

Panama FTA: Uncertain Fate

It is unclear when the U.S. Congress will vote on the Panama free trade agreement, but the country continues to boost its trade.

Latin Business Chronicle
April 21, 2008

The delay in holding a U.S. congressional vote on the Colombia free trade agreement has also delayed the Panama free trade agreement, experts say.

It's unlikely...that the Panama agreement would be moved ahead of the Colombia agreement," says Eric Farnsworth, vice president of the Council of the Americas. "The fate of the Panama agreement is now tied to the Colombia agreement, though there is nothing that says the two cannot move forward together."

GONZALEZ FACTOR

Peter Hakim, president of the Inter-American Dialogue, believes the Panama FTA's main obstacle is the issue of Pedro Miguel Gonzalez, who was elected president of Panama's national assembly last year despite being wanted in the United States for killing a U.S. soldier based in Panama in 1992. (He has been acquitted by a Panamanian court, but U.S. authorities maintain he is guilty). Gonzalez belongs to the ruling PRD party and was allegedly elected congress president despite concern by President Martin Torrijos, who has been widely praised by local and foreign investors for his pro-business policies.

"Consideration of the Panama FTA has been delayed because the country's parliament elected a leader who is accused in the United States of murdering an American soldier - although he was found not guilty by a Panama court," he says. "He is scheduled to leave office in September, which will open the way for approval of the Panama FTA, although this could be delayed if the White House and the U.S. Congress have not made any progress toward an agreed-upon [Trade Adjustment Assistance]."

U.S. Senator Hillary Clinton has stated Gonzalez as her main reason for voting against the Panama FTA. "As long as the head of Panama's National Assembly is a fugitive from justice in America, I cannot support that agreement," Clinton said in a statement in November.

LEADING TRADING NATION

Panama is a much smaller trading partner for the United States than Colombia, but the country has become a trade champion in its own right. U.S. trade with Panama reached \$4.1 billion last year, an increase of 33.3 percent from 2006, according to a Latin

Business Chronicle analysis of U.S. Census Bureau data. That means U.S.-Panama trade is roughly four times smaller than U.S.-Colombia trade. However, U.S. exports to Panama are growing faster than with Colombia. U.S. exports to Panama reached 3.7 billion last year, a 38.5 percent increase from 2006. By comparison, U.S. exports to Colombia grew 27.6 percent last year.

However, Panama has become Latin America's leading trading nation measured in comparison to its GDP (Mexico is the leader in real terms). Panama has also become the third-largest destination in Latin America for exports from [China](#), only lagging behind economic giants like Brazil and Mexico. And Chinese companies now account for the largest group at the [Panama Merchandise Mart](#). Meanwhile, Panama is the top destination in Latin America for exports from [Singapore](#) - a country it often is compared with.

Panama has the highest ratio of exports and imports per GDP in Latin America, according to a Latin Business Chronicle analysis. Its exports account for 73.4 percent of GDP, while imports are the equivalent of 71.1 percent of its GDP. By comparison, Paraguay - its nearest rival - boasts export levels that are 50.1 percent of GDP and import levels that are 67.2 percent of its economy.

MOST GLOBALIZED

Thanks to the high trade levels - as well as boasting the highest FDI per GDP in Latin America - Panama is the most globalized country in Latin America, according to the Latin Globalization Index from Latin Business Chronicle.

With a relatively small economy (Latin America's 14th-largest), the high degree of imports is not due to local demand. Instead, the large imports can be linked to the Colon Free Zone, located near the Atlantic entrance to the Panama Canal and home to the world's second-largest free trade zone.

In addition to its growing importance as a trade hub, Panama has become a [regional hub](#) for U.S. multinationals ranging from Dell and Hewlett-Packard to Procter & Gamble and Caterpillar. They have been attracted by a combination of factors, including tax incentives, the U.S. dollar as the legal tender, [Latin America's highest economic growth](#), one of the region's lowest inflation rates and political stability.

SHIPPING, BANKING AND CANAL

In addition to the Colon Free Zone, Panama can boast of having the world's largest shipping registry, Latin America's largest international banking center and one of the region's top offshore company registries.

Last, but not least, the country is home to the Panama Canal, one of the leading routes for world trade and a key link for U.S. trade with China.

At the pace the U.S. Congress is keeping, approval of the Panama FTA may well coincide with Panama's next presidential elections, scheduled for May 2009. The frontrunner so far is Balbina Herrera. While she also belongs to the PRD party, she is seen as less friendly to business and the United States than Torrijos.