



VIGILADA MINEDUCACIÓN

**DESCRIPTION OF THE
DEVELOPMENT OF THE
NEGOTIATION OF A POSSIBLE
TRADE AGREEMENT BETWEEN
CHINA AND PANAMA**

Natalia Villegas Pantoja

Johny Alexander Agudelo Arroyave

**Esumer University Institution
Faculty of International Studies
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Natalia Villegas Pantoja

Johny Alexander Agudelo Arroyave

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Summary

This university project aims to provide a research on the development of a possible trade agreement between the Republic of Panama and the People's Republic of China, through a descriptive method, until October 2019. Through electronic research in official and governmental sources and the visit to Panama in November 2019, antecedents were found that narrate the beginnings, the alliances and the evolution in the matter of diplomatic relations, that have been perfected with the passage of the years strengthening the trade between both countries.

Among the priorities of the Panamanian government is the promotion of education in logistics, financial, tourism and educational services in order to take advantage of its competitive advantage, leaving in second place the production of traditional goods of the region. On the other hand, the Asian government is focused on reaching an agreement that will allow it to obtain the greatest benefit, especially in infrastructure provided by the Panama Canal in terms of routes, time and money.

In conclusion, Panama will benefit in terms of infrastructure and export of services, while China will optimize costs and time for the transport of its goods, directing negotiations based on a win-win without neglecting the internal interests of each nation.

Keywords

Trade agreement, China, Panama, Negotiation, Negotiation process.

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Introduction

In today's globalized world, international negotiations are common, in which goods and services are traded globally. This type of transactions has generated the need to perfect through the years the processes of mercantilization, in order to satisfy from the most basic needs to those without demand. However, the evolution of foreign trade has brought with it the requirement to express everything expressed verbally and that which is not contemplated within the same negotiation supported by the laws. This process is also known as diplomatic relations, conceived as the exchange of ideas that are finally consigned in formal documents and which, in turn, support a true manifestation of the interests of the participants to reach a trade agreement.

The development of one of the negotiation processes between one of the world powers such as China and the growing, but strategically well located Panama, is taking place since 2017, an inherence of two cultures, two trade models and two very diverse nationalities in different aspects become one of the focus topics for the study of an international negotiator due to the possible results once the negotiation stage is over and the economic viability of establishing relations with a given country. China can be taken as an example as it is one of the most active users of the Panama Canal, one of the largest providers of the Colon Free Zone.

The article by Yerigoyen & Frontons (2012) which supports the approach to the increasing internalization of economies, considering that it is necessary to address trade policies outlining regional trade agreements from the outset and recent progress on integration processes. In another scenario but with a new proposal, Hua (2002) proposes an investigation in which it is described how the Taiwanese industry made an investment of approximately 100 million dollars in the port facilities it occupied in the Panama Canal along the Atlantic Ocean, in order to ensure the productivity of its operations and provide economic welfare to that nation, through the acquisition of on-site services. Finally, Sanchez & Olaya (2018) who in their publication give a context on the proliferation of agreements through an analytical assessment of trade flows between different countries, applying various theories that allow measuring the effectiveness of policy in signing agreements such as the one that is the subject of this paper.

Bearing in mind that this process of negotiation of a possible trade agreement is a conjunctural subject and has not yet been completed, the sources for consulting information regarding its progress correspond mostly to journalistic notes from interviews with the Panamanian negotiating team and, on the other hand, governmental entities in charge of endorsing this process. These entities correspond to the Chamber of Commerce, Industries and Agriculture of Panama and the Ministry of Commerce and Industries through the Foreign Trade Information System (SICE) who would be part of the negotiating team of Panama and would have first-hand information about the different points agreed within the negotiation rounds.

By conducting an introductory research on this type of negotiation through phases such as the process, development and implementation of a bilateral agreement or FTA, general knowledge can be acquired on the practice and research of international negotiations that would allow to consolidate knowledge on the subject under discussion. Finally, with this follow-up, the aim is to make known the commercial culture of both countries, the stages of negotiation and the agreements that impact both nations, and finally, to provide a descriptive overview of the points dealt with in this new international relationship.

The informative panorama provided by the research is clearly focused on the status of the negotiations of the points discussed in meetings and that will have an impact on sectors such as: land, civil air transport, maritime transport, railway projects, production capacity, economy, visas, commercial cooperation, tourism, infrastructure, culture, politics, exports and imports, investment and communication. This horizon offers the reader the possibility of analyzing the final decisions taken in each of the meetings with a timeline that in turn generates a clear and structured view of the process of possible trade agreement.

The internship report will focus on describing the development of the trade agreement between the Republic of Panama and the People's Republic of China until the month of October 2019, which evidences the processes carried out to carry out the rounds of negotiations, the points negotiated, the pending issues to negotiate and the abandonment of some of them. At the end of the writing, it will not be possible to conclude and implement an FTA given that to date 5 rounds of negotiations have been carried out.

The diplomatic relationship that is developing between the Republic of Panama and the People's Republic of China, based on many histories, exchanges and recognitions forged with the experience of the market and the political diversification and due to the change of government of the Central American country, this process has been temporarily suspended, generating a void of knowledge and expectation about this process that possible course could take. Thanks to the fact that this information was gathered, it is possible to understand from an impartial point of view a trade agreement how it is influenced by its antecedents, by the actuality that would cover the particular needs of the parties with their possible counteroffers and by the expectation that the successful or impossible coalition would generate in the future due to the changes (some unpredictable) that a country may have, at an economic, political and social level.

1. Formulation of the project

1.1. Title

Description of the Development of the Negotiation of the Possible Trade Agreement between China and Panama

1.2. State of the art

Initially the documentary analysis presented by Díaz y García (2012) in the study "Effects of the FTA with the USA on the leather and footwear sector in Colombia" the impact on the leather sector and its manufactures in the free trade agreement (FTA) between Colombia and the United States is examined. The importance of FTAs at the level of international competitiveness with respect to income and the generation of jobs is highlighted, highlighting the structured problems that must be solved in order to facilitate the entry of new entrepreneurs, as well as generate new production models.

