

# Implications of the United States-Panama Trade Promotion Agreement For the State of Florida



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## Introduction

A strategically important country in Central America, Panama is perhaps best known for its canal linking the Atlantic with the Pacific Ocean. Providing passage to more than 12,000 vessels annually, the canal basin with its adjacent areas is a major global trading hub, accounting for about three quarters of the nation's US\$18 billion economy. In fact, much of Florida's seaborne trade with the Asia-Pacific region passes through the Panama Canal. In recent years, Panama has emerged both as a key partner and as a potential competitor to Florida in its role as the commercial hub of the Western Hemisphere.

A nation of 3.3 million people with a dollarized economy that in recent years has been growing at about 10% annually, Panama's prospects remain good even amid the present global economic downturn: the IMF forecasts positive GDP growth of 3% this year, and 4% next year. Since the 1990s, Panama has made important strides in liberalizing its economy to the outside world, including opening or concluding negotiations on free trade or association agreements with the U.S., Canada, and the European Union.

Under the Caribbean Basin Initiative, Panama currently already enjoys unilateral duty-free access to the U.S. market for thousands of product categories, although U.S. exporters do not have similar privileges in the Panamanian market. For example, there is a 7.7% tariff on U.S.-made IT equipment, 8.6% on medical devices, 13.9% on transportation equipment, and so on. To give U.S. goods and services equal access to Panama, as well as to secure permanent duty-free access to the U.S. market for Panamanian producers, the two countries negotiated a bilateral Trade Promotion Agreement (TPA) in late 2006, and signed it in June 2007. For this TPA to become an internationally-binding treaty, and for implementation to begin, ratification by the two countries' respective legislatures is required. Panama's National Assembly ratified the treaty in July 2007, but the signed TPA is still awaiting U.S. Congressional ratification.

In addition to making permanent Panama's existing duty-free access to the U.S. market, which is the destination for nearly half of the nation's merchandise exports, Panama stands to benefit from the TPA through a strengthening of competition policy, more transparent dispute settlement mechanisms, and enhanced macroeconomic stability and certainty for local businesses and prospective foreign investors. Rules protecting the environment, intellectual property, and workers' rights in Panama would be strengthened, while bilateral trade in agricultural products would be characterized by strict adherence to sanitary and phytosanitary safeguards. Investors from either country would be granted "home-country" treatment by the other, and dispute arbitration mechanisms established.

In addition to enhancing Panama's overall economic and political stability, the U.S.-Panama TPA would also act as an incentive to other Latin American countries to conclude similar deals with the U.S. in the future. The existence of economically prosperous and politically stable countries in Latin America strengthens U.S. national security, narrows the scope for political extremism and terrorism, discourages illegal immigration and drug trafficking, and creates export-related jobs for American workers.

## Key Treaty Provisions

This agreement would immediately eliminate tariffs on 88% of U.S. consumer and industrial exports to Panama, including nearly all information technology products, medical and scientific equipment, aircraft and parts, environmental products, pharmaceuticals, fertilizers, agro-chemicals, and construction equipment. All remaining Panamanian tariffs are to be eliminated within the next ten years. More than 60% of U.S. agricultural products would also immediately get duty-free access, with most remaining tariffs on agricultural products to be phased out within 15 years. More than 99% of Panamanian industrial goods and 89% of agricultural products would enter the U.S. market duty-free, with the remainder phased out over a period of 5-15 years, except tariffs on sugar (phased out over 17 years).

Panama's markets for services and government procurement would be opened up to U.S. firms, including bidding on one the largest and most ambitious infrastructure projects in the world – the Panama Canal expansion project, approved by over 80% of Panamanian voters in a 2006 referendum. The project is expected to create a new lane of traffic along the Panama Canal by constructing a new set of locks, more than doubling the Canal's current capacity and allowing the passage of huge "post-Panamax" container ships (ships that are too large to pass through the existing locks). The project's cost is estimated at US\$5.3 billion, with construction to be completed by August 2014 – the 100<sup>th</sup> anniversary of the Canal's opening. It will present numerous bidding opportunities for everything from engineering and construction firms to producers and vendors of industrial and construction equipment. Florida companies are well positioned to capitalize on numerous business opportunities this will offer.

## The Importance of the U.S.-Panama TPA to Florida

The TPA's Congressional ratification is a top priority for Florida, for the following reasons:

1. **Existing Commercial Relationship between Panama and Florida:** Florida already is the main gateway for commercial ties between the U.S. and Panama. Key areas:
  - a. **Trade:** Total bilateral merchandise trade between the United States and Panama has grown by nearly 150% in the past five years, reaching \$5.3 billion in 2008. Of this, almost a third (\$1.7 billion) moves through Florida. In fact, a ninth of Panama's entire worldwide trade moves through Florida, while Panama accounts for about 2% of Florida's total international trade, ranking 20<sup>th</sup> globally and 11<sup>th</sup> in Latin America among Florida's trading partners. Exports of Florida-origin goods (i.e. those made or with significant value-added in Florida) to Panama have more than tripled in the past five years, reaching \$1.1 billion and accounting for over a fifth of all U.S. exports to Panama in 2008. But excluding petroleum products, Florida's share of total U.S. exports to Panama in 2008 was 34.3%, up from 23.9% in 2003. Panama is now the 10<sup>th</sup> largest market in the world for Florida-origin goods, which saw growth of 15.2% in the first two months of 2009, even as many other markets stagnated. The vast majority of Florida-origin exports to Panama are in high value-added industries like information technology, transportation equipment, aerospace products, medical devices, and machinery. According to the AeA, 56% of all U.S.-made high-tech goods exported to Panama originate in Florida – five times as much as second-ranked California, and almost seven times as much as from third-ranked Texas.

