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The U.S.–Panama Free Trade Agreement: A Good Deal for America

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For the past nine months, the Obama Administration and Congress have allowed three free trade agreements (FTAs) negotiated by the Bush Administration—Colombia, Panama, and South Korea—to languish unapproved. This delay hurts American workers, as each of the agreements offers its own unique benefit to the U.S. economy. All three FTAs will spur economic development in both the U.S. and its trading partners, strengthening each nation economically and politically.

The U.S.–Panama FTA would enhance U.S. national economic security and could create thousands of American jobs. It will encourage expansion and diversification of U.S. trade with Panama by eliminating trade barriers and facilitating cross-border movements of goods and services while leveling the playing field for U.S. businesses that currently face tariffs in Panama. The FTA will help create a bulwark against the rising tide of Chávism that threatens to undermine U.S. hemispheric interests. President Obama would enhance U.S. leadership and strength in the region by pushing for congressional approval of the FTA with Panama.

The U.S.–Panama FTA: Good for Both Countries. Under President George W. Bush, the U.S. and Panama conducted 10 rounds of negotiations and signed a trade promotion agreement in June 2007. The negotiations focused on the two nations' longstanding strategic and commercial relationship, accommodating the concerns of both U.S. and Panamanian sensitive sectors and industries. The

FTA with Panama complements the FTAs with the five Central American countries (Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica) and the Dominican Republic that the U.S. completed in 2004.¹ Along with the North American Free Trade Agreement (NAFTA) and FTAs with Chile (2004),² Peru (entered into force in 2009),³ and Colombia (still pending), the FTA with Panama is meant to complete a Pacific Rim free trade area from Alaska to the Antarctic.

Unfortunately, since 2007 the Panama FTA, along with those of Colombia and South Korea, has languished unapproved before Congress. Meanwhile, U.S. national economic security suffers in the midst of the worst downturn since the Great Depression. There is no reason for the continued delay: Under the Caribbean Basin Initiative and through other trade preference programs, almost 96 percent of all Panamanian exports already enter the U.S. duty-free.⁴ Nor does Panama threaten U.S. textile or agricultural industries, since its economy is largely service-based; agriculture accounts for only a small share of Panama's GDP. Nothing in the FTA with Panama hurts U.S. workers—indeed, they are being hurt by the delay in approving it.

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The U.S.–Panama FTA would offer a clear and binding set of rules and foster stability and predictability. Standardized rules in the FTA for services, trade, investment, government procurement, intellectual property rights, and dispute resolution will exceed World Trade Organization standards. The FTA provides an effective and expeditious dispute settlement mechanism to ensure that the rules of trade are fair and that trading partners adhere to these rules. It guarantees the non-discriminatory treatment of foreign capital and lays the groundwork to further stimulate the transfer of technologies and best practices through partnerships

In 2008, the U.S. had a trade surplus with Panama totaling \$4.3 billion, the eighth-largest surplus maintained with any U.S. global trading partner. The U.S. is Panama's largest trading partner, accounting for 35 percent of its exports and 33 percent of its imports. Exports accounted for almost 28 percent of Panama's economic growth in 2007.⁵

The FTA with Panama would open up attractive possibilities for U.S. foreign direct investment in Panama and offer U.S. firms an ideal platform to gain greater access to markets in the Americas. It would also improve market fundamentals such as intellectual property rights, the rule of law, and the Panamanian judicial system while also strengthening Panama's democratic institutions.

Panama Today: Pro-U.S. and Pro-Free Trade.

In the past few years, Panama has signed trade agreements with Singapore, Taiwan, Chile, El Salvador, the Dominican Republic, Costa Rica, Nicaragua, Guatemala, and Honduras. The Panamanian

government also maintains an open trade policy with other major commercial partners in the region as well as in Europe and Asia.

This open trade policy has borne fruit: Over the last seven years, poverty in Panama fell 8.1 percent, lifting 131,000 Panamanians out of poverty, while extreme poverty fell by 7.5 percent.⁶ By pursuing an open economy through trade, Panama intends to cut the proportion of people living in extreme poverty in half by 2015.