Yrigoyen & Frontons (2012) also considers that it is necessary and relevant the permanent approach to trade policy, as well as the monitoring of international trade agreements and negotiations, briefly reviewing the so-called regional trade agreements and the recent advances in the Mercosur regional integration process, offering a view of the dynamics of the impacts that trade policy generates.

A bibliographic review by Ruiz, Gómez and Ramírez (2017) in their study "The FTA with the European Union and its implications for the Colombian agricultural sector" they offer a general vision of the FTA between Colombia and the European Union, whose objective is to define the situation before and after the signing of the treaty, defines the main aspects of the final agreement and lists some situations experienced by the agricultural sector in Colombia at an internal level, relating that although beneficial, it was disintegrating for the Andean community of nations because the protection measures implemented for some of the Colombian sectors were insufficient. It is evident from this study that the omission of prospective analysis can have consequences that must be remedied with strategic alliances.

The research conducted by Hua called "Dos Chinas, un Panamá" from Latin Trade magazine (2002) makes a brief description of how Taiwan's industry, urged to encourage

foreign investment, prioritized approximately \$100 million in its Atlantic Ocean port facilities in Panama, serving mainly its own ships. China, on the other hand, did not have formal diplomatic relations with Panama, but has firm intentions to use its economic influence to persuade Panama and strengthen ties between the two nations. It is proposed that China is the third largest user of the Panama Canal and represents 20% of the cargo entering the Colon Free Zone, in recent years Chinese companies have invested \$200 million dollars in Panama. It is considered an important precedent if one wants to understand what happened before Panama and China entered into both diplomatic and trade relations.

The article in the *International Financial Law Review* (2018) called "Panama: Panama and China - a new era" presents data on how the People's Republic of China has been looking for a solid investment partner in Latin America, is now focusing its efforts to establish Panama as a benchmark for their companies, and also states that both countries are negotiating agreements through meetings between the designated commissions in order to generate sustainability and increase in economic profits expected by both nations.

According to Benita & Urzúa (2016) In this document, we mention the lack of invoicing as a negative factor, the lack of statistical capacity and the degree of difficulty in making a financial opening, leaving exposed the shortcomings that must be foreseen in the consensus of the commercial agreements.

Sanchez & Olaya (2018) through its publication called "Bilateral Trade Agreements, the Colombian case" in the *CENES* journal notes give a context on how the proliferation of trade agreements advance through an analytical assessment of trade flows between Colombia and various countries applying the HM index and the Chen matrix, which allow the regional trade organization to be measured in axes and questions the effectiveness of Colombia's agreement signing policy.

To conclude this background search, Velásquez, Rivera, Ocampo and Ramírez (2018) who in "Oportunidades en competitividad que el TLC con Costa Rica crea en beneficio de las Pymes del Sector Moda de Pereira (Colombia)" (Opportunities in competitiveness that the FTA with Costa Rica creates for the benefit of SMEs in the Fashion Sector of Pereira (Colombia)) present the dynamics in terms of opportunities that the free trade agreement

(FTA) between Costa Rica and Colombia offers to SMEs in the fashion sector of the city of Pereira and also presents a perception that determines the bases that promote the competitiveness of a company in that sector. The research will provide interested segments with a starting basis in the preparation and points to consider if this FTA is initiated.

The antecedents establish essential sources since they provide data for the investigation that is being carried out. For this reason, information has been consulted that serves as a reference point to develop the description of the problem approach. As a final summary of the background, it can be said that the development of negotiation processes between different nations, provide examples of how their progress can present omissions in critical processes and that can be taken as an example to be perfected in order to obtain the maximum benefit in future negotiations.

1.3. Problem Statement

The commercial importance existing between China and its small insular province Taiwan, has forced Panama to take away the formal recognition of the latter to begin negotiations with the Asian giant, while one (China) asks to be recognized as a whole, the other (Taiwan) takes advantage of its special historical condition of being recognized globally as an independent state for its high technological development, to benefit from what until today has been one of its best negotiation processes. Strengthen the interest of carrying out a commercial relationship with the second strongest economy in the world and taking advantage of the results extracted from its multiple exchanges, lead Panama to recognize China as one of the most constant users of the Panama Canal and the main supplier of the Colon Free Zone, effects that may turn against it if the negotiation of the possible commercial agreement does not reach a good conclusion.

With this in mind, Panama has begun to strengthen unilateral relations between the two republics, through meetings held since November 2017 by the leaders of both countries. In March 2018, the trade ministers held sessions in which they held phases of study of the possible points that could make up the signing of the agreement and of the processes that benefit both countries, leaving their results reflected in a memorandum of understanding, in agreement with Halperín. (2018).

It is possible to conclude that there is still not enough information since it is a conjunctural topic, therefore, the bibliography found is due to negotiation processes of other countries and articles related to the topic in such a way that it is pertinent to advance conclusions of the investigation, given that it is a process of negotiation of an FTA that has not yet been completed and that began its negotiation phase in 2017.

Based on the above, the following question arises: How was the process of negotiation of the possible trade agreement between Panama and China?

1.5. Objectives

1.5.1. General Objective.

To describe the development of the negotiation process of the possible trade agreement between the People's Republic of China and the Republic of Panama from its inception until October 2019.

1.5.2. Specific Objectives.

- Describe the background and relationship between China and Panama that motivated the beginning of the process of negotiation of a possible trade agreement between the two nations.
- Collect information on the agreed points and the dates on which the negotiation rounds were held.
- According to the agenda mentioned above, determine in which points were not negotiated or did not have greater relevance in the respective rounds of negotiation of the possible trade agreement between China and Panama.
- During the visit to Panama, conduct face-to-face interviews with Panamanian citizens residing in the country in order to inquire about their opinions, about the perspective of the possible impacts of a possible trade agreement between the two countries.

