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# China's advance in Panama: An update

*By Evan Ellis / April 14, 2021*



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The June 2017 recognition of the People's Republic of China (PRC) by the Panamanian government of Juan Carlos Varela set in motion an [array of Chinese activities in Panama](#), as well as diplomatic changes in nearby [El Salvador](#) and the [Dominican Republic](#)—all of which grabbed the attention and [concern of Washington](#). The election of the opposition Democratic Revolutionary Party's (PRD) Laurentino Cortizo in 2019 has since led to greater scrutiny of various projects involving China.

Panama's economy was one of the hardest hit in the region by the COVID-19 pandemic, [contracting by 17.9 percent in 2020](#), furthering its vulnerability to Chinese advances. For China, Panama's position—both as an international commercial and banking hub and a logistical choke point, due to its geographic positioning—gives it strategic importance. At the same time, the new administration of President Joe Biden in the United States has created incentives for an increasingly self-confident China to push the limits of its global position, as illustrated by [China's aggressive stance](#) toward the U.S. during the first U.S.-China summit in Anchorage, Alaska in March 2021.

This piece examines the evolution of China's position in Panama under the Cortizo government. It finds that China's advance has suffered significant, if not necessarily enduring, setbacks under Cortizo, reflecting a combination of enhanced legal scrutiny, problems inherent to the Chinese projects themselves, and the adverse effects of the pandemic and corruption on the commercial and administrative environment in the country. The China-Panama dynamic presents important lessons for the region as well as opportunities for the U.S. to expand engagement with Panama. Greater U.S. activity in Panama may both reclaim some of the ground previously lost to China, and help in combating governance challenges which have grown more acute due to the effects of the COVID-

19 pandemic. Moreover, it would demonstrate to the rest of the region the benefits of betting on a framework of strong, transparent, democratic and free-market institutions, while still working with both China and the West.

## Background

Panama's position as an international logistics hub has garnered a longstanding connection with China, notably marked by a [significant Panamanian-Chinese community](#).

Many Panamanian-Chinese are descendants of Chinese who immigrated during the early part of the 20th century, a time of great economic weakness and chaos in China, with many making the journey in order to work on the Panama Canal and railroad. Today, [between six percent and 35 percent](#) of Panama's population have some Chinese ancestry. Chinese Panamanians today have leading positions in government, business, and society in Panama, including José Chen Barria, former Comptroller and Vice President of the University of Panama; Dr. Enrique Lao, former Social Security administrator; Julio Yao, who played a key role as advisor in the Torrijos administration during the U.S.' return of the canal to Panama; and Leonardo Kam, Panama's current [Ambassador to China](#).

[In November 1999](#), the Panamanian government awarded the Chinese firm Hutchison-Whampoa concessions to operate ports on both the Atlantic and Pacific sides of the canal. The award was China's first major port concession in the region, and, in combination with the strategic

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importance of the Canal Zone—which had just been returned by the United States to Panamanian control under the [1977 Carter-Torrijos treaty](#)—raised some [concern in Washington](#). Since then, Chinese shipping companies have become the [second or third largest users](#) of the canal, and China is the [primary source](#) of products going through the Colón Free Trade Zone.

## Diplomacy and agreements

In December 2017, just five months after recognizing the PRC, the Panamanian government joined Beijing's [Belt and Road Initiative](#) as part of [19 non-public memoranda of understanding](#) (MoU) it signed with the PRC. Panama was the first country in the region to formally join, with 19 Latin American countries [officially signing on](#) in the two years that followed. The Cortizo government has not reversed Panama's participation in the [Belt and Road initiative](#), although, as with other signatories, the specific obligations of Panama's membership are not clear.

In December 2018, President Varela hosted Chinese President [Xi Jinping in Panama](#) only one year after signing the 19 MoU. During the visit, the two leaders would go on to sign additional agreements, ultimately broadening and deepening the relationship between the two countries.

The PRC [has not yet established](#) a “strategic partnership” with Panama, [as it has with 10 other countries](#) in the region. It has, however, assigned one of its top Spanish-speaking diplomats to the region, [Wei Qiang](#), although Ambassador Wei's relationship with the Cortizo government has [reportedly not been as fluid](#) as it was under President Varela. Nonetheless, [PRC gifts and offers of medical and other pandemic-related supplies](#) have provided him with some continuing influence.

