

U.S.-Panama Trade Promotion Agreement

EXPANDING ECONOMIC OPPORTUNITIES

Panama is one of many developing countries that already enjoy duty-free access to the U.S. market for the majority of their exports through trade preference programs. Developing countries often have high tariff and non-tariff barriers to U.S. exports and impose restrictions on U.S. businesses. Free trade agreements like the U.S. - Panama TPA not only reduce barriers to U.S. trade, but also require important reforms of the domestic legal and business environments that are key to encouraging business development and investment. Such reforms include providing greater transparency for government actions such as rule-making, anti-corruption measures and other steps to strengthen the rule of law, improving the protection and enforcement of intellectual property rights, and providing clear guidance on customs matters.

Expanding Economic Opportunities for U.S. Manufacturers, Workers, and Farmers

Panama is a free market economy with growing commercial and investment ties to the United States. Between 2003 and 2007, U.S. exports of merchandise to Panama grew 102 percent from \$1.8 billion in 2003 to \$3.7 billion in 2007, outperforming overall U.S. merchandise export growth, which was 60 percent for the same period. The market access and trade disciplines provided by the Agreement offer an opportunity to further expand U.S. exports to a region that is already seeing high export growth rates. In 2007, U.S. - Panama total trade amounted to \$4.1 billion with the United States registering a sizable trade surplus of \$3.4 billion. U.S. exports in 2007 were \$3.7 billion, up 38 percent from the previous year.

The United States is already the leading source of Panama's imports with a 30 percent market share in 2007. U.S. products and services enjoy a reputation in Panama for offering excellent quality at highly competitive prices. This combination provides U.S. exporters with a distinctive edge, one that will be enhanced under the tariff elimination provisions of the U.S.-Panama TPA.

Just as bilateral trade is poised to grow under the U.S.-Panama TPA, so is U.S. investment in the Panamanian market. The stock of U.S. foreign direct investment (FDI) in Panama in 2006 was approximately \$5.7 billion in such areas as non-bank holding companies, financial services, insurance and wholesale trade. In 2006, Panama attracted over \$2.5 billion in FDI, primarily in the banking sector and the Colon Free Zone.

Moving from One-Way Preferences to Reciprocity

In 2007, 91 percent of Panama's exports to the United States entered duty-free either on a Normal Trade Relations (NTR) basis or through unilateral U.S. trade preference programs, such as the Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP). Panama's average tariff on U.S. industrial and consumer goods is 7 percent, but tariffs on these products range as high as 81 percent. Panama's average agricultural tariff is 15 percent, but many U.S. agriculture exports face tariffs as high as 260 percent.

The U.S.-Panama TPA moves beyond one-way preferences to full partnership and reciprocal commitments under which U.S. exports also benefit from duty-free treatment.

Panama's \$19.7 billion economy is based primarily on a well-developed services sector that accounts for nearly 80 percent of its GDP. The Panama Canal and the Colon Free Zone provide much of the stimulus for its service-based economy. Services include banking and financial services, accounting, legal, and insurance services, inter-modal transportation services, port services, flagship registry, tourism, and medical and health services.

At \$5,904, Panama's per capita GDP ranks among the highest in Latin America. Compared to its Central American neighbors, Panama has a relatively small agricultural and textile manufacturing sector. Panama's dollarized economy offers low inflation and zero foreign exchange risk. Panama's economy has enjoyed steady growth, as GDP has grown over 7 percent annually the past three years and it is expected to remain in that range.

Panama has demonstrated a commitment to steady economic growth, democratic principles and close cooperation with the United States on security and law enforcement. With the U.S.-Panama TPA, Panama will offer an even more stable investment climate, more reliable access to international arbitration if disputes do arise and a vibrant market for U.S. exports for years to come.