1.6. Justification

The internship report will focus on describing the development of the possible trade agreement between the Republic of Panama and the People's Republic of China since formal

relations were established in 2017 and the progress of one of the largest FTAs (Free Trade Agreements) in the world today will be followed up. By establishing agreements not only in the commercial field but also in the political and social fields, both nations intend to contribute to economic growth and to the strengthening of their industrial sectors, which allow the potentiation of their markets at world level.

The importance of establishing this type of diplomatic relations makes it possible to strengthen and give credibility to international agreements and to achieve fundamental bases for the benefit in time of their processes and possible international commercial allies.

This report may be the starting point for students or individuals looking for examples or information on the development of diplomatic relations not only between the HUB of the Americas and the Asian giant but also in the process and evolution of international markets.

There is the conviction that with this research, the knowledge acquired during months of study can be applied. Thanks to this learning, it would not be easy to understand the information and assimilate the experimental scenarios. It is therefore gratifying to move from books to implementation meeting the academic challenges and those that are supposed to be the future of the career in International Business.

1.7. Framework of Reference

1.7.1. Theoretical Framework

In the political world, commercial relations directly influence the results obtained from the art of negotiation of two or more countries, "Rational negotiation means making the best decisions to maximize the service to one's own interests". (H. Bazerman & A. Neale, 1993, pág. 10) Consequently, persuasion is the fundamental pillar that must be taken into account when one wishes to obtain a benefit, product of an agreement, taking special care not to significantly affect the interests of the counterpart and identifying different additional options that allow to implement in order to reach concessions as the process develops.

If we talk about the processes of a negotiation it is generally thought that one of the involved will generate more profit than the other, initially from an independentist point of view this is called distributive negotiation which supposes that one of the two parts must lose,

but at the same time there is a possibility of having a utopian vision about a commercial agreement in which the parts are equitably benefited and it is known as integrative negotiation, this scenario is presented when interests transcend not only the economic but also a focus on some specific sectors in which it is desired to generate growth, benefiting from the experience and influence that may have the other parties involved and based on that incursion or implement development strategies with the knowledge acquired.

A good negotiation from beginning to end should be done through assertive communication, being very emphatic about what you are willing to give up and what you want to receive in return, according to Puchol. (2005)The negotiations are composed in three different styles that during their process that starting from the motivation that one has, as for example the motivation to win is focused in the particular benefit on the plural and has a hostile perception of the others, the second motivation is to please that can be given when one of the parts is not considered as strong, on the contrary it looks for the induced approval to generate an own benefit. Finally, the motivation to achieve an objective, such as generating a long-term relationship or inclinations to scenarios that encourage reciprocity in the agreement.

In the stages of the negotiation, the objectives must be defined since the delimitation of the agreement is established in this stage, taking into account the respective anticipation of the agreement, which includes the general knowledge of the other negotiator or proposing adequate dates to manage the points to be dealt with and in the same way to adequately deal with the highs and lows in which one would be willing to give in.

There is a remarkable analogy about the stages of the negotiation that consists in that it is not possible to negotiate without having a preparation or expectations referring to the process of negotiation, a clear example is when one wishes to construct a building without cementing before the work, from the beginning bad decisions would be taken in the execution of not having a good anticipation to the same one, in the same way it states that the second stage is the one that determines if the previous study mentioned above was successful or not, if the trend is positive with respect to what was expected to be treated or even define if the negotiation is finished due to a lack of coincidences in the points and after the stage during the negotiation, the next stage arrives, where the issues in which agreements were reached

are worked on, where the agreements are executed and control is given to what was agreed, in accordance with Puchol. (2005).

A commercial agreement consists of a contract between two or more parties in which wills and conditions are agreed between two countries to take actions that promote the economic growth of the same, this way they can benefit in the course of time that composes the society, however they will always be dependent on the companies that make use of the signed agreement, taking into account the above, it can be complemented that a commercial agreement is a pact in which the parties define guarantees that generally include reduction or partial or total elimination of tariffs and restrictions to selected products thus ensuring to promote the flow of international operations; there are two types of trade agreements, such as bilateral trade agreements consisting of the union of two countries and multilateral trade agreements consisting of those agreements that are joined by two or more parties.

The types of trade agreement derive two classes that are regional trade agreements (RTAs) and preferential trade agreements (PTAs) which according to the World Trade Organization (WTO) (2019) which are responsible for administering the global system of trade rules, affirm that RTAs are equitable alliances whose purpose is the benefit of all parties involved, and RTAs are those preferences or guarantees at a particular or unilateral level that are given when negotiating between countries.

The article titled "Panama: A Booming Destination to Consolidate Business" (2013) reports that Panama has more than three million inhabitants, diversified culturally and religiously, composed of 70% mestizos, 12% mulatto, 10% white, 8% indigenous. 80% of the population speaks English, Panama's official currency is the Balboa, but the U.S. dollar is also considered legal, this is attributed to the construction of the Panama Canal that had a great influence of the U.S. government.

Panamanian businessmen have great knowledge about import and export processes, they like to strengthen relationships of trust with new suppliers jointly assuming the risks when entering new markets, businesses seek to have a profit approach for both parties and business cards are recommended in Spanish and English, extracted from "Panama: a booming destination to consolidate business". (2013).

China has a population of approximately 1,300 million people making it the country with the largest number of citizens in the world, it is also a country with a large set of cultures with 56 ethnic groups where the Hans predominate with a total of 92% of the community and the rest are considered minorities, has 23 departments called provinces, a single socialist political regime and a philosophy of independence and peace with the outside but in turn has positions with defensive tendency, extracted from the Embassy of the People's Republic of China in Mexico. (2009).

