

Panama – the Singapore of Latin America?

Summary

At just 2% of the population of Brazil, Panama is one of the smallest players in the region. But it is often true that good things come in small packages. The Government is pursuing a strategic aim to become the services and logistics hub of Latin America and the Caribbean. And the plan is working. Panama is capitalising on its pivotal location between two continents (North and South America) and two oceans (Atlantic and Pacific) with a luring pro-business environment – which the global business community is taking notice of. This paper explores Panama’s advantages, the challenges it faces in emerging as a regional hub and the opportunities it presents for the UK.

Panama has a solid foundation of economic and political stability.

- 1. Panama grew at 8.4% in 2013 – the second-fastest growth rate in Latin America and the Caribbean.** Average growth over the past decade has been 8.7%, Latin America’s fastest, including 3.9% during the global slump in 2009. Thanks to good macroeconomic policy making, it has a history of low unemployment (currently 4.1%), and low inflation (4%). An upper middle income country, it has free flowing capital and attracts one of the highest rates of FDI in Latin America at 11.7% of GDP in 2013, compared to Mexico’s 1.3%. Between 2007 and 2013 Panama doubled its GDP.
- 2. Democracy and stability in economic policy-making.** Successive governments have pursued business friendly policies. Juan Carlos Varela was elected in May 2014 and took over from President Martinelli on 1 July. Varela has pledged to continue many policies including preferential tax rates for multinational companies operating in Panama and investment in the development of the country’s infrastructure.

Yet Panama should be noticed not for its small internal market, but for the opportunities it offers as a gateway into the wider Latin America region.

- 3. Panama’s central location and geography is the foundation of its role in facilitating global trade. The Panama Canal also plays a major role.** The \$5.25bn investment to expand the Canal will enable 8% of world trade to pass through it on completion in 2015. Connecting 144 maritime routes, it has the greatest global maritime connectivity in the world (UNCTAD).

Chart 1: Panama's central location



4. **Panama has taken advantage of its geographical luck and the Canal to build unrivalled transport and communications connectivity in Latin America.** Tocumen International Airport is the most connected airport in Latin America and the Caribbean with 68 routes to 31 countries, and flights available to every Latin American capital. At either end of the Canal, Panama boasts the first and second busiest ports in Latin America, connected by a freight railway as well as the waterway. The *Colon Free Zone* – the second largest free zone in the world after Hong Kong – provides a distribution platform for re-exports around the region, whilst *Panama Pacifico* is a UK investment in a mixed-use real estate that includes a logistics park on the Pacific side. The continent's fibre-optic cables pass through the Canal, improving internet connections and speed.

5. **Panama City attracts global business due to its strategic location and good business environment.** A safe and thriving metropolitan area, excellent connectivity, and free trade agreements with the US, EU and many Latin American countries helps draw multinational companies that want to establish regional headquarters. Law 41 offers tax discounts for those that do, including no tax on extraterritorial services alongside other tax and migratory benefits. Today over 100 companies have based regional headquarters in Panama, including DELL, BASF, Samsung and Adidas, and Diageo, GSK, Unilever, Aggreko, Cable and Wireless, Biwater and JCB from the UK. GSK moved its vaccines research hub to Panama from Brazil.
6. **And it is emerging as a regional financial hub.** It possesses a large international banking sector with over 90 banks. Its capital market is linked to Europe via *Euroclear*, giving international investors easier access to local bond markets. Free capital movement and use of the US dollar attracts deposits and investments from across Latin America.
7. **Panama also offers more than just a hub for business.** It acts as a hub for humanitarian services, including the Red Cross and UN. The *City of Knowledge* wants to become a regional university hub. US campuses are already present. New conference facilities and a doubling of hotel rooms will make Panama a destination for convention tourism. Latin Americans flock to Panama's "world-class" malls stocked with luxury goods. Tourism numbers are on the rise.

