

# Panama's platform for growth

By JONATHAN GREGSON

EDITORIAL CONSULTANT, FIRST



MARTIN TORRIJOS  
President of the Republic  
of Panama



ALEJANDRO FERRER  
Minister of Commerce  
and Industries



LEROY SHEFFER  
Head of International  
Commercial Negotiations

Thanks to its strategic location at the crossroads of the Americas, providing the easiest link between the Pacific and Atlantic oceans, Panama has always fulfilled an important role both within the Greater Caribbean region and far beyond. That has been true ever since the Spanish explorer Vasco Núñez de Balboa became the first European to traverse the isthmus in 1513, a route later known as the Camino Real. It has certainly been the case since the completion of the Panama Canal in 1914 and its opening to commercial shipping five years later.

As of today, the Panama Canal services some 120 maritime routes originating in 80 countries around the world, while the ancillary Colon Free Zone is a vital trans-shipment, storage, redistribution and logistics hub, the second largest of its kind in the world. However, changes in patterns of world trade and the use of ever larger ships have created a mismatch between modern demands and the Canal's capacity, with nearly half of new ships now on order too large to fit through the century-old locks. But following popular approval last October of a US\$5.25 billion plan to enlarge the canal system, the current 'Panamax' limit for vessels using the canal (295 metres in length and 33 metres wide carrying, at most, 5,000 20ft equivalent units (TEUs) of containers) will become a thing of the past.

When completed in 2014, the new lock chambers and navigational channel will enable massive container ships to cross the isthmus, thereby cutting travel times and shipping costs. The impact on world trade flows is likely to be as great as when the canal first opened. As Rodolfo Sabonge, planning and marketing director for the state-owned Panama Canal Authority (ACP) which has operated the canal since the United States handed it back in 2000, points out: "in the last few years, as China became part of the World Trade Organisation, trade grew significantly. If we don't expand, this important trade artery for the world is going to be limited and congested." On the other hand, the upgrading and expansion of the Canal's capacity will result in far greater efficiency of shipping routes between Asia's manufacturing hubs and the east coast population centres of North America. Its impact will be felt not only in Panama, but throughout the Western hemisphere and beyond.

Financing this massive project will be mainly

through equity with the Panama Canal Authority expected to contribute around 60 per cent, thereby reducing the level of debt to a maximum of US\$2.3 billion. Cargo volume transiting the Canal is projected to grow at an average of three per cent annually, resulting in a doubling of 2005 tonnage by the year 2025. Forecast revenues for that year, adjusted for inflation, will rise from US\$1.2 billion in 2005 to over US\$6 billion, providing a major impetus for the broader Panamanian economy and helping the government to fund education and social programmes that will further develop Panama's human resources and competitiveness worldwide.

As President Martín Torrijos points out: "the potential associated with the Panama Canal expansion goes beyond the Canal and turns the country into the most efficient logistical centre for the region." Panama's maritime registry remains the largest in the world, and container transshipments through its modern and privately operated container ports are now the second most important in Latin America. Indeed, as Ambassador Leroy Sheffer, Head of International Commercial Negotiations at Panama's Ministry of Commerce and Industries, explains: "the Logistic Multimodal Platform positions Panama as a centre for the distribution and movement of both cargo and people, being supported by a fast-expanding network of ports, a growing air transportation hub serving more than 35 destinations in 20 countries, and the Colon Free Zone, where nearly three thousand companies use its cluster of services that last year accounted for more than US\$13 billion in trade and distribution revenues."

In all, there are seven private ports located in Panama, including that which handles the largest volumes of any port on Latin America's Pacific coastline. Complementing the Panama Canal's crucial role is the inter-oceanic railway system capable of moving container cargo from the Pacific to Caribbean coast in less than an hour. Likewise with air transportation, where COPA, the national airline carries growing volumes of both cargo and passenger traffic through its 'Hub of the Americas'. Logistics company DHL has established a regional centre that benefits from Panama's strategic location for redistributing air cargo throughout the Western hemisphere, and many other international corporations are currently establishing new operations in Panama.

It is also significant that the Republic of Panama has been elected by a wide margin of the UN General Assembly to represent Latin America and the Caribbean as a member of the Security Council for 2007-2008. President Torrijos sees this and the Panama Canal's enlargement as "two manifestations of one single destiny... Our region becomes more competitive with a widened canal; and Latin America and the Caribbean win when they put forward a consensus position before an international forum."

President Torrijos views globalisation as a challenge rather than a threat, adding that "in order to maximise the benefits to the country our foreign policy has been geared towards attracting foreign direct investment". A key element in this strategy is expanding and developing international trade agreements and programmes so as to open up access to larger markets, both regionally and worldwide, thereby creating improved business opportunities for investors.

Finalising the free trade agreement (FTA) with the United States is naturally a priority; but other FTAs have been signed with Chile, 35 per cent of whose trade passes through the Panama Canal, and other countries outside the region such as Singapore. This, says Torrijos, will "make Panama the main Latin American redistribution centre for Singaporean companies, through growing bilateral co-operation in port, maritime and telecommunications services". An important step in this direction was the agreement recently announced by the Minister of Commerce and Industries, Alejandro Ferrer, with the Singapore Port Authority to construct a new, strategically positioned port on Panama's Pacific coast.