According to the Embassy of the People's Republic of China in Colombia (2019) China's economy is focused on the so-called "general three-step strategy" initiated in 1987: first, to double the Gross National Product (GNP) of the year 1980, to remedy the nutritional difficulties of the population that was fulfilled at the end of the 1980s, as a second point to quadruple the GNP of 1980 by the end of the twentieth century that was also fulfilled ahead of schedule in 1995 and third, by the middle of the twenty-first century to foster innovation in order to raise the GNP to the same level as the moderately developed countries so that the community has a stable economic life.

The text "Doing business in China, a matter of good attitude, open mind and patience" (2019) The Chinese negotiators tend to be traditionalists and this is why one must have a lot of patience since the agreements tend to take a long time, from the moment of first contact, to the meetings where the relationship is concrete, but their methodologies can vary according to the type of business that is being conducted, since most are focused on the negotiation process, although it is not an obligation there are cases in which to have a business relationship in the medium and long term is preferable to meet in person or even people referenced by their acquaintances or colleagues to increase the chances of success in the points discussed.

1.7.2. Conceptual Framework.

In view of the foregoing, the meaning of the following terms should be taken into consideration in carrying out the proposed research:

-• **Trade Agreement:** It is the binding act by which two or more parties (in this case two countries) commit themselves to relate in a sustainable manner, economically and commercially, among others, under specific conditions to achieve common objectives.

-• **Free Trade Agreement (FTA):** A relationship between two or more countries for the granting of tariff preferences, reduction or partial or total elimination of tariff barriers to promote free trade in goods and services.

-• **Culture:** Everything that includes knowledge of the art, beliefs, morals, customs, habits and laws of a nation.

-• **International business:** Representation of commercial customs and the concession between states to carry out contracts rooted to the needs of the contracting countries.

Source: Prepared by the authors.

1.7.3. Methodological Framework

- **Investigation Method**

The research will be focused on the description of the process of negotiation of the agreement, it will be carried out in a documentary way that will allow an inductive analysis of the extracted information allowing to organize the data through a time line with the events that give form and meaning to the negotiation process and the pretensions or needs of both countries exposing finally this vacuum of information of a subject of which little is known.

This research project will focus on describing the negotiation process of a possible bilateral agreement between Panama and China, through a qualitative method, to validate the status or an overview of the general development behavior of international relations focused on the growth strategy approach with the signing of a possible trade agreement.

Considering that this process is focused on a possible international trade exchange, a descriptive and exploratory follow-up will be carried out through scientific publications focused on the development of this process in order to give the interested community a stepby-step overview of a real and current case of a trade agreement that will generate a milestone in history. The study applied in this process will answer the concerns of different commercial sectors about the panorama developed by Panama and China, in the path of

negotiation focused on the search for both commercial and economic gains at a reciprocal level for the countries mentioned above.

- **Research Methodology**

The information gathering technique that will be used is through research secondary sources such as national and international digital scientific databases, such as EBSCO, Google Academic, Emerald, Scielo, Legiscomex, Dialnet, among others, from key words such as: trade agreement, China, Panama, negotiation, negotiation process, among others, because for the type of research that is being carried out is necessary a representation of the facts that have occurred offering a transparent transmission of the investigated data.

Subsequently, the option of carrying out fieldwork taking advantage of visits to universities in Panama will be validated by means of an interview with two professors of preference specialized in topics focused on international relations who currently have knowledge of the negotiation process of the trade agreement between China and Panama. These interviews would be presented in a semi-structured manner with a qualitative approach because they can be generated against questions within the scenario while the meeting is taking place (based on the answers obtained by the interviewee), this in order to clarify the knowledge gap in the progress given in the commercial relationship. It is also expected to contact two businessmen in the Colon Free Zone of preference who have experience or conduct business negotiations with suppliers or customers in China.

A review and consultation with an Esumer University professor who has knowledge of international business issues is contemplated, it is guaranteed that the instruments used to collect information will be previously validated in search of verifiable official sources and finally, the use of particular opinions will be avoided in order to guarantee the impartiality of the object of study.

1.8. Scope

The investigation will be developed according to the follow-up of the negotiation process between Panama and China that has been carried out since 2017, date in which both nations began the rapprochement in order to study the possibility of signing an FTA. In the first meeting held in Panama in July 2018 the diplomatic relations of both countries were

formalized, in its second meeting in August 2018 in Beijing its main efforts were directed to terminology, concepts and normative definitions, the third round held in Panama in October 2018, achieved progress on intellectual property, cooperation and rules of origin and until the last and fourth meeting that was held in Panama City in November 2018, were reported progress in rules of origin, customs procedures, access to markets and trade in services, among others were reported on rules of origin, customs procedures, access to markets and trade in services, among others. (Halperín, 2018). The termination date is not yet defined as it usually occurs in many negotiation processes; however, the description will be made until November 2019.

2. Research the development.

2.1. Background and relationship between Panama and China

International trade is the process by which goods and services are purchased and sold worldwide, framed in the need to be supplied with the missing products of each country. These methods are also known as import and export which must be framed in diplomatic relations in order to represent, through personnel designated by each country, to look after the interests of their nation.

When we talk about diplomatic relations, we immediately relate them to trade issues, but first, we must go through the issues that gave birth to the possible trade agreement between the People's Republic of China and the Republic of Panama.

Let's begin with the main and conjunctural theme cited by (Najar, 2016) who, through his article on the BBC News website, tells us that the beginning of this relationship is given by migration, the one undertaken by the Chinese population more than 160 years ago, when a group of 750 Asians arrived in the Republic of Panama for labor purposes, initially the construction of railroads.

Najar also tells us that in 1914 more personnel were requested for the excavation of the Panama Canal which opens the doors to the growing wave of personnel from China. It is because of the above, that (Gandásegui h., 2005) explains that diplomatic relations between the Republic of Panama and the People's Republic of China have been framed since the twentieth century, not only by migration but also by U.S. military occupation, since, although the Panamanian people demanded the end of the U.S. presence, in turn, the dominant sectors negotiated their spaces in order to get the best benefit from that presence.