## Trade

Panama's unique position as a global logistic hub has distinguished its trade relationship with the PRC from those of its Central and South American and Caribbean neighbors.

As with other countries in the region, Panama's overall trade with the PRC has grown by a factor of 22 since the PRC joined the World Trade Organization in 2001. Its exports to the PRC grew from USD \$2 million in 2002 to USD \$33 million in 2019. Imports to the PRC, while growing at a similar rate, eclipsed exports throughout the same period. Panama's imports from the PRC grew from USD \$41 million in 2001 to USD \$905 million in 2019, 27 times more than exports to the PRC. The figures are nonetheless somewhat distorted because a significant portion of the products coming into Panama, particularly into the former Canal Zone, are warehoused and transformed in minor ways for re-export to other parts of the hemisphere.

In a reflection of Panama's importance as a hemispheric trade hub, one of the Chinese government's first acts following their establishing relations with the Central American country was beginning negotiations for a free trade agreement. Under the Varela administration, the two governments carried out five rounds of trade negotiations. However, talks were suspended when Varela left office and have not since resumed. As a consequence, many of the technical personnel involved in the original negotiations have now moved on to other responsibilities, making any attempt to restart talks difficult.

Despite its shift in diplomatic relations from Taiwan to the PRC, Panama continues to have, and use, a free trade agreement with Taiwan. The PRC has sought—thus far, unsuccessfully—to pressure the Panamanian government into terminating the agreement. In Panama, some support for Taiwan remains, as was seen when Canal Minister Aristides Royo Sánchez called for the Cortizo government to establish a Taiwan commercial office



in the country similar to Taiwan's commercial representative office in the United States (TECRO).

## Mining and petroleum

Although Panama has never had a significant mining sector, copper mining emerged as a major contributor to the country's GDP under the Varela administration, when [Cobre Panama](#)—one of the world's [biggest copper mines](#)—commenced production. In December 2019, the Chinese company [Jiangxi acquired an interest in Cobre Panama](#), purchasing [an 18 percent share](#) in the mine owner, First Quantum. At its height, the mine was reportedly exporting 60 percent of the project's mineral production through the port of Colón. Jiangxi ultimately [sold its stake in First Quantum in July 2020](#), following difficulties with First Quantum both in Panama and Africa, compounded by [delays related to the COVID-19 pandemic](#).

Panamanian labor leaders involved in the project, including Genaro López of the [SUNTRACS](#) construction union, and the leader of the Confederation of Panamanian Workers ([CTRP](#)), traveled to China. Panama's unions have been remarkably silent on labor practices by Chinese corporations, yet, any inroads the PRC may have had with the labor unions were not sufficient to overcome other concerns with First Quantum.

## Agriculture

The role of export-oriented agriculture in the Panama-China relationship has been relatively minor, even vis-à-vis Chinese purchases of limited quantities of coffee and fruit from other Central American countries. Nonetheless, Chinese government representatives have made multiple [visits to Chiriquí](#) to conduct agriculture training workshops for the local population, including one three-week program in 2019.

## Canal related projects

Although Chinese companies initiated or began to explore a significant number of projects related to the Panama Canal and other infrastructure, the vast majority have been delayed, canceled, or scaled back under the Cortizo administration.

On the Atlantic side of the canal, near Colón, the Chinese Landbridge consortium— known as the Landbridge Group—committed to a USD \$1 billion investment for a new container port known as the Panama-Colón Container Port (PCCP), oriented toward supporting the large neo-Panamax vessels that China was sending through the canal with increasing frequency. Some feared that Landbridge could ultimately buy out the neighboring Evergreen port facility and leverage preferential treatment by the China Shipping Group and Chinese companies to displace the dominant Manzanillo International Terminal (MIT) port. In the end, however, Evergreen did not sell its facility, but rather made significant investments in a logistics park with warehouse facilities to expand its operations.

