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China's Uneven Military, Political, and Commercial Advance in Panama

Since establishing ties in 2017, China has invested significant effort in Panama and made important, if uneven progress in building influence.

By **R. Evan Ellis**

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From March 12-18, I traveled to Panama to interview government officials, businesspeople, and others about the country's evolving relationship with China. My trip came shortly after a Chinese donation of military gear including [6,000 bulletproof vests and helmets](#) to Panama's security forces, as well as congressional testimony by the head of U.S. Southern Command, General Laura Richardson, in which she [warned of the strategic risks from China's presence in Panama](#).

Thanks to COVID-19 and added scrutiny of Chinese projects by the government of [Laurentino "Nito" Cortizo](#), the rate of China's advance in Panama [is less alarming](#) than it was [under the administration of Juan Carlos Varela](#), who switched Panama's diplomatic relations to Beijing in 2017. Under Varela, Panama had signed up to a series of eventually abandoned high-profile initiatives with Chinese companies, including [\\$4 billion high-speed train](#) between Panama City and David, a [\\$1 billion port investment](#) by a [shady China-based consortium](#) in the port in Colon, and a \$1 billion natural gas power plant originally designed to support the project.

China's setbacks in Panama under the Cortizo administration should not invite complacency. It

is investing significant effort in Panama and making important, if uneven progress in building influence, as well as commercial position.

China has sent one of its most talented ambassadors, [Wei Qiang](#), to Panama, illustrating its recognition of the country's strategic importance. Wei's impeccable Spanish, low-key style, and active engagement across Panamanian political, government and business circles was almost universally noted by those with whom I spoke. Wei told me, when we chatted over lunch, that a prior public comment of mine [about his impeccable dress](#) had caused some local diplomats to associate him with the John LaCarre spy novel "[The Tailor of Panama](#)."

Beyond Wei himself, China has established a [Confucius Institute](#) at the University of Panama, sends 30 Panamanians to mainland China per year on scholarships, and regularly [gives items](#) to poor communities. When I met with Wei, he told me he had just come from a donation [ceremony in Cocli](#) with Panama's first lady, and was heading to officiate a dragon boat race after.

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In the security sector, the previously-mentioned Kevlar vests from China came just days after a high-profile [shooting death of a Panamanian policeman](#) whose protective vest was not bulletproof. The vests were a donation from Beijing, although the Panamanian government will have to spend extra money to put new cloth around them because the vest came in People's Liberation Army colors, and not those of Panama's uniforms.

Importantly, the gift represents a resumption of low-level but significant security cooperation that, during the prior government, included sending Panamanian security forces to training institutions in China and providing gifts to Panamanian police units.

In commercial logistics, Hong-Kong-based Hutchison controls two of Panama's five principal canal zone ports, with one on each side of the Panama Canal. In construction, Chinese companies are finishing work on the [Amador Pacific-coast Cruise terminal](#), preparing to resume work on the delayed and restructured [fourth bridge over the Canal](#), and are working on commercial projects such as the [Hyatt Compania Hotel](#).

Various Chinese companies, among others, have regional distribution hubs in the country, mostly in the Panama Pacific free trade zone, which features not only special tax treatment, but a [more flexible labor law regime](#).

In telecommunications, Chinese tech giants Huawei, ZTE, and [Xiaomi](#) are all well established. Huawei uses the Colon Free Trade Zone as a [regional distribution hub](#). Its attempt to establish an integrated "smart city" in Colon was blocked, although the 300 security cameras it donated to Colon are still in place.

[Hikvision, along with Dahua](#), has a dominant position in the Panamanian surveillance systems market. During COVID-19, Chinese thermal sensing cameras were donated to the Panamanian government and installed in strategic logistics areas [such as the Tocumen Airport](#), although they are no longer visibly present.

In finance, Bank of China conducts [commercial banking in Panama](#), while China Development

Bank, China Export-Import Bank, and [ICBC](#) are licensed to conduct international operations from Panama. In July 2021, the Superintendency of Banks of Panama (SBP) fined the Bank of China \$1 million for deficiencies in money laundering prevention and another \$250,000 for violations of the banking regulations, the highest-ever fine imposed by SBP.

In mining, Jiangxi Copper Co. is a [significant, albeit silent, shareholder](#) in First Quantum, whose Minera Panama operation contributes 4.75 percent of Panama's GDP. During a [prolonged legal conflict](#) with the government over the mine, Jiangxi was reportedly approached [as a potential buyer](#). In addition, 60 percent of the mine's output is exported to China for smelting.

The senior Panamanians with whom I spoke had an almost universal desire to continue the country's historically close relationship with the United States, yet also to continue to work with China, as well as other partners such as South Korea, Japan, and the European Union.

Within a Panamanian business and political environment where public corruption has long been a concern, the [best approach for the United States](#) is [not to block](#) Panama's engagement with China, but to expand U.S. engagement with Panama. Washington can alert Panamanian stakeholders to the risks in working with the Chinese, while helping Panama to [strengthen the country's institutions](#) for planning and evaluating contracts and equally enforcing laws, maintaining [transparency](#) in contracting, and engaging on a level playing field. Such partnership is the best way to prevent an [overwhelming wave of money from China](#), coupled with the lure of personal benefits for those making the deals,

from silencing critics of Beijing and hijacking Panama's economy to the detriment of the country.

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The United States, as guarantor of a rules-based international order based on free markets and fair trade, has a long historic record of encouraging Panamanians to do things the “clean and transparent way.” As such, Washington has an inherent role to play in helping Panama to choose trusted partners in trade, commerce, and other activities, and to find viable alternatives to China's often predatory offerings.

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