However, with the signing of the Torrijó-Carter treaty in 1977, the "canal zone" disappeared in 1979 and the United States evacuated the military bases in 1999, handing over the administration of the canal and allowing relations with China to continue in a correlation both internally and externally. However, after World War II, Panama followed the US example of not recognizing the new revolutionary government that took power in Beijing. Instead he recognized a government in exile that settled, under U.S. military protection, on the island of Taiwan. Over the years some governments gave recognition to the new Chinese

government, but Panama still did not do so based on a Taiwanese foreign policy that bought the allegiance of corrupt rulers.

The recognition of a simulated government and the lack of diplomatic relations further complicated the situation, as Panama's economic relations with the People's Republic of China grew at an accelerated pace. Therefore, two solutions were proposed: The first was that Panama should place within its priorities the development of the country and in second place the international changes that could influence a decision that would open the diplomatic relations between both countries.

The first decision comes with the rupture of the "diplomatic relations" of Panama with Taiwan recognizing that there is only one China and the Government of the People's Republic of China as the only legitimate government that represents that country, forming Taiwan as an inalienable part of Chinese territory.

As a result of a series of decisions taken by the Panamanian government, in 2011 according to the (Xinhua, 2011) Chinese companies attend the Expocomer international fair in Panama, in which the representative of the Chinese-Panamanian commercial development office at that time, Bao Esheng, declares that the fair is the gateway to the Latin market and that, through the platform of said event, they would deepen their knowledge, accumulate experiences on the Latin American market and exhibit the products of all their regions.

In addition (National Government of Panama, 2018) in an official visit of the President of the People's Republic of China, Xi Jinping, organized in alliance by the Chinese Council for Economic Cooperation, the Chamber of Commerce, Industries and Agriculture of Panama (CCIAP) and the MICI, in which Chinese companies that operate in the segments of infrastructure construction, equipment manufacturing, construction machinery participate, transport logistics, electronic communications, financial services, automobiles and spare parts, and technology, among others, the Panamanian Government detects an important opportunity to present the competitive advantages of Panama as the HUB of the Americas for investment, tourism, free zones, financial services, logistics, maritime and air connectivity.

The Corporate Author (Galindo De Obarrio, 2017) reports that, although Panama has taken very limited advantage of trade treaties regarding the export of goods. The data provided by the (Office of Economic Studies, 2019) on the macroeconomic context of Panama, reports that in the last 3 years exports and re-exports were around US\$10.6 billion, but, on the other hand, exports of services amounted to US\$13.7 billion, becoming an economy with trade deficit in Goods and surplus in services according to the Panamanian Ministry of Commerce. This affected marginalized productive sectors such as agriculture and industry, forcing the Government of Panama to consider the urgency of adopting policies that encourage the performance of areas such as tourism, construction and domestic trade. Annual GDP growth. (%)



Source IMF

2.2. Rounds of negotiation of a possible trade agreement between China and Panama

Anecdotally, on June 12, 2018, it was one year after the mutual recognition and formal establishment of diplomatic relations between the governments of the Republic of Panama and the People's Republic of China (June 13, 2017), this day, in the city of Beijing was officially published the date and place of the first round of negotiation of the possible trade agreement, the others will be agreed at the end of each of them; To date the development of this research work has been carried out 5 rounds of negotiation, carried out as follows in agreement with the Ministry of Industry and Commerce of Panama (2018):

Table 1. Negotiation rounds

ROUND	DATE	LOCATION
FIRST	09 TO 13 JULY 2018	PANAMA CITY
SECOND	20 TO 24 AUGUST 2018	BEIJING
THIRD	09 TO 13 OCTOBER 2018	PANAMA CITY
FOURTH	19 TO 24 NOVEMBER 2018	PANAMA CITY
FIFTH	24 TO 26 APRIL 2019	BEIJING

Own elaboration taken from the SICE of the OAS based in the Ministry of Industry and Commerce of Panama. (2019)

2.2.1. First round of negotiations.

From July 9 to 13, 2018 began in the capital of Panama, Panama City, the first round of negotiations whose general objective was to agree some normative rules and clarifications on issues of particular interest to the parties, such as trade in goods and exchange of lists of agricultural products that for China is a sensitive issue to deal with, therefore gave priority to products such as wheat, rice and sugar, according to Ferreira's report. (2018) who's the economic director of CEECAM (Centro de Estudios Económicos de la Cámara de Comercio, Industrias y Agricultura de Panamá), on the other hand:

China is the third destination for Panamanian exports with more than 42 million dollars in 2017. The trade balance between both nations is complemented by taking into account the fact that Panama exports to the Chinese market mainly coffee, bovine skins and fishmeal, while China imports to our country high-tech products such as cell phones and televisions, in addition to textiles, tires, toys, slippers and shoes, among others. (Ministry of Industry and Commerce, 2019).

Ferreira (2018)In addition, it agreed that the certificate of origin will be issued by the sovereignties of each nation, also reviewed the regulations of each country on the consumption of services where an approach was made to financial services since at first had not been contemplated by China, as well as the search to define procedures to prevent discrimination and finally at the legal level were implemented rules for the treatment or resolution of difficulties.

Intellectual property issues were considered that, although China did not give it the necessary importance, Panama seeks to protect its national economy through the Principles of the WTO (World Trade Organization) that basically seeks that the different trade operations flow freely, but if that procedure fails, there are different ways to resolve the problems through appeals and advice, as confirmed by Ferreira. (2018)

The electronic commerce has had a boom as the years go by, that is why issues such as the implementation of electronic signatures and certificates or digital documentation were mentioned, in issues of foreign investment were clear consultations of possible prohibitions to investors since China has barriers imposed by the United States. Finally, competition policies were evaluated in order to prevent multinational companies from engaging in anticompetitive activities, according to the Ferreira report. (2018).

