Panamá
where the world meets
THE MOOD AT THE SUMMIT

BY SANTIAGO GUTIERREZ

“President Martinelli never sleeps. He answers letters and emails regardless of whether it’s one o’clock in the morning, or six in the morning,” says one of the closest associates of 58-year old businessman Ricardo Martinelli Berrocal, who has been president of Panama since July 1, 2009. And the president’s work ethic may be one of his most salient characteristics.

But certainly not the only one. He doesn’t put too much stock in formal protocol. In downtown venues he sits at the regular tables, in spite of the fact that the head table has been reserved for him. He appears without a tie at events that until recently wouldn’t have been accessible without one, and has even been seen driving his own presidential vehicle. His style has a lot to do with his entrepreneurial vein. Martinelli cares more about the speedy execution of his decisions, than about the slowly grinding gears of formal bureaucracies. Another aspect we could highlight is that the president does not collect a salary, it is donated to charities with a social purpose. His attitude has already resulted in some changes in the government. One such change, perhaps the most notable, was to the staff. “Businessmen make up a majority of all new appointments to public office,” says Mayra Arosemena, Chief of Staff of the Ministry of Commerce and Industry.

This new “corporate cabinet” has, in turn, resulted in a different public service culture. “Things have to get done,” explains the government employee. That’s why, for example, the procedure for opening a business in Panama, which a year ago used to take 15 days, now takes 45 minutes, and can be done over the internet from any location. There’s also a new perception regarding the importance of setting goals and attaining them. The government set the goal of paperless operation by 2012. No detailed instructions or comprehensive national plan to achieve this objective were issued. The president’s directive was enough, and now each ministry must work with the Presidential Secretariat of Innovation to fulfill it.

This attitude is refreshing and leaves room for innovation. At the Palacio de las Garzas, the Panamanian presidential palace, the use of the phrase “because it has always been done that way” as justification for any procedure is now taboo.

And this is exactly the attitude that the government of this country of 3.5 million inhabitants needs, having set a goal of doubling its US$25 million economy and joining the ranks of developed countries over the next 10 years.

This will not be so difficult to achieve, considering that Panama has been the clear champion in Latin America with regard to GDP growth for the past two decades and that it has enormous potential in logistics, the financial sector, tourism, construction, agriculture, and mining. The efforts to develop it are well coordinated in the 2010-2014 Strategic Government Plan, drawn up by the Ministry of Economy and Finance, with the help of the McKinsey consulting firm.

Given the current conditions, Panama takes us by surprise. It is without a doubt the star of the Americas. A country with immense potential, Panama has decided to make impatience a virtue in order to accelerate its development. And it is succeeding.

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Latin America has certainly become one of the most interesting places in the world to do business in the coming years. And Panama meets many of the criteria for becoming the next economic miracle, the next Chile, ahead of Peru or Uruguay.

The country has four key advantages. First, the speed at which it is growing. The Panamanian economy has had more sustained growth than its neighbors. Between 1990 and 2000, while the average Latin American GDP growth was 3.8%, Panama’s was 5.4%. Between 2000 and 2010, when the Latin American average growth was 3.4%, Panama’s was nearly double at 6.4%. In 2010 it is expected to grow around 7%.

The second advantage is the evenly-distributed production structure. The Panamanian economy is not dependent on the availability of natural resources and is extremely well balanced. “No single sector accounts for over 9% of the GDP. Not even the Canal, which accounts for no more than 6%,” explains economist Marco Fernández, a partner of the economic advisory firm INDESA.

The third key advantage is the best set of macroeconomic indicators in the neighborhood. With regard to fiscal policy, by law the public deficit may not exceed 2.5% of the GDP. Only in the last few months, to address the problems created by an extremely adverse climate, the deficit was temporarily allowed to reach 3%, but as explained by Vice Minister of Foreign Trade, José Domingo Arias, it will not reach that figure. In fact, the UN’s Economic Commission for Latin America and the Caribbean (ECLAC) estimates that in 2010 the non-financial public sector will show a surplus equal to 1.0% of the GDP, in contrast to a 1.0% deficit in 2009.

It also forecasts a current account deficit of 3.5% of the GDP in 2010, and unemployment at 6.5%, showing a slight drop of 0.1 percentage points with regard to the previous December. Lastly, the year ended with an inflation rate of 3.5%, which is high for Panama, but certainly moderate by international standards.

The fourth key advantage that will become even more important in the future is that the most rapidly expanding sectors involve modern activities that clearly have the potential for years of growth: ports, warehousing and tourism.

While the logistics and transport industry increased its share of the Latin American GDP by 1.9 percentage points between 1990 and 2010, it gained 4.1 points in the Panamanian GDP during the same period. The hospitality industry gained 0.2 points in Latin America and 0.5 in Panama, once again more than double.

