U.S.-Panama FTA Looks to Advance Strategic Partnership

Emily Unverzagt

OVERVIEW

- As the United States strengthens its ties with Panama’s Central American neighbors, the strategic partnership with Panama remains important.
- Unlike other agriculturally based economies of the region, the Panamanian economy is anchored by its services sector, which generates roughly 80 percent of the nation’s GDP.
- The United States seeks a comprehensive agreement that will promote its commercial interests, advance its trade liberalization agenda, and assist in both the economic and political stability of the region.

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Panama’s Goals for the FTA

Although the CAFTA-DR serves as the model for the Panamanian negotiations, Panama nonetheless has made an effort to distinguish itself from Central America. Indeed, many of the cantankerous labor issues associated with Central American textiles do not present a problem in Panama, where textiles are not a major source of revenue. Unlike other agriculturally based economies of the region, the Panamanian economy is anchored by its services sector, which generates roughly 80 percent of the nation’s gross domestic product (GDP). The Canal plays a significant role—accounting for 7 percent of GDP—as the center of the service economy. That is not to say that agriculture does not deserve a seat at the table. Though accounting for only about 6 percent of GDP, it employs a quarter of the population workforce.

Attract FDI

Acknowledging the pressure to keep pace with regional agreements like CAFTA-DR, the Panamanians are looking to secure their place as a major destination for U.S. investment, in addition to their partnership with the powerful U.S. economy. For their part, they hope that by consolidating their complex trade regulations in a carefully delineated FTA, they will not only retain the investment...
they have, but attract more FDI. The increased transparency
provided by an FTA will create, to their benefit, a more
welcoming environment for investors.

Panamanians are also interested in gaining access to U.S.
markets for their large banking services industry—
particularly in U.S. states with large Spanish-speaking
populations such as Florida, Texas, and California.

Safeguard Agriculture

Because most Panamanian agricultural products already
enjoy preferential treatment from the United States through
the Caribbean Basin Initiative (CBI), Panama has assumed a
more defensive position in the agricultural negotiations.
Fearing large inflows of U.S. agricultural products once it is
forced to remove the existing tariff structure—the average
tariff hovers around 8 percent with an additional 5 percent
transfer tax—the Panamanians are pushing for longer tariff
reduction schedules and hoping to negotiate triggers for its
most sensitive products. This would mean that products like
processed tomato, yellow corn, and red beans, which
Panama fears it will no longer produce without protective
tariffs, might enjoy more than 20 years of protection before
they are forced to brave a completely open market. Rice,
one of the most sensitive products for Panama and a
considerable share of rural employment, will enjoy similar
extended periods of protection with the hopes that the
industry will adjust.

Panama also desires access for a small number of products
not currently included in the CBI. Watermelon and
pineapple, which are grown in the same regions as the
threatened yellow corn and tomato, along with cilantro and
ginger, are proposed for tariff reductions in the FTA.
Agricultural negotiators are pushing hard to increase
Panama’s sugar exports to the United States. This single
product accounts for 31 percent of Panamanian agricultural
production and, according to the general director of
economic affairs on trade negotiations, Luis Garrido, is of
greater importance to Panama than to the CAFTA-DR or
Andean nations.

The United States’ Objectives

The United States seeks a comprehensive agreement that
will promote its commercial interests, advance its trade
liberalization agenda, and assist in both the economic and
political stability of the region.

Strategic Commercial Interests

Panama’s tumultuous history and lingering allegations of
corruption in government procurement processes and the
judicial system raise the challenge of combating corruption
through the FTA. Indeed, this objective dominates the
priorities of the American Chamber of Commerce and
Industry of Panama and underpins many other U.S goals in
negotiations.

The lack of transparency in the procurement of government
contracts within Panama, which threatens investor
confidence as well as the economic performance of the
nation, is a significant issue to the United States and its
contractors. The concern over government procurement is
gaining importance as the Panama Canal Authority begins
to consider plans for expansion of the Canal. A level
playing field for U.S. companies in the Canal expansion
procurement process will be a key goal.

The United States also seeks access for its professionals in
the Panamanian workforce. Under current law, architects,
engineers, medical doctors, lawyers, and psychologists,
among others, are required to hold a Panamanian license in
order to practice their trade. Though the issue of nationality
is sensitive to the Panamanians, the United States hopes to
ease the barriers to its professionals through the FTA.
Intellectual property rights (IPR) promise to be an important
point in the negotiations—of greater importance after the
attention IPR received in the CAFTA-DR.

Perhaps the most critical element of the bilateral FTA are
the investor-state provisions, which establish a direct venue
to adjudicate the concerns of investors. Essentially, these
provisions allow U.S. investors to file suit against the
Panamanian government (and vice-versa) for unfair
treatment or misconduct, bypassing the lengthier WTO
judicial processes. This direct protection for investors
addresses the lack of transparency and lack of confidence in
foreign judicial systems and has been a consistent
component of U.S. bilateral FTAs across the globe.

Access to agricultural markets in Panama is also of some
importance to the United States—especially in sectors
where Panama has been accused of unfairly invoking
sanitary and phytosanitary standards (SPS) to restrict U.S.
exports. In the longstanding chicken row, Panama has
claimed that U.S. producers have been dumping the dark
meat “leg quarter” of the chicken on Panamanian markets
because of the high value of white meat “breast” in the
United States. Panama’s use of the SPS to restrict inflows of
U.S. chicken, as well as varying tariffs on agricultural
imports from the United States, stand to be reduced or
eliminated in the FTA.

Political Motivation

Although it is evident that the commercial interests of the
United States are a central element in the negotiation of this
FTA, the U.S. goal of regional stability and its correlation to
free trade played a significant role in the passage of
CAFTA-DR and will likely serve the same role in the
Panama FTA. Trade liberalization will allow the United
States to safeguard its strategic interest in the Canal by
fortifying linkages between the United States and Panama.

The Future of the FTA

As negotiators continue to wrangle over the details of the
FTA, it is important to note a few crucial issues that may
Pose problems in Congress—where enabling legislation must be approved before the FTA will take effect. Timing is significant, given that Congress recently passed the controversial CAFTA-DR. Because trade votes are divisive and have palpable impact on organized constituencies, it is possible that this FTA will be bundled with several other bilateral FTAs for a larger vote before Congress. Also possible is a quick and quiet vote on the FTA under the cover of Panama’s dominant service sector—less controversial than dominant agricultural or textile sectors.

The sugar issue, which the Panamanians seem adamant to raise, will pose a problem to U.S. sugar producers, who were opposed to CAFTA-DR and will almost certainly oppose the more liberal goals of Panama. For Panamanian agriculture, sugar is one of the few products not included in the CBI that could see significant positive impact through access to the U.S. market, and they are hoping to double their current sugar exports.

From the Panamanian side, the protection of its sensitive agricultural products could cause domestic political difficulty; although the long schedules for tariff reduction, if achieved, should mitigate the impact on these products. Finally, the issue of U.S. professionals practicing in Panama will be a hard sell for the United States as Panama seems intent on retaining its nationality requirements in some form.

Once the negotiators are able to reach agreement, the future of this FTA, and the immediate relationship between the United States and Panama, will lie with the political forces at work in each nation. The strategic interests of both Panama and the United States in increasing trade and fortifying their partnership must stand trial before an eager public before the FTA will take effect.

About the Author

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