- b. **Investment:** Total holdings by U.S. firms in Panama are worth about \$6 billion, with many of these operations managed out of regional corporate headquarters in Florida. There are three Florida-based firms known to have operations at four physical locations in Panama, and many more with business ties to that market (exporting, joint ventures, etc.). Florida is also the principal gateway for Panama-based firms accessing the North American market. In 2006, the total value of investment by Panamanian companies (excluding banks) in Florida stood at \$164 million. About two dozen Panama-based corporations are known to be currently operating in Florida, employing over 100 Floridians, plus dozens of smaller, mostly family-owned firms estimated to employ many hundreds more. Panamanians are also major investors in Florida real estate, supporting additional Florida jobs in construction and related industries.
- c. **Other Commercial and Human Linkages:** Florida is the gateway for transportation, trade finance, insurance, and various other kinds of high value-added professional services provided to companies from all over the world doing business with Panama. At least 25,000 Panamanians are estimated to be living in Florida, while many thousands more visit Florida each year. Numerous Panamanian students are enrolled at Florida's colleges and universities, and there are extensive educational, cultural, family, and other ties between individuals and organizations in Panama and Florida.

## 2. **Potential Economic Benefits from Implementing the U.S.-Panama Trade Promotion**

**Agreement:** The TPA is expected to yield significant economic benefits for both Panama and the United States. Among the individual U.S. states, Florida is likely to be one of the chief beneficiaries of the implementation of this treaty, given the vast scope of its existing commercial relationship with Panama and strong presence and experience in that market.

- a. **Total U.S. Exports and Imports:** Most Panamanian products already enter the U.S. market duty-free, but the TPA's implementation would still provide a minor boost to U.S. merchandise imports from Panama. According to scenarios developed by the U.S. Chamber of Commerce, if the TPA is implemented total U.S. exports to Panama would grow at a compounded annual rate of 25%, compared to long-term growth of 16.5% in the absence of a TPA. Therefore, in the first year of the TPA's implementation, total U.S. exports to Panama would be US\$263 million higher, and after five years an estimated US\$2.8 billion higher annually than in the absence of a TPA.  
On the services side, since Panama is not a major producer of tradable services except for tourism, there would not be a major increase in U.S. services imports from Panama. According to the U.S. International Trade Commission, increases in exports of U.S. services to Panama would occur primarily in the financial, retail, and professional services sectors, particularly associated with the Panama Canal expansion project.
- b. **Florida-Origin Exports:** Applying the export growth assumptions used by the U.S. Chamber of Commerce to Florida, the first year of the TPA's implementation would see Florida-origin exports of goods to Panama increase by an estimated \$91 million. After five years of the treaty's implementation, Florida-origin exports to Panama would grow by an additional \$964 million.  
Assuming that Panama's share of Florida's total services exports is comparable to that of goods exported, Florida's services exports to Panama could grow by US\$50 million annually in the first year of the TPA's implementation, rising by over US\$300 million by the fifth year.

- c. **Florida Jobs:** Using standard U.S. Department of Commerce “rule of thumb” estimates and multipliers (11,000 U.S. jobs per each additional US\$1 billion in U.S. goods exported), the increased exports of Florida-origin goods to Panama made possible by this TPA would support the creation of an additional 995 jobs in Florida during the first year of implementation. After five years, increased Florida exports to Panama would be annually supporting an estimated extra 10,600 jobs all over the state. Meanwhile, Florida’s increased services exports to Panama could sustain an additional 900 jobs in the first year, rising to 4,500 jobs by the fifth year of implementation. Therefore, in total the TPA stands to result in the addition of close to 1,900 jobs in the first year, and about 15,000 jobs for Floridians after five years of implementation.

These estimates of Florida job gains are based on increases in bilateral trade alone; it is highly probable that additional jobs could also be created as a result of the liberalization of investment rules between the two countries – more Panamanian firms accessing the U.S. market through Florida, and more U.S. and overseas firms investing in Panama that might headquarter their new or consolidated operations out of Florida. These additional job impacts are, however, difficult to quantify at this time, based on available information.

### **Conclusion: Ratification of the U.S.-Panama TPA is a Priority for Florida!**

Based on these preliminary estimates, it is clear that Florida has an important stake in the ratification of the U.S.-Panama Trade Promotion Agreement, and that this treaty can make a significant contribution to Florida’s leadership in global commerce.