



## A Snag for the Panama FTA

*Gary Clyde Hufbauer argues that stalling the Panama free trade agreement because of Panama's bank secrecy laws and supposed status as a tax haven could imperil trade accords across the board.*

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Gary Clyde Hufbauer, senior fellow at the Peterson Institute, is here to talk about the latest controversy in the trade area, which is over Panama's status as a so-called tax haven. Gary, thanks for joining us.

Gary Clyde Hufbauer: Thank you.

Steve Weisman: Gary, the Panama free trade agreement (FTA) looked at one time like it was the one of the three pending agreements that was going to sail through. Then there was talk that Panama was a tax haven and that its problems need to be cleared up. What do the critics mean when they say Panama is a tax haven?

Gary Clyde Hufbauer: They mean two things, but I think it's been narrowed down to one of the two. One thing is that Panama is a low-tax country in terms of corporate income taxes, and so it's a good place if you can do business there, at least in a fairly wide range of activities, particularly the financial area. It's a good place to do business because the tax on your income is going to be fairly low. That's one aspect of the tax haven story.

The second aspect is that Panama has bank secrecy laws, which are like the laws of many other countries, and it makes it difficult for the US authorities, which means a combination of the Internal Revenue Service and the Justice Department when we're talking about money laundering and drug cartels and that kind of thing, to get hold of the data on money flowing through bank accounts that are situated in Panama. And it's that second aspect that then became the focus of negotiations in the broader context of this free trade agreement and has now been the hang-up there.

Steve Weisman: It's not really possible for the United States to tell Panama to raise its corporate tax rate in order to get this free trade agreement, is it?

Gary Clyde Hufbauer: I guess the United States can ask anything. This is quite a reach because when we look around the world, many countries, in the judgment of their own affairs, have decide that corporate taxes are not a great way of doing business. In fact, most economists who have studied public finance, and that includes me, believe that the corporate tax is one of the worst tax systems that has been spread around the world over the last many decades. And in fact, in most countries it's in substantial retreat.

And let me add to that, that our states have very different views about this. The state of Nevada does not believe in a corporate tax. Nor does the state of Florida. But other states do. Now we have a lot of states that have corporate taxes, like California

and Virginia, while other states do not. Well, that sounds pretty ridiculous. The same thing is true internationally.

Steve Weisman: Everybody is against secrecy at a time of concern about terrorism, financing, and other concerns. How realistic is it to ask Panama to make changes, and should that hang up the Panama FTA or free trade agreement?

Gary Clyde Hufbauer: I guess there are two or three issues there. One is that, to link tax information to a free trade agreement is something new. Now we can always do something new, but let me just say that in the world of free trade agreements, this is regarded as kind of a new and big threshold, after we've already put labor and environment in trade agreements, now to go into the tax information business. Because there's a whole different set of treaties called double tax treaties, which typically deal with the tax information issue. So now we're kind of marrying two areas, which had not previously been married, and of course that can happen. But countries like Panama will pause, so that is going to cause some problems, frictions.

And the second thing I would mention and I don't know if it's in play here, but in the United States we're also concerned about secrecy and a lot of countries if they came and asked us for information from banks or insurance companies or brokers, we would say, "Hey, it's not your business. These are our institutions and we're not going to let you just kind of maul around and come and look through the records of banks or insurance companies. No." And I'll give you just a very concrete example. If Russia came to us and asked to look at the accounts of any Russian corporation or a Russian citizen, I guess we would say, "not on your life," because we don't really think the Russians have an appropriate interest there.

Steve Weisman: And yet some lawmakers, especially Democrats who had previously been inclined to support the Panama free trade agreement, are now raising concerns in this area. Is there any way of addressing their concerns, so that this agreement can be voted on?

Gary Clyde Hufbauer: Well, it may not happen any time soon, but I think it will eventually happen and I take the precedent of Switzerland, where we do have quite a bit of information exchange now, and as you know, Swiss Bank secrecy was quite a big feature of that country until quite recently. And what happened is that the grounds on which you can ask for information have been suitably narrowed down so it's not a fishing expedition. You have to have some reason that you're asking about this person, this corporation, or something. You can't just go in with a dragnet and look for all that.

And I think the Panamanians and the American officials would work that out. But in the case of Switzerland, which is a big precedent, that didn't happen in a few months. That was several years to work it out, so both sides felt comfortable.

Steve Weisman: And so you would guess that it might be more than a few months in the case of Panama.

Gary Clyde Hufbauer: Well, if we really stick on this, it will be more than a few months. And if this is a precedent for adding taxes used to other free trade agreements, for countries that are not so motivated as Panama, I think it will be a major obstacle going forward.

Steve Weisman: Gary, thanks very much for joining us on that.

Gary Clyde Hufbauer: Thank you.