As such, the economy is well positioned to guarantee accelerated growth in 2011 and the following years. ECLAC predicts that in 2011 Panama will grow 7.5%, “thanks to the continued massive execution of both public and private projects.”
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“Our business-oriented Government offers generous incentives for international corporations to consider Panama as the hub of the Americas. There has never been a better time, or a more strategic location, to establish here at the Crossroad of the World.”

Roberto Henriquez, Minister of Commerce and Industry
Much more conservative, Antonio Fletcher, president of the National Council of Private Enterprises (CONEP), believes that in 2011 the country will grow over 6% based on the boost it will receive from the logistics, export business and tourism sectors, in addition to investments in infrastructure.

The council leader believes that Latin America’s economic recovery will generate greater exports to Europe and Asia, resulting in greater use of the Canal, and ultimately increased income for the country. He also believes there will be increased demand from Peru, Ecuador, Bolivia and Colombia for exports from the Colon Free Zone. He also expects that the tourism sector, which grew nearly 9.6% in 2010, will maintain this growth rate because Panama has successfully linked its airports with its highway infrastructure and hospitality areas. Lastly, he believes that the government’s investment in infrastructure will play a key role in the coming years. “In the first quarter of 2011 alone, over US$3.5 billion is being invested on projects beginning in 2011 for completion between 2012 and 2014,” he says.

In addition to continuing the expansion of the Panama Canal, the list of projects includes building a subway system as part of the plans for modernizing the transportation system in Panama City, completing several hydroelectric, hotel development and low-income housing projects, city and bay cleanup and building the “government citadel,” among others.

2010 was another good chapter in Panama’s history of economic success. The highlight of the year was that Panama’s credit rating was raised to investment grade by Fitch, Moody’s and Standard and Poor’s,” according to the Minister of Economy and Finance, Alberto Vallarino. “The positive effects of the country’s improved credit rating have already been felt in increased direct foreign investment and the fact that our reputation in the international capital markets continues to grow,” he adds.

Alberto Vallarino,
Minister of Economy and Finance
Panama is in good fiscal condition. Although the primary surplus has gradually decreased from a tremendous 7% of the GDP in 2007 to 1% in 2010. The country’s primary position should improve as a result of recently passed tax reforms that will raise fiscal revenues above 25.3% of GDP level.

The first of the two phases of tax reform took effect last year. “It transferred the weight placed by fiscal policies on the middle classes to extremely strong sectors with high profit margins that were not paying enough taxes,” according to Roberto Henríquez, Minister of Trade and Industry. Taxes were assessed on the aeronautics sector, casinos, the banking sector, tobacco industry, and a few in the Colon Free Zone.

The second phase went into effect in July 2010 with an increase in the consumption tax rate from 5 to 7%, while still remaining one of the lowest in the Americas. Foodstuffs, medicines, school supplies, and fuel are exempt under the new policy.

The government plans is using the additional revenue for social programs. One such program is the “100 for the 70s” which provides US$100 per month to elderly individuals without social security, providing relief to the households who support them. The government also established a Universal Scholarship fund which will give families $US20 per month for every child who attends school and maintains an average of 3 or above, or in other words, is earning passing grades. In January 2010 there was a 20% increase in minimum wage, the highest in the past 50 years. It now stands at US$375 and US$400.

Minister Henríquez attributes President Martinelli’s 72% popularity rating to the government’s social action. “No president in the past 50 years has been able to maintain such popularity levels. Considering that we are making changes and changes often produce reactions. This is really astonishing,” he says.
Competitiveness is a serious business in Panama. Improving competitiveness is the primary task of the Ministry of the Presidency’s Economic Secretariat, which coordinates all institutions involved.

The World Economic Forum classified the country as the second most competitive country in the region, after Chile. The goal is clear. “We want to be the most competitive economy in Latin America,” says Trade and Industry Minister Roberto Henríquez.

In order to reach that goal, the Ministry of Education is reforming the national school curriculum and distributing laptops, to each elementary and high school student in the country. It also increased resource allocations to the National Institute of Professional Training for Human Development (INADEH).

In April the government will implement another aspect of its plan, a bankruptcy and corporate restructuring law. The law will provide temporary shelter from creditors to businesses who present a rescue plan.

Another step forward is the Panama Emprende portal which allows new enterprises to issue operating permits online in 45 minutes. The next step is to link this portal with Social Security, Customs and other agencies involved in corporate establishment or development.

The most competitive in Latin America
Through its existing Multilateral, Regional and Bilateral Trade Agreements and ongoing negotiations, Panama is pursuing an aggressive and dynamic trade integration agenda to provide the best preferential market access conditions for its exports of goods and services, while building strong legal frameworks for foreign capital investment from current and future trade partners.