Near the end of 2019, even before the COVID-19 pandemic, there was a significant drop-off in construction at the PCCP facility, leaving the new pier about 25 percent complete. In June 2020, the controller of the Shanghai Gorgeous Group, Gao Tianguo, was arrested in Shanghai on fraudulent lending charges, further contributing to the project's suspension. Nonetheless, dredging vessels continued to be present at the site at the end of 2020, suggesting the continuation of some degree of operations.

With the paralysis of the PCCP, related projects involving the 441 MW USD \$900 million gas-fired "Martano" power plant were also stopped. The power plant, although some distance away from the PCCP, could have used

liquid natural gas (LNG) from the large tankers that the PCCP would have been able to service.

A fuel bunkering project that was undertaken by a Chinese petroleum company, done in support of Chinese shipping operations, also appears to have been put on hold.

Separately, in March 2021, the Panamanian government moved toward renewing the lease for the Chinese company Hutchison Port Holdings to operate ports in Cristóbal and Balboa. The Cortizo government was criticized, however, for not having done more to take advantage of the lease renewal to negotiate better terms from Hutchison.

On the Pacific side of Panama, Hutchison continues to have a strategic advantage, with its port there connecting directly to the Atlantic via the Kansas City rail line-operated trans-Panama railroad, giving it an advantage over the neighboring PSA port near Panama City. Although Kansas City Railroad was once rumored to be seeking to sell the rail line, the company's acquisition by Canadian Pacific, and the synergy between the line and the parent's other rail lines in the region, make it likely that the rail line will stay out of Chinese hands for the foreseeable future.

Moreover, no action has been taken on the rumored construction of a Roll-On-Roll-Off (Ro-Ro) port at Corozal, which could support Chinese operations. Nor has action been taken regarding the development of 1,200 hectares of land north of Corozal, rumored to be of interest to Chinese investors who wanted to transform it into a logistics park to support the handling of Chinese products. Reportedly, the new leadership of the Panama Canal Administration, which owns the land, has emphasized water conservation projects—including a water management tender released in late 2020—rather than the development of new logistics facilities in the near term.



The water management tender itself, however, has drawn the interest of at least five Chinese firms. The water management system, to be awarded as a 50-year contract, would likely give the operator technical access to SCADA and other systems impacting water levels and other canal operations. Such access could, if used malevolently, impact not only Panama's revenue stream from the canal, but also those of all international shipping companies, port operators and other logistics firms, freight forwarders, and product distribution companies touched by canal operations. The award of the system to a Chinese firm, although unlikely, would therefore grant the PRC an enormous new lever over global commerce.

Related to the water management issue, the Chinese reportedly offered to perform a study for the Varela government regarding the construction of a fourth set of locks for the canal (for which water is a critical issue). That offer was ultimately turned down, and there is no indication that the PRC made a similar offer to the Cortizo administration.

With respect to the Amador Cruise Terminal, contracted to the Chinese firm China Harbour, the contract awarded to China Harbour and the Belgian firm Jan De Nul was annulled due to a series of contract issues. The cruise ship pier itself was finished in February 2020. Work to complete the facility was suspended during the COVID-19 pandemic, but as of March 2021, the project was approximately 90 percent finished and was advancing with the completion of structures around the pier. The priority given to the project, nonetheless, remains a mystery, particularly at a time when many other public works in Panama remain suspended due to the pandemic. Notably, demand for cruise ships on the Pacific side of the canal has been almost nonexistent, and the cruise ship industry itself has been decimated by the pandemic.

A fourth bridge over the Panama Canal, intended to carry both highway and rail traffic, was initially awarded to a consortium of three Chinese firms:

China Harbour, China Construction Americas, and China Landbridge. A legal challenge by the losing bidder caused the award to be delayed until November 2018. It was ultimately re-examined and scaled back, but finally began to move forward in September 2020, following delays caused by the pandemic, legal questions, and miscommunications. The significance of the project goes beyond the bridge itself. It also extends to massive amounts of construction work to redirect highways and create a complex system of overpasses, underpasses, and other infrastructure enabling access to the bridge.

