

The Panama Canal: The Battle for Strategic Control as the U.S. Seeks to Reclaim Power



“When elephants fight, it is the grass that suffers. When great powers clash, smaller nations bear the most severe consequences.”

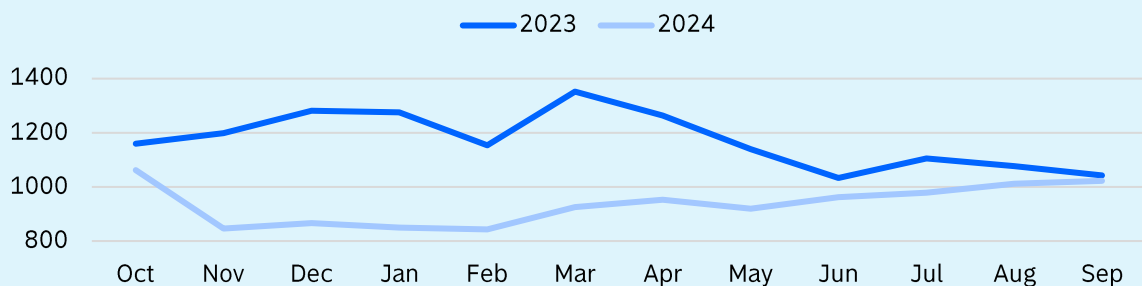
The Panama Canal: The Artery of the Global Trade

The Panama Canal is one of the world's most vital trade routes, spanning 82 kilometers (51 miles) and linking the Atlantic and Pacific Oceans. By significantly reducing shipping time and costs, it serves as a critical passage, particularly for U.S.-Asia trade.

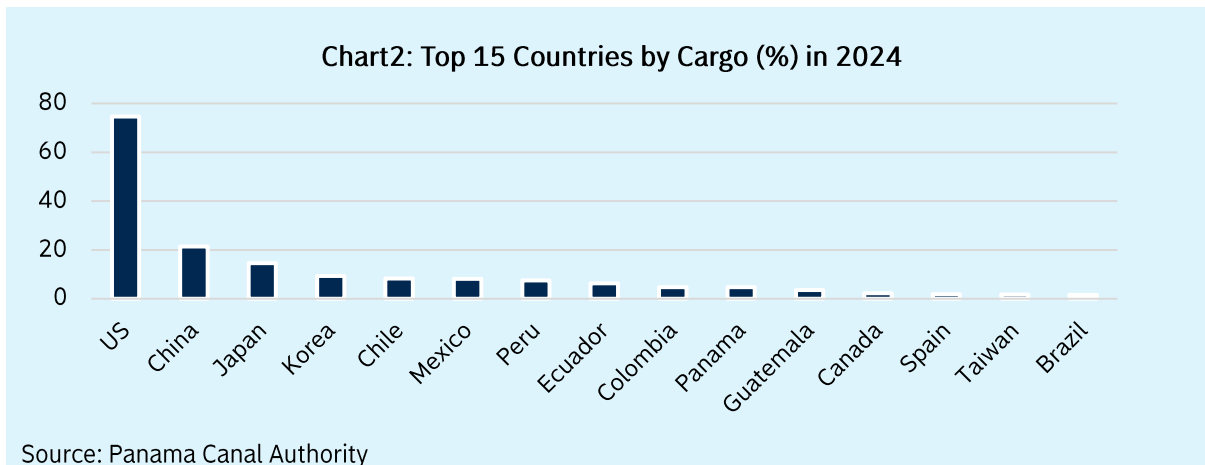
In fiscal year 2024, the canal recorded 11,240 transits, generating \$4.99 billion in revenue—a 1%

increase from the previous year. This revenue contributes approximately 5% of Panama's GDP, reinforcing its economic significance. Since Panama gained full control in 1999 under the Torrijos-Carter Treaties, the canal has remained an indispensable trade hub. However, recent toll hikes have triggered industry-wide concerns over supply chain disruptions and economic competitiveness. Once purely an economic asset, the canal is now at the center of a growing geopolitical contest.

Chart1: Commercial Transits through the Panama Canal by Month, FY2023 and FY2024



Source: Panama Canal Authority



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Rising Tolls: The Cost of Connecting the Global Economy

Recent toll increases at the Panama Canal have sent shockwaves through the shipping industry, especially among U.S. exporters reliant on the route. While Panamanian officials argue that the hikes are essential for maintenance and infrastructure improvements, critics claim they are inflating transportation costs and threatening business viability.