The enlargement of the canal will have a major beneficial impact on existing transshipment and logistics infrastructure such as the Colon Free Zone, which is already gearing up for larger volumes of business. "When you put together the effects of recent free trade agreements", says Severo Souza, Chairman of the Colon Free Zone Users' Association, "our aviation hub, our network of ports capable of handling increasing volumes, the area's growing and increasingly versatile financial systems, our modern infrastructure orientated towards services, and our determination to stay in the vanguard of international logistics, then it is clear that Panama has a world-class offering."

Souza points out that there are fiscal advantages, such as exemptions from tax on income and profits, for investors within the Colon Free Zone, and that government agencies will assist in setting up a business there. Moreover, as one of the principal users of the Panama Canal, the Colon Free Zone will feel immediate benefits from its upgrade. Already real estate and construction are booming, with the highest tower in Central America going up in Panama City.

Apartments are being built at twice the rate as in Miami, with demand in urban areas coming mainly from foreign executives. But Panama is also becoming a magnet for American tourists and 'baby boomers' seeking retirement homes, especially in the Chiriqui region along the country's Pacific coastline.

President Torrijos recently pointed out that "in Panama's very open economy more than three quarters of foreign exchange earnings are generated from the export of services". Especially important within this flourishing services sector are banking and other financial services. Indeed, in recent years Panama has developed into one of the most modern and successful centres of international banking in Latin America, thanks in no small part to its improved levels of transparency and compliance with international standards.

This factor was underlined recently by the acquisition by HSBC of Banistmo, one of the leading Panamanian banks. As Sandy Flockhart, President & Group Managing Director of HSBC's new Latin America and Caribbean division, explains: "the acquisition of Banistmo has increased our footprint in the region adding five new markets, giving us leadership in Panama and Honduras and important operations in Costa Rica, El Salvador and Nicaragua, as well as an entry into Colombia, thereby making HSBC the leading financial group in Central America."

Moreover, Banistmo's incorporation within HSBC will, he says, give the Group "a leading position in a fast-growing region which, with the ratification of the Central American Free Trade Agreement (CAFTA), has encouraging prospects. And buying Banistmo establishes for HSBC a strong regional presence from Mexico to ►

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Canal revenues are expected to grow from US\$1.2 bn in 2005 to over US\$6 bn in 2025





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◀ Argentina, which will enable us to better serve the needs of both regional and international customers.” Looking ahead, the region’s enormous potential means that Latin America and the Caribbean are expected to generate up to 10 per cent of HSBC’s global profits.

Many international companies have recognised the attractions of investing in Panama, which last year drew in more than US\$2 billion of new investments. Apart from its natural beauty and strategic location, Ambassador Sheffer points to other advantages including the level of security for new investors, the absence of local exchange rate risk though the use of the US dollar as legal tender, and the lack of undue restrictions on the repatriation of capital or dividends.

President Torrijos’s government is fully aware of the importance of foreign direct investment for Panama’s future strategic development. “The Panamanian government promotes and ensures”, affirms commerce minister Ferrer, “a firm level of security and legal stability for new investors, with a solid legal ground and an absolute level of transparency within the governmental administration.” On the macro-economic level, its policies are focused on sound finances, liberalisation, and progressive debt reduction, while its broader strategy is built around improving the levels of efficiency and competitiveness internationally, not least by making the most of the country’s natural strategic advantages.

Ferrer argues that “the benefits of globalisation must be felt in even the smallest economies” and that “liberalisation policies must, in order to be successful, assure a positive impact on all social levels.”

Panama’s Chiriqui region has seen a surge in demand for holiday homes



Governments within the Greater Caribbean should therefore ensure that future development programmes support productive sectors and provide direct benefits for the neediest, most underdeveloped areas within the region. “In this regard”, he says, “Panama is committed to guaranteeing trade strategies, which are accompanied by sound policies that will promote the equal distribution of wealth and fostering of prosperity.

“At present, we are negotiating Bilateral Agreements with our neighbours in Central America and our historic relations with the US are moving forward by building on an already solid foundation through the negotiation of a Trade Promotion Agreement (TPA) which promises to further expand trade and investment opportunities for consumers, workers, businesses and farmers. We believe the TPA will serve as an engine for the continued growth of our countries and will continue to promote social, political and economic stability.”

And while President Torrijos’s government has made plain that fiscal discipline and lower government spending is needed to reduce levels of foreign debt, it is also committed to reducing the number of Panamanians – currently approaching 40 per cent of the population – living below the poverty line, and improving the nation’s human capital through education and training. The president has accepted responsibility for “setting the foundations of a different Panama, with greater opportunities for all and a bigger sense of social cohesion aimed at significantly narrowing the gap between the ‘haves’ and the ‘have nots’”.

Combining these much-needed social goals with financial stability is the major challenge being faced by the current administration. President Torrijos make it clear that “in order to lay the foundation for growth and development, we had to immediately address the government’s fiscal situation”. Rather than increasing taxes across the board, existing loopholes in the tax code have been closed down and inefficient government spending reduced. The country’s pension system has been made more financially viable and Panama’s debt profile has been improved through an active debt management programme.

The successful implementation of the Canal’s expansion and upgrade will certainly have a major bearing on Panama’s future prosperity and its capacity to adapt to changing circumstances, both internally and within an increasingly competitive global environment. It will also have a major impact on the commercial and strategic potential of other countries and businesses within the Central American and Caribbean region, encouraging greater exports, promoting inward investment and, through meetings such as the Business Forum of the Greater Caribbean, giving rise to new collaborations and mutually beneficial commercial ties between key regional and global players. 