2.2.2. Second round of negotiations.

From August 20 to 24, 2018, the second round of negotiations between the two nations was held in the capital of China, Beijing. A remarkable participation of the private sector of Panama was seen, 8 unions for a total of 27 representatives of the same participating in the so-called "Consultation Room" or "Deputy Room" collaborated together with the Panamanian negotiating team in order to involve different points of view presenting the positions and knowing the alternatives of the counterpart. Among the most important aspects were trade in services, trade in agricultural, agro-industrial and industrial products that were prioritized by Panama, according to the Ministry of Industry and Commerce of Panama. (2018)

One issue that was pending with respect to the first round of negotiations was the rules of origin, which in this second instance *"More than 26 chapters of the tariff have been reviewed, including sectors such as: live animals, coffee, gums and resins, tomato paste, garments, sugar and confectionery, among other products.* (Ministry of Industry and Commerce, 2018) achieving that agreements are agreed on 74% of the rules of origin, on the other hand, will create a commission responsible for developing this process for those chapters that are pending to treat (meat, fish, sausages, sugar, cocoa, cereals, manufacture of stone, manufacture of foundry).

Issues are being discussed regarding "accumulation" which refers to the use of raw materials in order to obtain a finished product with access to the counterpart market and which basically *"Seeks to allow Panamanian producers to be supplied with inputs from countries with which both Panama and China have trade agreements, thus obtaining preferential origin for Panamanian exports and facilitating the generation of economies of scale"*. (Ministry of Industry and Commerce, 2018) and for this purpose, a commission of rules of origin has been set up which will be responsible for assessing and monitoring the progress of this process.

Panama again makes reference to trade in services, especially financial services to implement strategies to advance in the market through access to the Chinese sector, for this was implemented the General Agreement on Trade in Services (GATS) of the WTO (World Trade Organization) which basically consists of a set of rules associated with international trade in services to provide market access to the counterpart in certain dependencies that were admitted within the chapter and the need arises due to restrictions that China has against trade in services, according to Ferreira. (2018).

Within the legal framework, in adherence to the procedure to be agreed for the treatment of difficulties foreseen in the first round of negotiations, a convention on transparency, cooperation was defined in this session. As expected, both countries delivered to the counterpart the respective lists on intellectual property of goods that are produced in each country that were pending to be evaluated according to Ferreira. (2018).

According to Ferreira's report (2018) The concept of Authorized Economic Operator (O.E.A.) was accepted, with its respective attributions to destroy merchandise in order to guarantee that integrity is preserved regarding sanitary, phytosanitary and national security issues. At the level of electronic commerce, issues related to the recognition of electronic signatures and digital certificates were evaluated again. The legislation for investors will be the one in force in each country and as for the transit of people between both countries seeks to expedite the resolution of problems presented with the migration of natural persons in less than 10 days, as well as grant extensions in visas 90 days for both parties in accordance with Panamanian legislation.

Third round of negotiations.

The third round of negotiations was held from 9 to 13 October 2018 in Panama City, where the review of clarifications regarding trade in goods mentioned in the first round by each party began with the identification of products that both parties agreed, exclusions, and finally the reservation of some products for special cases, both agricultural and industrial, but had special focus on agricultural goods such as chicken meat, poultry, pork, palm oil, sugar, orange juice and dairy, according to Ferreira. (2018).

Panama presented China with a complete chapter on financial services in order to generate growth opportunities for this sector in Panama, where China agreed but it is possible that a counter-proposal will be generated with possible restrictions to this market niche, and additionally, to promote investment by China, aspects that were pending in investment issues were defined, *"Any investment that is registered in Panama with the agreement as a framework has to comply with our national legislations"*. (Arias, 2018).

The large number of business leaders, producers and professionals who attended the adjunct room, which was specially designed to promote the participation and interaction of the private sector with the negotiating team. Gonzalez explained that each day, after the talks were concluded, chief negotiator Alberto Alemán Arias made a full presentation on what had been discussed that day. Alemán Arias, for his part, reported the conclusion of negotiations in relation to the Chapter on Intellectual Property, initially proposed by Panama. This chapter ensures that the parties adequately and effectively protect intellectual property rights under the trade agreement. (Ministry of Industry and Commerce, 2018)

Ferreira (2018) says that the review of customs procedures and trade facilitation is nearing completion, as agreements have been reached on most articles of which four are pending to complement (three from China and one from Panama) regarding clarity in processes and clearance of goods in customs. As well as the phytosanitary and zoo sanitary measures and the tourism of natural persons in which a commission of work is finally established for these controlled measures in a framework of the WTO (World Trade Organization) and for the movement of people there will be no changes in the respective national legislation of each country.

2.2.4. Fourth round of negotiations.

From November 19 to 24, 2018, the fourth round of negotiations was held in Panama City, where the Chinese delegation visited the operations carried out in the Colon Free Zone, with the objective of having clarity in some of the processes that are carried out and about the functioning of the re-export zone in order to evaluate in the negotiations the Panamanian proposal to implement the Re-export Certificate, which is basically a tool that gives access to products from China that are directed to other countries within this region do not lose their origin in the course of the transit process in the free trade zone. "This visit allowed our counterpart to understand on site and more broadly, the benefits of the re-export certificate for both parties as a way to exchange products from Latin America to China and vice versa, using Panama as a hub for value-added and redistribution industries". (Arias, 2018).

Negotiations on trade in services, especially financial services, continue a very good path to a normative level. China for its part wishes to sustain this chapter presented by Panama based on its national legislation of the latter country, subsequent to the hearing of the Chinese delegation to the Colon Free Zone, a new drafting proposal was released in the re-export certificate, as well as discussed issues related to foreign investment where Panama places some regulatory restrictions on it, With regard to technical obstacles to trade in primary goods, the proposals made by Panama were accepted, additionally, following the request for the positioning of a commission responsible for phytosanitary and zoo sanitary controls, by Panama in some measures China maintains its own regulations but accepts that Panama has good practices in terms of logistics management of animals and plants; so these chapters mentioned above are expected to be finalized soon, said Ferreira (2018).