Regarding the Canal Zone itself, in September 2019, the respected head of the Panama Canal Authority, Jorge Quijano, was replaced by Ricaute (“Catin”) Vásquez, an important figure in President Cortizo’s PRD. Vásquez is considered to bring more government experience to the table, in contrast to Quijano’s technical orientation, and some believe that he views the PRC skeptically. This skepticism of the PRC possibly comes from his previous work at General Electric, which is a competitor of Chinese companies. Vásquez’s more cautious approach to China is a contrast to that of the previously mentioned political Minister of the Canal Authority, Aristides Royo Sánchez, who assumed leadership in May 2019 and is a longstanding member of the Panama-China friendship society (APACHI)—an organization affiliated with the Chinese Communist Party United Front.

Under the Varela government, following China’s designation of Panama as a “Most Favored Nation” for access to Chinese ports, Panama contracted an unknown Chinese company, New United International Maritime Services, to certify vessels and their crews. Although the entity is not part of the International Association of Recognized Organizations, the issue remains unresolved under the Cortizo government.

## **Other infrastructure projects**

As with projects related to the Panama Canal, the majority of other Chinese infrastructure projects that were initiated under the Varela regime have either been canceled or restructured.

The most controversial of the aforementioned projects, a USD \$4 billion high-speed train from Panama City to David, was originally meant to be built by Chinese firms with funding from Panamanian taxpayers through a USD \$4 billion loan from China. However, considering Panama's current needs, the project was deemed unnecessary, not included in Panama's national infrastructure plan, and ultimately canceled.

The fourth set of trans-Panama electricity lines was included in the first set of unpublished Panama-China MoUs signed in December 2017. This project was meant to be funded through the Bank of China and built by a Chinese company. However, it was canceled by Panama's public services authority and not justified by the nation's electricity demand.

The new Convention Center contracted under the Varela regime, funded by Chinese loans and built by China Construction Americas, was ultimately finished. During the pandemic, the government discussed utilizing the facility as an auxiliary hospital, although the nearby Figali convention center was ultimately used for that purpose.

## **Technology issues**

As with other countries in the region with a strong PRC commercial presence, Chinese telecommunications companies have continued to strengthen their position in Panama. Indeed, Huawei made the Colón Free Trade Zone a hub for the distribution of its products. Huawei and ZTE also both have a strong presence as equipment providers for Panama's commercial telephone service companies, Movistar and Más Móvil, and to a lesser extent, Tigo and Claro.

Huawei is seemingly positioned to play a role in Panama's implementation of 5G, particularly through its supply of equipment to Movistar and Más Móvil. These companies are currently advancing plans to build 5G infrastructure in the region, yet, necessary government actions to permit 5G rollout in the country have not yet occurred.

Huawei also played a role in the deployment of a "safe cities" security camera and control system in the port of Colón, through which a significant portion of Panama's logistics operators move their merchandise. Concern over Huawei's cameras led the Panamanian government to require the removal of Huawei's cameras from the regional operations center in the Colón Regional airport, among other facilities, in late 2020. Still, the broader issue of Huawei's surveillance systems in sensitive government and commercial locations has not been resolved.

## **Financial sector**

Chinese banks have long had a presence in Panama, beginning with the Bank of China, which helped finance the purchasing of goods from PRC-based companies. The Industrial and Commercial Bank of China (ICBC) was also approved for branch banking operations in the country in June 2020.

At the national level, in contrast to other major Latin American countries like Argentina, Panama has not applied to join the China-backed Asia Infrastructure Investment Bank (AIIB).

With respect to e-commerce, the Chinese ride-sharing company Didi Chuxing began operations in Panama in March 2020, but in the restricted business environment of the pandemic has been unable to significantly grow its position. The PRC-based e-commerce platform, AliPay, is relatively well established in Panama, currently working with its local partner Multibank. Alipay continues to expand its operations but has been

hampered by inefficiencies in the Panamanian postal system, as well as relatively high taxes on e-commerce.