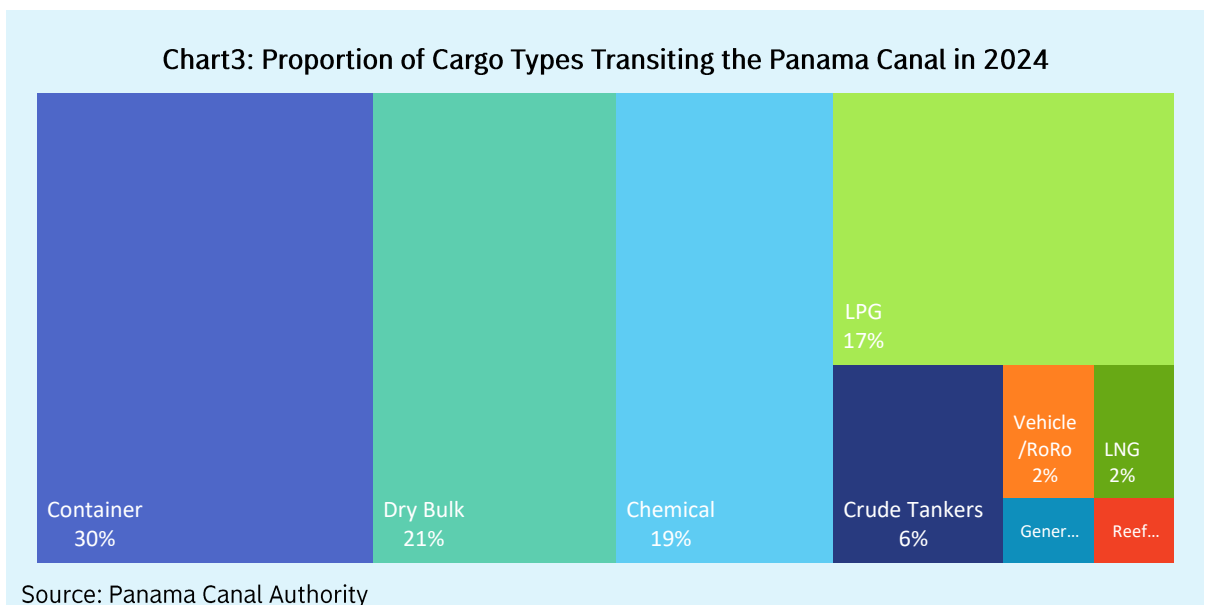
U.S. President Donald Trump has openly opposed the toll hikes, asserting that they disproportionately affect American exporters, who accounted for 75% of total shipments through the canal in 2024. He has demanded a toll reevaluation, warning that escalating fees could weaken U.S. trade competitiveness and drive up consumer prices. However, Panamanian officials counter that higher

tolls are necessary to ensure the canal’s long-term sustainability.

More Than Just a Trade Route: The Panama Canal as a Geopolitical Battlefield

The Panama Canal is more than a commercial passage—it is a strategic stronghold in the global power struggle. Over 50% of its traffic consists of containerized shipments and dry bulk, making it indispensable for stable supply chains. Any disruption—whether due to geopolitical tensions or logistical challenges—could escalate shipping costs and cause widespread trade disruptions.

For U.S.-Asia trade, the canal remains critical. Without it, vessels would need to take the longer and costlier route around the Cape of Good Hope, increasing expenses and exacerbating global inflationary pressures. Given these stakes, control



Source: Panama Canal Authority

over the canal is a contentious issue in international politics.

Tides of Power: Panama's Struggle for Sovereignty

Panama faces a delicate balancing act as it navigates the competing interests of major powers like the U.S. and China. The canal is a crucial economic asset, but external pressures—whether from American policymakers or Chinese investors—pose challenges to Panama's sovereignty. The government must strike a balance between maximizing economic benefits and maintaining independence.

Additionally, climate change and evolving trade dynamics present long-term challenges. Rising sea levels, unpredictable weather patterns, and drought conditions threaten the canal's water supply, while emerging alternative trade routes could erode its strategic importance. Panama must modernize and strengthen control over its future amid increasing global uncertainties.

Winners and Losers in a New Trade Conflict

If the U.S. moves to reassert its influence over the Panama Canal—whether through diplomatic pressure or assertive economic measures—the global economic ramifications could be significant. Panama risks losing key revenue streams, while international shipping firms may seek alternative routes, reshaping global trade flows.

The recent Suez Canal crisis underscored the vulnerability of global supply chains, with severe

delays leading to billions in economic losses. While the Panama Canal sees lower traffic volumes, any prolonged disruption would still trigger far-reaching consequences. As U.S.-China tensions escalate, the canal is emerging as a new battleground in the global power struggle.

Clash of Titans: The High Stakes Battle for Control

The fight over the Panama Canal extends beyond toll rates—it is a proxy conflict for geopolitical dominance. The U.S. is not alone in seeking influence; China has actively pursued involvement in canal operations and logistics. As tensions rise, Panama finds itself at the heart of a shifting global order.

As the saying goes, **"When elephants fight, it is the grass that suffers."** While major powers maneuver for control, businesses, consumers, and smaller nations will bear the economic burden. The world is watching closely as this high-stakes contest unfolds, with the future of global trade, economic stability, and international cooperation hanging in the balance.

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