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Panama's Trade Pacts Signed

by LADB Staff

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Panama is breaking out in a rash of free-trade agreement negotiations (FTAs). The government expects to engage the US, Taiwan, and Mexico in separate pacts. President Mireya Moscoso announced in early June that an FTA was the first item on her agenda in a meeting with US President George W. Bush scheduled for later that month. The two countries have been in "exploratory contact" over a deal since December 2001. Panama has preferred the bilateral route to the prospect of joining Central America in CAFTA.

Meanwhile, Panama is near completion on negotiations for a trade deal with Taiwan, which has deals with the rest of the isthmus (see NotiCen, 1997-10-02). Meliton Arrocha, vice-minister of Foreign Trade said in June that negotiations could be wrapped up in a negotiating round set for August 1-10 in Taipei. Arrocha has been at the head of the negotiating team since talks started in October 2002. His announcement came at the conclusion of a round in San Francisco, CA, on June 24. He said then that the sides had resolved about "97%" of the agricultural issues, the most difficult of categories. Panama had managed to get access to Taiwanese markets for fish exports, while excluding rice and dairy products.

El Salvador and Mexico FTAs Panama has only one FTA in force at present, with El Salvador. This is the first for Taiwan; a country recognized by only 29 other states in the world. Panama is one of those states. Panama exported US\$11.7 million to the island nation last year, and imported US\$24.3 million. The figures represented an overall drop of 16% in trade from 2000, when totals amounted to US\$42.9 million. Whether, with El Salvador under its belt and Taiwan down to the wire, Panama now feels ready to take on the United States is uncertain, and almost irrelevant. The United States is ready to take on Panama.

On July 21, Moscoso told reporters that the US had told her that she must decide "rapidly" between two options: sign onto the deals the US recently signed with Singapore and Chile, or join the Central America Free Trade Agreement (CAFTA) negotiations. She said those were the choices Bush had laid out for her in June, but there was no time frame attached. Now, "they have asked us please to hurry up and decide. We are studying it, so that we can start to talk," she said. Clearly under pressure, Minister of Economy and Finance, Norberto Delgado flew to New York that same day to discuss Panama's trade commitments and economy with experts there. These are not the only irons Panama has in the global fire.

A bilateral free trade agreement negotiation with Mexico that has been stalled since September 2002 is scheduled for discussion in a bi-national meeting July 28, with the intent of "unfreezing" the process. The topic will dominate the two-day affair, according to diplomatic sources. Political, cultural, economic, commercial, and cooperation themes are also set for discussion. "Mexico is a strategic ally for Panama, and obviously the FTA is a subject that will be brought to the table," said Rossana Castrellon, Panamanian vice-minister of foreign relations.

According to Mexican ambassador to Panama Jose Ignacio Pina Rojas, the parties will do a "complete review" of the state of the negotiations to date in order to evaluate where they can go from here to unstuck the talks. He said, "Panama is the only Central American country that doesn't have a FTA with Mexico. Concluding it has a strategic importance for us." Apparently the difficulty is that Panama is a tax haven. As such, the country is on a "blacklist" in Mexico. "We think," said the ambassador, "this should be dealt with by the treasury authorities, and should not interfere with the FTA." He said the only way to deal with the problem is through an agreement for exchange of tax information, because the Mexican Ley Federal del Impuesto sobre la Renta requires it.

Mexico maintains a list of countries that it considers problematic as tax havens, and Panama must get off it. It remains unclear whether an exchange of tax information will take care of the problem. The blacklist was drawn up by the Organization for Economic Cooperation and Development (OECD). The OECD started the list in 2001, responding to an initiative of the US to put a halt to the practice of national corporations utilizing other countries for the purpose of avoiding US taxes. Mexico has similar concerns. The original list contained, in addition to Panama, about 30 countries. Not only Mexico, but also Venezuela, Peru, Argentina, and Colombia have targeted Panama.

Around the time of the breakdown in negotiations last year, former director of Panama's Unidad de Analisis Financiero, Victoria Figge, was advocating taking the issue to the World Trade Organization (WTO) for resolution. "It is absurd that Panama has not used the route of the WTO to get off the blacklist, in which [the mentioned countries] call us a tax haven," she said. Arguing that diplomatic efforts are insufficient if not backed up by an offensive in the WTO, Figge said, "Panama has tried to deal with this diplomatically, completely forgetting that our best tool to fight against this is the fact that we are members of the WTO and have every right to present a complaint for bilateral discrimination against every one of these countries and we haven't done it."

A year later, Panama is still on the list, and still facing problems over it. Also contributing to the holdup has been Panama's shotgun approach to trade deals; the country has so much going that nothing has been moving, said Pina Rojas. With upcoming elections in Panama, the rush to conclude agreements has created a bottleneck. The Moscoso government officially ends Aug. 30, 2004. Panama is Mexico's third largest trading partner, and second in the region for Mexican investments.

In 2002 Panama imported US\$316.1 million from Mexico, and exported US\$35.5 million. Bilateral trade has increased more than 100% in the last ten years. Central American FTAs on horizon On July 22, Arrocha announced that Panama expects, within two weeks, to receive a proposal from the Guatemalan government for a bilateral FTA. This is another deal left languishing for some time. The vice minister said he has already reviewed the proposal, and that a second proposal must be sent to the private sector in order to start the trade negotiation. The process has been frozen since May 16, 2001. In this case, the process is energized by expiring presidencies on both sides. Guatemalan elections are set for Nov. 9, 2003.

Yet to be annexed to the pact are the specific products and services to be included. Panama also has in the works a trade agreement with Nicaragua. This one has been held up for about a year over disagreements on cattle. And there is a pact with Costa Rica still on tap, blocked by a failure to reach accord on telecommunications issues.

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