Panama will continue to defend its sensitivities, protected sectors and reserves to liberal professions, always attending to the best national interests, as has been the position of the Ministry of Commerce and Industries and its technical team during all treaties and agreements negotiated. (Gonzalez, 2018)

Ferreira (2018) also mentioned information regarding the transit of natural persons between the two countries within this round of negotiation were approved the deadlines that would govern the respective country migration decade (60 days) that were initially requested by the Republic of China, as well as no changes would be presented to the legislative

sovereignty of each nation. Finally, in topics of economic cooperation there were focuses in science, technology that includes Academic Institutions, Centers of Studies and Research and Public Institutions.

Fifth round of negotiations.

The fifth round of negotiations between the Republic of Panama and the People's Republic of China was held from 24 to 26 April 2019 corresponds to be held in the city of Beijing where initially the issues related to trade in goods and rules of origin were given low priority, where they continue to submit counteroffers to improve the shared lists of both parties, also ended the discussion of the chapter presented on investments where Panama will maintain a few restrictions on access, on the other hand seeks affinity in the sector within its territory according to Ferreira. (2019).

Panama's primary interest in signing a Trade Agreement with China is to strengthen the commercial relationship between the two countries, strengthen our connectivity and materialize and dynamize the advantages of the logistical hub, to concentrate value-added operations centers and distribution of large Chinese companies of various items for the Americas, and significantly increase Panamanian exports to the Asian market, both goods and services. (Financial Capital, 2019)

According to Ferreira (2019) Some academic institutions, research or study centers, and public institutions were included in the text of the chapter related to the re-export certificate. These institutions will be linked to a regulatory framework agreed upon by both nations with a focus on improvements in fields such as science and technology.

Aleman Arias said that China's negotiating team expressed its position of resuming negotiations once the new government of Panama is in place, which shows us the interest of ensuring the continuity of the great work done in the last 10 months. He explained that in these five rounds they made progress on issues such as Intellectual Property, Electronic Commerce, Movement of Natural Persons, Technical Barriers to Trade, Sanitary and Phytosanitary Measures, Legal Matters, Initial Provisions, General Definitions, Transparency, Administrative and Institutional Matters, Final

Provisions and Dispute Settlement. In addition, the progress made in this fifth round on Customs Procedures and Trade Facilitation. (Arias, 2019).

2.3. Points which were not of major relevance in the respective rounds of negotiations

During the first round of negotiations, related to issues of trade in goods between the two countries, there were exchanges of lists of agricultural and industrial products without a decisive negotiation in order to perform the respective validations at the domestic level of each nation. Additionally, within this session Panama from the beginning presented its intentions for the implementation of the re-export certificate, the definition of customs procedures for different services that are provided in these transit zones, additionally, the intervention to competitive policies which is necessary a previous study of the policies that sanction the anti-competitive practices of China and finally would not be included in the agreement the negotiation of liberal professions to protect the intellectual interests of the Panamanian nation, according to Ferreira. (2018).

Prior to the second round of negotiations, exchanges of different lists had been established, both of goods and services (mostly financial, which had not been contemplated by China), thus fulfilling the predisposition within the first round of negotiations. On this occasion, the initiative to implement the re-export certificate was presented again, to which no major importance was given. China maintains certain limitations in terms of access to trade in services by other countries, as well as the respective validations of different regulatory content of the Asian country in order to unify markets, finally, would be pending the revision of the normative document regarding electronic signatures and digital certificates, according to Ferreira. (2018).

Ferreira (2018)He stated that during the third round of negotiations it was agreed to deliver a new list for the exchange of products which will be shared prior to the fourth round of negotiations, which mostly includes industrial products which are of great commercial interest to China, now, the re-export certificate has managed to obtain greater approval by the Asian country for the customs benefits it entails, on the other hand some phytosanitary and zoosanitary measures would remain pending, as well as competition policies to promote fair competitiveness. In addition, for the definition of customs procedures finalizing this

negotiation, only four articles were pending to close and finally, some investment projects were discussed, for example, the Panama Canal, borders, among others.

Particularly, in the fourth round of negotiations, Panama stopped negotiating the agreement, making it clear that the liberal professions would not be among the proposals to be dealt with since it attempts against the Panamanian approach that is to protect and reserve for itself this kind of professions, according to Gonzalez. (2018) The validation of the export certificate presented an advance since the Chinese delegation made a visit to the Colon Free Zone where they became familiar with the different commercial procedures that are carried out in this zone and finally, competition policies that are going to be evaluated are still pending to be negotiated, according to Ferreira. (2018).

Finally, for the fifth round of negotiations there was very little progress in terms of definitions of rules of origin, China for its part is conducting market opening studies for the provision of financial services by Panama which is an important sector in the economy of the latter country, on the other hand, to date has not yet been completely defined the re-export certificate, only progress on issues of drafting the definitions. In investment issues and the different technical obstacles to trade are in their final stage, but without being fully concreted and finally the preparation of a report consolidating what was negotiated in the rounds in order to transfer all the information necessary for the new Panamanian administration.

2.4. Surveys

In this section, the research methodology was used in the interview format for the collection of information to obtain relevant data on the perception and positive and negative impacts of the current negotiations between Panama and China.

These interviews had open-ended questions, since in this way the perception of the investigated group could be qualified. Additionally, the surveys focused on two Panamanian professionals whose commercial vision in their respective fields could provide an alternative point of view to the process from the interior of Panama, which finally allows to relate an impartial vision of the process.