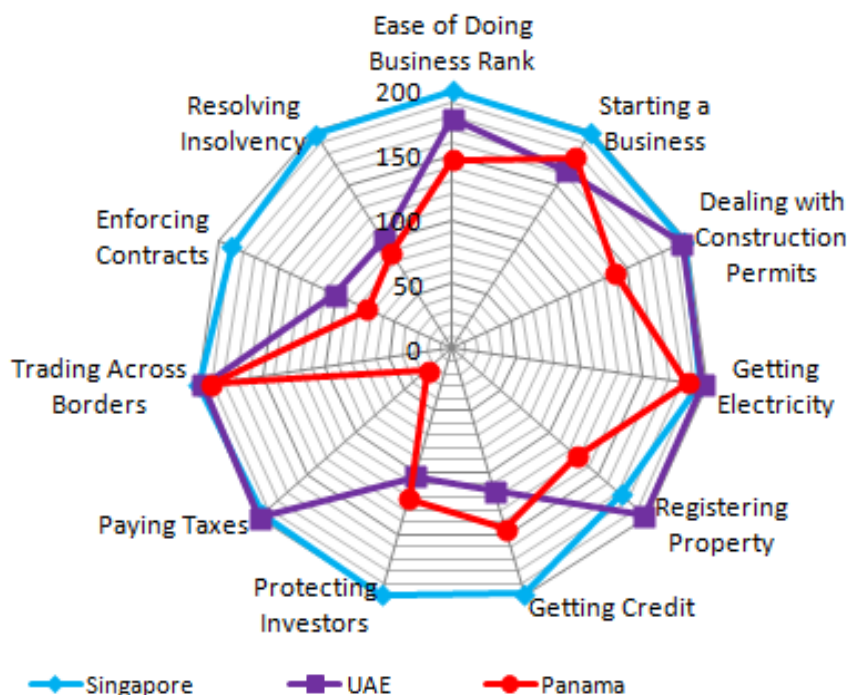
And further opportunities sit on Panama's doorstep...

8. **Panama is looking to become a member of the Pacific Alliance and now has the necessary free trade agreements in place with members to allow accession.** This could hold huge trade and investment opportunities for Panama, particularly as Panama is well-placed to benefit from intra-regional trade in financial and logistics services – which should boost economic growth.
9. **Panama is competing successfully with Miami.** Latin Americans need a visa to visit or transit Miami – not so in Panama. Although Miami retains the title of "Capital of Latin America", ever more Latinos are using Panama's platform for work, travel and entertainment. Panama will be watching closely plans in Nicaragua to develop a rival inter-oceanic canal and logistics facilities, however costly and time-consuming such plans may be.

But Panama is not Singapore just yet...

10. **Corruption is cited as Panama's greatest problem by the World Economic Forum.** Panama fell 20 places in Transparency International's Corruption Index between 2012 (82nd) and 2013 (102nd). TI consider that there is a general need to strengthen institutions and separate the powers of the executive and judiciary – areas President Varela has promised to address.
11. **Panama has a good business environment but has some room to improve compared to other regional hubs.** World Bank Ease of Doing Business scores rank Panama highly for starting a business, getting electricity, registering property, getting credit and trading across borders. But Panama could improve in paying taxes, protecting investors and enforcing contracts compared to Singapore and the United Arab Emirates, two successful hubs.

Chart 2: Doing Business in Panama



Source: Economics Unit analysis, World Bank Ease of Doing Business index

12. **Panama suffers from a negative international reputation in areas such as tax transparency, money-laundering and illicit trade.** Despite significant improvements in recent years, Panama has not yet done enough to satisfy multilateral bodies looking at tax transparency and money laundering. Like any high volume trading hub, and with its strategic location, it also faces issues with illicit trade and contraband.
13. **There also exist challenges around inequality and education.** Around 20% of Panamanians live in poverty, showing that not all Panamanians have benefitted from its strong growth – especially beyond Panama City. Education standards are considered to be poor by The World Economic Forum which ranked Panama 49th in primary education enrolment (Singapore was 1st) and 101st in secondary enrolment (Singapore was 18th). In overall quality of education in Panama was 64th, compared to Singapore's 2nd. Broad improvements can be made, including in technical and vocational skills. Varela has announced a policy to train 10,000 teachers in English language skills during his administration to introduce bilingual education.

What does Panama need to do next and what are the opportunities for the UK?

14. **Panama continues to learn from other regional trading hubs such as Singapore and UAE** . Each has slightly different policy and structural challenges, but lessons can still be shared. Singapore has been successful in improving educational standards; Panama primarily needs to tackle corruption and improve transparency through stronger independent institutions. And more attention needs to be paid to the country's interior and weakening agricultural sector.
15. **The UK can support Panama in building institutions that reduce corruption and enhance the business environment.** Greater transparency in public procurement; tougher legislation against bribery; continued positive steps to tackle money-laundering, illicit trade and increase tax transparency; and further work to develop the regulatory and business environment. The UK can also support civic participation via the open government partnership. This will incentivise more British companies to come to a country where the UK is already the second largest investor – and exploit its vast and fast-growing opportunities.
16. **The UK can also offer Panama expertise in PPPs, infrastructure and urban planning, maritime service, education, and advice in expanding the range of its financial services.** Foreign participation in the economy is welcome, and competition is fierce, particularly for major infrastructure projects such as the metro and ports expansions. The incoming government has shown interest in PPPs. UK quality is recognised, but there is a need to promote the message that the lowest price is not always value for money. As Panama seeks to move from an international banking to an international finance centre, the UK is well-placed to cooperate and benefit. The UK can assist across the board in education, with huge opportunities present from the planned introduction of bilingual teaching.

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