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## Gates unlocked to surprise prosperity

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Rubén Blades sits in his air-conditioned office in the financial district of Panama City and then suddenly leaps to his feet. He seizes a newspaper on a nearby surface and, with one exaggerated movement, waves it from one side to the other.

“Did you feel that,” he asks. “Did you feel it? That was the baseball bat being pulled back and we haven’t even started to swing yet.”

Mr Blades, the country’s tourism minister, veteran salsa vocalist and national hero, is convinced that Panama is on the brink of great things.

It is easy to see why he is so confident. A combination of surging world trade volumes and a boom in port development, infrastructure and commercial and residential property is bringing Chinese-style growth to the country and inviting comparisons with international business centres such as Dubai.

Last year, the economy grew 8 per cent. This year it could expand by at least 9 per cent and probably more than 10 per cent, a rate of growth that would be the quickest in the hemisphere and among the fastest in the world.

“The world has discovered Panama,” says Guillermo Chapman, an economist and former finance minister. “It is an upbeat panorama.”

Underpinning much of what is happening in Panama is the new importance that its geographic location is assuming in the light of the growth of trade between Asian manufacturing centres and the markets of north America and Europe.

Since Panama took full control of its canal from the US at the end of 1999, overall traffic has expanded by more than one-third and, spurred in particular by the growth of Chinese manufacturing exports, the number of containers used to package electronics, textiles and other factory products transported across Panama has nearly tripled. Sovereignty has allowed the country to push ahead with ambitious plans to double the waterway’s capacity.

A new channel is to be cut, parts of the existing canal deepened and widened and giant concrete and steel locks are to be put in place. These will be big enough to accommodate so-called post-Panamax ships – enormous vessels that are too big to fit the existing lock basins.

Nine months ago, President Martín Torrijos, a moderate left winger who took office in 2004 and has stabilised public finances, secured a political mandate for the \$5.25bn project when he won a referendum on the issue. That will allow the first excavation works to begin later this year, although the entire project will not be complete until 2014 or 2015.

Full national control of the canal and the “Zone” – the strip of land alongside the canal that was once a US colony – is also giving Panama more opportunity to develop business related to shipping, ranging from shipyards to suppliers of provisions and bunker fuels.

"Businesses are showing an interest in the maritime cluster in a way that wouldn't have been possible before 2000," says Carmen Gisela Vergara, deputy minister of international trade.

Some of the most notable developments are taking place in the port sector. Operators say that Panama is becoming a regional hub, where container consignments can be broken down and reassembled and sent as part of smaller loads to smaller ports along the coasts of north and south America.

All four privately owned ports are planning to expand their capacity to handle more containers and three new Pacific coast ports are planned as part of multi-billion dollar investments designed to double container capacity by 2010.

In turn, though, the maritime hub, plentiful land, improving regional air connections and the growth of tourism is making Panama attractive to other businesses, such as finance, energy and property development.

HSBC and Citibank have both bought up Panamanian banks in the past year and some sizeable investments are being contemplated in the energy sector. Occidental of the US and Qatar Petroleum, for example, are conducting a feasibility study for the construction of a 350,000b/d refinery near the Costa Rican border, possibly costing up to \$9bn.

Nowhere are the signs of Panama's new-found opulence more impressive than in the construction sector. Cranes dot the Panama City skyline with dozens of high-rise blocks being built. Much of the development is aimed at "baby boomer" retirees and second home buyers from the US, Canada and Spain, attracted by relatively cheap prices and a favourable tax regime.

Prices have risen in the past few years but, according to Juan Francisco Pardini, president of the Business Panama legal and property group, local properties sell on average for a third of the price that they would fetch in neighbouring Costa Rica, a much longer-established centre for north American retirees.

In total, according to Samuel Lewis, the vice-president, direct foreign investment is expected to reach \$2.5bn this year. In construction, total investment projects in the pipeline – including those by local investors – amount to \$10bn, he says. Reforms being piloted by Mr Torrijos' government could allow Panama to capitalise further on this fortunate convergence of circumstances.

It recently introduced legislation that makes it much simpler and quicker to set up small companies, for example. It has approved legislation allowing a streamlined tax, migration and regulatory framework for multinationals that choose to set up their headquarters in the country. And the government attaches special importance to the Free Trade Agreement with the US that the US Congress is expected to approve later this year.

Indeed, Mr Torrijos refers to the FTA – along with the canal expansion and energy plans – as being one of the "three motors" that can pull the country towards developed world status.

In particular, the FTA may help give some impetus to the complex business of legal and judicial reform on which Mr Torrijos has only just embarked. As Mr Pardini explains, the FTA is important for Panama because it will oblige the country to adopt "clearer rules of the game" in its dealings with foreign companies and investors, helping the government overcome bureaucratic or other vested interests that might oppose greater transparency, for example.

"The new generation of free trade agreements are about much more than trade," says Mr Pardini.

If Mr Torrijos' development vision is to come to fruition, he will have to ensure that prosperity is more widely shared, however. Panama is remarkably unequal. Although average per capita income is more than \$5,000, 40 per cent of the population live in poverty. The division also has a geographical aspect, with particularly large concentrations of poor people in Colón on the Caribbean coast, and in some rural areas.

The danger is that rapid growth could at least in the short term make the situation worse. "Wealth is being concentrated more and more and this is very bad news," says Mr Chapman. "If we don't implement very effective policies, growth will make our society more unequal."

Mr Torrijos has begun to make some headway, introducing a selective income transfer programme in which 38,000 poor families are given \$35 a month in exchange for ensuring that their children are vaccinated and sent to school.

Such programmes have been successful in Brazil, Mexico and elsewhere in Latin America but in general have been on a much bigger scale and Panamanian critics say the effort has to be more ambitious. "This is positive but it is not sufficient," says Raúl Leis, president of Ceaspa, a left-wing think tank.

As Latin America has found to its cost in the past, large socially alienated and deprived communities can make political stability more precarious than it seems. In addition, the government will need to ensure that the development of new businesses and new communities does not overwhelm the energy and water infrastructure, for example.

Managing prosperity then could prove to be a difficult challenge. As Mr Pardini puts it: "When you have so much unexpected growth there is no planning about how to deal with it. We are not accustomed to this."

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