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U.S.–Panama Free Trade Agreement: Drop the Tariff Anchor

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The White House's decision to send the pending free trade agreements (FTAs) with Colombia, Panama, and South Korea to Congress for approval is overdue but welcome news. With unemployment still above 9 percent, one can only hope that, nearly three years into office, President Obama is finally shedding his protectionist blinders and seeing America's trade partners and democratic friends as they really are: targets of economic opportunity.

Not Your Father's Panama. Today, more than a decade after the transfer of control of the Panama Canal from the U.S. to Panama, its democratic government, led by business entrepreneur President Ricardo Martinelli, has become one of Latin America's fastest-growing economies. Projected growth figures of 7.5 percent or more extend out to 2015. With its dollarized economy, Panama is emblematic of a dynamic, democratic market and investment-friendly nation ready to pursue agile, innovative, and pragmatic policies aimed at attracting and keeping foreign investments.

From the expansion of the Panama Canal and the soaring Donald Trump tower in Panama City's skyscraper jungle to construction of an urban transit system and painstaking restoration of old Panama, one sees a nation on the move. Panama is investing over $10 billion in new infrastructure projects alone. The current joke in Panama is that the construction crane has become the national bird.

Clearly the U.S.-built Panama Canal remains a major strategic point for global commerce, much of it U.S.-bound. The target date for completion of canal expansion project is 2014, the centennial of its opening. It is estimated that 30 percent of the work has been done, with much more to come. In 2010, for example, the U.S. sold $210 million in construction equipment alone to Panama. The FTA would remove an average 5 percent tariff, making U.S. manufacturers even more attractive.

Panama has demonstrated sophistication and foresight in developing former Panama Canal Zone properties. For example, Panama Pacifico, on what was once Howard Air Force Base, is an expanding complex that headquarters divisions for U.S. firms such as 3M and Dell. From a friendly base in Panama, U.S. firms can work to preserve market share in Latin America. In Panama, Caterpillar can operate training facilities without facing the hurdles of stringent U.S. visa requirements if it trained in the U.S.

Panama benefits from the movement of thousands of Venezuelans fleeing the voracious, confiscatory policies of Hugo Chavez's socialism of the 21st century. U.S. firms such as Proctor and Gamble relocated their Latin American operations in Panama from Caracas. In short, Panama stands out as an island of liberty and prosperity and a defiant rebuke to Chavez's efforts to swing Latin America toward his populist, anti-American alliance.

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Stop Losing Opportunities. The FTA with Panama was signed in 2007. For more than four years, it languished in the White House's inbox. While it is difficult to determine the full amount of self-inflicted damage in terms of lost trade and jobs, it is widely agreed that with prompt implementation of the FTA, the U.S. would have enjoyed a more competitive position in Panama's growing economy. While the U.S. has stood still, Canada, the European Union, and South Korea have actively moved to leverage trade agreements into increased market share at the expense of U.S. manufacturers and farmers.

With an average of 7 percent in tariffs paid on manufactured imports and 15 percent on agricultural products into Panama, it is not difficult to see why U.S. firms have lost their competitive edge. Enactment of the FTA will remove the 7–15 percent tariff anchor holding back U.S. trade with Panama.

As for potential U.S. job loss, little is anticipated. Currently, for every dollar the U.S. imports from Panama, it exports $15. Even noted FTA skeptic Representative Sander Levin (D–MI) said that "the U.S. has maintained a trade surplus with Panama for more than 20 years—$5.7 billion in 2010 [in the U.S.'s favor]—and the trade agreement is expected to increase that surplus."[1]

Stopping Illicit Trade. The U.S. relationship with Panama is not only about legal trade. It is also about fighting illicit traffic in drugs and contraband. Panama's prime location between the coca-growing areas of South America and the transit zones to the U.S. drug market puts the country at risk. Under President Martinelli, historically good counter-drug and security relations with the U.S. have improved.

In recent years, Panama has seized an average of 50 tons of cocaine each year. According to U.S. embassy officials, this quantity is greater than is seized in the U.S. and just slightly less than the totals for Mexico and Central America combined.[2]

With U.S. help, Panama operates 16 forward locations, allowing greater control over national territory. Panama works with the U.S. to create vetted law enforcement units, and the U.S. provides approximately $10 million in counter-narcotics assistance. The money appears to be well-invested.

Reassuring is the increasingly close cooperation between Panama and Colombia. Today, Colombia provides training in a number of areas, particularly in operations in jungle conditions. This has allowed Panama to improve control over the ungoverned space of the Darien, where narco-terrorists of the Revolutionary Armed Forces of Colombia often roamed freely. Panama is also closely engaged with the rest of Central America in seeking to deal with the current crisis in security. Strong economic and trade ties build a rationale and basis for trust in matters relating to security and law enforcement.

What the Administration Should Do. The Obama Administration and Congress have a chance to recover lost ground and put U.S.–Panama relations on a sound and enduring footing. To do this, they should:

- Take action on the Panama FTA as soon as possible;
- Work with Panama and Colombia to strengthen counter-narcotics and law enforcement cooperation;
- Add a visa-waiver provision for Panama to facilitate movements of business and tourist travelers and encourage job-creating visits; and
- Support English education to augment the number of English-speaking Panamanians able to further facilitate commerce between the U.S. and Panama.

Strengthening U.S.–Panama Relations. Overall, the recent display of bipartisan agreement on the need to pass the three FTAs has awakened a new sense of urgency in Washington and expectations

1. Representative Sander Levin (D–MI), "Worker's Rights Part of Trade Deals," *Politico*, October 2, 2011, at *http://www.politico.com/news/stories/1011/64938.html* (October 6, 2011).
2. U.S. Department of State, *2011 International Narcotics Control Strategy Report*, at *http://www.state.gov/p/inl/rls/nrcrpt/2011/vol1/156362.htm* (October 6, 2011).

among America's Panamanian friends. Failure to approve the Panama FTA would represent a collective failure toward Panama and Latin America and further erode U.S. capacity to exert leadership for years to come.

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