Huawei has been at the forefront of designing and implementing a “digital free trade zone” in San Miguelito. [The USD \\$38 million project](#), announced in July 2019, will be financed by the Bank of China, and will establish a digitally enabled warehousing and distribution center located about 20 minutes from Panama City. The finished project will involve as many as 100 companies, receiving online orders and dispatching products throughout the hemisphere, while also providing digital support services such as blockchain and cloud computing. There have not been any signs of construction or site preparation, however, to suggest that the project is currently advancing.

## **Intellectual infrastructure**

Due to its longstanding role as an international trade and banking hub for several Asian countries, Panama’s intellectual infrastructure for engagement with China is relatively well-developed.

Consistent with other states establishing relations with the PRC, China launched a [Confucius Institute at the University of Panama](#) in Panama City, one of the country’s most influential public institutions. With the help of recruitment through the Institute, the Chinese cultural promotion and funding organization, Hanban, has [provided scholarships](#) for students to study in the PRC. In 2018, following the change in relations between the two countries, the Chinese government offered [eight such scholarships](#) for Panamanian students to study in Shanghai. Since the formation of this partnership, at least 200 Panamanian students are estimated to have studied in China. The pandemic has interrupted many programs, but they are expected to begin again soon. In February 2021, for example, the



Chinese government received scholarship applications for a two-year Master's program in maritime studies.

Beyond the Confucius Institute, a new Chinese cultural center is scheduled to be built in Bocas del Toro, and another in the town of David, though the formal connection of both centers to the Confucius Institute and the Chinese government is unclear.

## **COVID-19 diplomacy**

As with virtually all countries that maintain relations with the PRC, the Chinese government reached out to Panama in the early stages of the pandemic with a series of highly publicized donations to aid pandemic response. By April 2020, the Chinese government had donated a modest 5,000 test kits, 2,000 masks, 3,000 bottles of disinfectant, and 6,000 gloves, among other items. By contrast, Chinese companies such as Alibaba and Huawei, for which Panama is an important business partner, donated 100,000 masks, 10,080 test kits, 5,000 ventilators, and 49,000 masks, among other items. By May, however, the Chinese embassy had increased their coordination of goods being donated by its corporations.

Chinese donations ultimately came to include a system of heat-sensing cameras and other electronic equipment, including a May 2020 donation of a system with Hikvision cameras. With agreement from the Cortizo government, Chinese donations included heat-sensing cameras installed within the Tocumen International Airport, the Ministry of Public Security, the Health Ministry, and the Office of the First Lady; all of these donations were made in the name of supporting the fight against COVID-19.

Unlike over half of Latin American countries, Panama has not chosen to include Chinese-produced vaccines such as Sinovac, Sinopharm, or CanSino within its government response plan to the pandemic. Instead, Panama made vaccine contracts with Pfizer, AstraZeneca, Russia (Sputnik

V), and the World Health Organization's COVAX program. Panama reportedly turned down a proposal from the Chinese government to supply vaccines, as well as to construct, for a price, a temporary hospital with over 1,000 beds in the Amador convention center.

## Security collaboration

To date, and in contrast to PRC activities with many military and police forces in the region, China has not engaged in significant security cooperation with Panama. The Chinese embassy has, however, donated protective equipment to police and firefighters in the remote province of Chiriquí, among other activities, and, as mentioned previously, has installed heat-sensing cameras in various sensitive logistics nodes and government facilities.

## Conclusions

The impact of increased scrutiny from the Cortizo government and its contribution to the slowing down of China's advances in the country are striking. The significant Chinese reversal in Panama also highlights that—as in El Salvador, the Dominican Republic, and elsewhere—the benefits offered by changing diplomatic recognition, in the context of transparency and fair dealings, may be less than what is imagined by nations contemplating a change in recognition.

It is important to reiterate that, due to its geography and importance as a regional logistical choke point, as well as a hub for commercial and banking activities, Panama continues to hold great strategic importance for the PRC. While the combination of the Cortizo government, U.S. pressure, and the COVID-19 pandemic may have derailed some of the most significant Chinese advances, the PRC continues to have a significant and expanding trade, investment, and financial footprint in the country that will only continue to grow with China's current trajectory. Considering the

longstanding and ongoing China-Panama entanglement, continued vigilance of China’s efforts in the Central American country will be imperative for the U.S., Panama, and the region.

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