The FTA and the Panama Canal: Opportunity for American Businesses. Panama is undertaking one of the biggest construction projects in its history. Total spending to expand the Panama Canal is expected to exceed \$5 billion and, without the FTA in place, U.S. companies are at a competitive disadvantage. For example, after the canal "reverted" from the U.S. to Panama in 1999, Hong Kong-based Hutchison Whampoa, Ltd., signed long-term leases with the Panamanian government to operate the strategic commercial ports at both ends of the canal: Cristobal on the Atlantic and Balboa on the Pacific.⁷

More recently, in July 2009 a \$3 billion-plus contract to design and build a wider, third set of locks for the Panama Canal was awarded to a Spanish–Italian engineering consortium, which beat out a bid by a group led by Bechtel of the U.S. Some analysts have speculated that the continuing failure by Congress to approve the FTA may have led to the decision by the Panama Canal Authority to choose the European firms over Bechtel.

1. United States Trade Representative, "CAFTA-DR (Dominican Republic-Central America FTA)," May 31, 2009, at <http://www.ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta> (October 13, 2009).
2. United States Trade Representative, "Chile Free Trade Agreement," April 24, 2009, at <http://www.ustr.gov/trade-agreements/free-trade-agreements/chile-fta> (October 13, 2009).
3. United States Trade Representative, "Peru Free Trade Agreement," May 15, 2009, at <http://www.ustr.gov/trade-agreements/free-trade-agreements/peru-tpa> (October 13, 2009).
4. United States Trade Representative, "Caribbean Basin Initiative," May 15, 2009, at <http://www.ustr.gov/trade-topics/trade-development/preference-programs/caribbean-basin-initiative-cbi> (October 7, 2009).
5. U.S. Department of State, Bureau of Western Hemisphere Affairs, "Background Note: Panama," March 2009, at <http://www.state.gov/r/pa/ei/bgn/2030.htm> (October 13, 2009).
6. United Nations Development Program and the Economic Commission for Latin America and the Caribbean, "Fact Sheet," at <http://www.eclac.org/noticias/paginas/2/21942/factsheetMDGgoal1OKfinal150705.pdf> (October 13, 2009).
7. Hutchison Whampoa Limited, "Ports and Related Services: Panama," 2003, at http://www.hutchison-whampoa.com/eng/ports/international/the_americas.htm#Panama (October 7, 2009).

With an FTA secured, however, U.S. companies would be better positioned to win such lucrative construction bids. Much of the equipment that will be used to build the third set of canal locks, for example, could be manufactured in the U.S., providing thousands of good jobs to Americans in places like Peoria, Illinois (headquarters of Caterpillar). Continued hesitancy over FTA approval only creates more opportunities for others—America's friends as well as geo-political rivals—to make economic inroads throughout the hemisphere. For example, Panama signed an FTA in August 2009 with NAFTA partner Canada.⁸

Washington Just Doesn't Understand. In seeking to justify the continuing delays in approving the agreement, Obama Administration officials have pointed to concerns about Panama's labor code as well as its history as an offshore "tax haven."⁹ These concerns may have some merit, but they pale in comparison to the benefits to the U.S. from the FTA:

stronger relations between the two countries and enhanced security. The economy and national security of countries in the Western Hemisphere are inextricably tied. This nexus is underestimated and, apparently, not well understood by those in power right now in Washington.

The pending FTAs would spur economic development in all participating countries, strengthening them economically and politically. In particular, the Panamanian FTA would help counter the rising tide of Chávism that has nearly surrounded Colombia, provoked an ongoing crisis in Honduras, and threatens to undermine U.S. hemispheric interests. President Obama would demonstrate U.S. leadership and strength in the region by pushing for congressional approval of the FTA with Panama as soon as possible.

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8. Government of Canada, Department of Foreign Affairs and International Trade, "Negotiations toward a Canada-Panama Free Trade Agreement," August 11, 2009, at <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/panama/index.aspx> (October 22, 2009).
 9. United States Trade Representative, "Panama Trade Promotion Agreement," June 1, 2009, at <http://www.ustr.gov/trade-agreements/free-trade-agreements/panama-tpa> (October 7, 2009).