Next, we will detail the interviews carried out in the November internship of the present year to the focus group:

2.4.1. Survey 1: Marcelo Maestre - Investment Promoter of the Colon Free Zone

1. Finalized the Free Trade Agreement between Panama and Taiwan due to the possible trade agreement with China, Has the level of entry of goods to the Colon Free Zone changed?

Answer: You have entered more quantity because there are very high interests with Panama due to the trade of any type of item that they are bringing. The China fair will be held in December this year. This has generated national and international impact.

2. Regardless of the active FTAs in Panama, is there any type of restriction on the entry of goods?

Answer: Revenue is negotiated directly with the Government and is based on existing or past agreements that are coming to an end. These agreements may vary in renewals, additions or terminations that may result in increases in goods revenue.

3. The entry of goods from China, are they entering with the permission of approved agreements regardless of whether an FTA has been approved?

Answer: No, they are being executed with the previous laws.

4. Based on the possible FTA between Panama and China, it has been said that there are restrictive policies on the part of the government on investment issues. Can this influence the incursion of development in the Colon Free Zone in Panama?

Answer: It is in the interest of the government and the administrative area of the Colon Free Zone to cite more investment possibilities that will help close the unemployment gap further through industry returning to textile manufacturing.

5. In the negotiation rounds, re-export certificates have been discussed. How would the implementation of this measure impact the Colon Free Zone?

Answer: It would have a positive impact since Panama's customs is undergoing changes in the digital area focused on efficiency and abolition of difficult documents that slow down a little the export to other countries.

6. As a Panamanian citizen, how do you perceive the possible FTA between Panama and China?

Answer: It has been a positive impact since the announcement of this possible agreement, has sought the way to industrialize our country to focus on unemployment and industrialization, in addition to take advantage of technological knowledge, tourism and infrastructure offered by the Asian giant.

Additional Note from Marcelo Maestre: China is interested in signing the FTA with Panama since its additional interests are the construction of the tracks for the bullet train and for the construction of the fourth set of locks in the Panama Canal.

2.4.2. Survey 2: Jean Carlo Del Cid - Professor of International Business at the Inter-American University of Panama

1. Is it possible that the incoming government will negatively affect the negotiations of a possible trade agreement between Panama and China?

Answer: Trade relations are currently paused, the current government has not pronounced either positively or negatively on the issue, pronouncements have remained neutral and the population itself asks, ¿What will happen now? For now, diplomatic relations have not been so close since the political party that currently governs in Panama will always live under the umbrella or has always had much affinity with the Pentagon and this is why many things will not move without the endorsement of the United States, inducing even the total pause of the construction of a bullet train, so that finally, in short, with the current government this relationship has been totally cold.

2. Considering the potential benefits and possible harms with the signing of the trade agreement between China and Panama, ¿Which country could be directly most favored?

Answer: China would be directly contributed, since Panama does not have much to offer to China, a relatively small country like Panama could benefit from providing certain services and a little at the business level because some companies would participate in certain types of sectors, but it should be borne in mind that China is a power at many levels, and could be

more benefited because it would have a strategic ally in terms of the geographical position where Panama is located.

3. Conclusions and Recommendations

3.1. Conclusions

The economic benefits that the Republic of Panama seeks to obtain when negotiating trade agreements, is through the provision of services and the productive increase of this sector since the country has been implementing strategies with a total occupational focus in different areas that derive in the provision of services, such as hotels, tourism, gastronomy, logistics, multimodal transport, storage of goods, financial, entertainment, education in related areas both inside and outside the country, among others. This to some extent prevents Panama from implementing growth strategies for other productive and/or manufacturing sectors, as a strategy to not depend entirely on the economic solvency of other countries to be able to supply products that can facilitate the life of the Panamanian population and their subsistence.

China's economic focus within Latin America is to sign treaties and trade agreements with countries located close to the Pacific and Atlantic seas in order to receive logistical benefits in terms of reduced costs and time for mass transportation of goods manufactured in their territory. The Asian country invades competitively with lower prices the markets of other countries, thanks to the Asian industry is able to supply the needs of many countries.

Taking into account the above, it could be said that, if the possible trade agreement is signed, China effectively would not expect greater economic participation within its territory by Panama, on the contrary, seeks to benefit from the strategic geographical position of the so-called hub of the Americas and thus become even more potential in international markets. On the other hand, Panama would have many more growth opportunities accompanied by a world power that is constantly growing and investing even more in its economic growth.

These projects could be affected since during the government of Juan Carlos Varela the first political and commercial approaches were made until the negotiation rounds of the possible commercial agreement between both nations, the transition to the new government of President Laurentino Cortizo has slowed down this process, it was announced that a new evaluation will be made of the process to take advantage of the best interests of Panama and

it is expected that by the beginning of 2020 pronouncements regarding the continuity that will be given to this process.

3.2. Recommendations

- It is necessary for Panama to contribute to the development of new strategies that allow it to boost its economy, not only to depend on the bet made on the provision of services and the intermediation of processes without adding value to them, sooner or later this same bet would cease to be important within the economic environment that the country has to offer to the rest of the world, which would ultimately play against it, as it would be the only thing it could offer to world growth.
- Due to the fact that Panama is a developing country, it is advisable to align its needs with the technological possibilities that it requires, in short, a digitization or investment greater than the systematization of the processes, since the country is currently in the eye of several world powers, the demands that they will demand will be greater and greater.
- China is a country which has parts of its economic participation in almost all the world in the different economic sectors of the same, which is why the country has enough capital to make foreign investment with its allied countries to promote this way their growth which in turn would be rewarded in the future as it would improve the quality of life of people, thus allowing the same developed societies to become consumer societies (mostly value-added products such as those marketed by the Asian country). Considering the above, it is an excellent bet the risk that this would take when executing different projects within Panama, such as a bullet train, an additional lock in the Panama Canal, this type of financing would allow the economic boom of the allied counterpart.

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