Data Monitor (TDM).

Panama's services-based economy averaged almost 6.2% growth annually from 2010 to 2019, according to IMF statistics, 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.

The IMF reports that Panama's economy contracted almost 18% in 2020 due to the pandemic but estimates a growth rate of 12% in 2021. Increased mining and a metro system expansion are contributing to economic growth.

Before the pandemic, Panama's strong growth and targeted social programs contributed to poverty reduction, although poverty remained higher in rural areas, particularly among Indigenous people. 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 higher had it not been for targeted social programs.

During the 2019 election, Cortizo pledged to reform the constitution, but he has not received broad support for his proposed changes. In 2019, Cortizo submitted a package of reforms to the National Assembly aimed at strengthening the judiciary and the separation of powers and improving public-sector transparency and accountability. The assembly amended the reforms, watering down anti-corruption measures, among other changes. Protests ensued, and by December 2019 Cortizo had pulled the reform package. In November 2021, a year-long government-sponsored national dialogue led to 187 recommendations on various topics—infrastructure, health, water, education—and constitutional reform. Cortizo appointed a high-level commission to follow up on the recommendations.

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 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 2020, U.S. services exports amounted to \$2.2 billion and services imports from Panama amounted to \$1.0 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. Under Secretary of State Victoria Nuland held discussions in Panama in June 2021 focused on managing irregular migration, addressing climate change and environmental protection, and combatting illicit finance. In October 2021, U.S. officials participated in a High-Level Security Dialogue with Panama to advance collaboration on regional migration challenges, as well as money laundering and drug trafficking. The Administration also has expressed support for an informal arrangement among Panama, Costa Rica, and the Dominican Republic—the Alliance for Development in Democracy—to address economic recovery and development and cooperation on political and migration challenges facing the region. Increased irregular migration through Panama’s Darien Gap region bordering Colombia has become a high-profile issue. Panama maintains that over 126,000 migrants entered Panama through the Darien region in 2021.

Drug Trafficking and Money Laundering. 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.” 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, corruption, and an under-resourced judicial system.

In 2019, the multilateral Financial Action Task Force added Panama to its list of countries with deficiencies in their 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 in 2017 (and cut ties with Taiwan) in an effort to attract more Chinese investment. 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. In the context of U.S. strategic competition with China, the Biden Administration has been working to launch a new global infrastructure initiative, Build Back Better World (B3W), to advance infrastructure development in low- and middle-income countries. A White House-led U.S. delegation traveled to Panama in September 2021 to examine the country’s infrastructure needs.

U.S. Assistance. The United States provided a total of \$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 the country’s capabilities to interdict, investigate, and prosecute drug trafficking and other transnational crimes. For FY2022, 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 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 almost 122,000 Venezuelan migrants. To date, USAID has provided \$4.8 million to support Panama’s pandemic response and the United States has donated a half-million vaccine doses.

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