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The widening of the Panama Canal will change the shape of the country and maritime transport worldwide. This is no exaggeration. As of late 2014, when the expanded canal is scheduled to open, cargo ships from Asia will have unrestricted access to the east coast of the United States. This will mean a big change for the Panama Canal and for many US ports on the Atlantic. Ports like Manatee and Miami, Florida, and Wilmington and Morehead City, North Carolina, are making investments to accommodate post-Panamax vessels. At the same time, they all signed memoranda of understanding with the Canal to jointly encourage vessels to reach their ports through the Canal. This will be a new way to market sea traffic.

Panama will certainly take advantage of this shift in the international trade’s center of gravity. In fact, the Panamanian Government’s 2010-2014 Strategic Plan places logistics as the most powerful engine driving the country’s development. The goal is ambitious. “Panama seeks to become the logistical Hub of the Americas. I don’t mean just Latin America, but all of the Americas,” emphasizes Roberto Henríquez, Minister of Trade and Industry.

Panama’s current port system already gives it an advantage in accomplishing this goal. “Panama has the most modern port system in Latin America and the 11th most modern in the world,” according to Vice Minister of Foreign Trade José Domingo Arias, one of the members of the new “corporate cabinet.”

The ports of Colon, Balboa and Manzanillo are among the 10 largest in Latin America and Panama’s seven ports moved over 5 million TEUs (twenty-foot equivalent unit containers) in 2010. This is a huge volume considering that the largest port in Latin America, Port Santos in Brazil, moved just over 2.6 million TEUs in 2010.

But Panama’s logistical development is not just about its ports. “No other place in this hemisphere has an interoceanic canal, interoceanic railroad, the largest free zone in the Western Hemisphere with US$20 billion in movement and a banking sector without a single bankruptcy during the financial crisis, all within space of just a few miles,” said Minister Henríquez.

To efficiently coordinate all these elements, the government has devised a two-pronged strategy. The first is to expand and modernize existing logistical assets and the second is to interconnect them. With regard to the former, the ports will be improved so as to be able to serve vessels with almost triple the capacity of the current ones. “At this time, vessels traveling through the Canal can handle 4,600 TEUs, but following the expansion, cargo ships carrying up to
Panama takes a pragmatic approach to its international trade alliances. “We seek large or small partners who can provide us with real, tangible benefits in goods or services,” says Francisco Álvarez de Soto, Vice Minister of International Trade Negotiations. That is why Panama already has free trade agreements in place with all the countries in Central America, Singapore, Taiwan, and Chile. And in this sense, the International Trade Negotiations Office’s agenda is diverse and hectic. An FTA with the US is expected to be ratified, another with Canada is set to take effect in the first quarter of 2011. In late January negotiations began for a partial agreement with Trinidad and Tobago which is expected to be signed in the first semester of 2011.

13,000 TEUs will be able to go through,” explains José Domingo Arias. The Tocumen International Airport will also be expanded, another 6 airports remodeled, and 6 new airports will be built.

As for the second part of the strategy, the Panama City-Colon Highway will be completed and extended to link the Free Zone with the ports, to the Tocumen International Airport and the Panama Pacific area. This way, it will be able to expand its services as a cargo consolidation location and “warehouse” for all of Latin America. It has already served this purpose for Colombia, Venezuela, and Central America for many years, but now it will be able to do so more efficiently for the United States and other countries in the hemisphere.

In managing the logistics program, the Panamanian government worked with Georgia Tech University, as the governments of Singapore, Shanghai, and Chilean winegrowers had already done. The goal is to optimize the entire logistics system. “We’re going to measure how long it takes to move the containers and compare it to international metrics,” says Vice Minister Arias. This way, we can reduce and shorten the volatility time of merchandise in transit.

The service and advantages offered by the Panama Canal route will be boosted by the expansion of this waterway, which, starting in 2014, will double its response capacity, allowing the transit of larger size ships, to respond to the increasing demands of international trade. This will have an impact on multiple aspects of the global economy, and will consolidate Panama’s role as the logistics hub for the continent.”

Alberto Alemán Zubieta
CEO of the Panama Canal Authority
The second pillar of growth through 2014 is the financial sector because it has a sustainable competitive advantage. The Banking Center consists of 19 Panamanian and 60 foreign institutions, whose approximately 20,000 employees manage US$70 billion in assets and nearly US$29 billion in domestic deposits.

“The banking sector is very solid and it has had an enormous impact on Panama’s image, and financing our growth, and it is an essential component of our development strategy,” according to the Minister of Trade and Industry, Roberto Henríquez.

It is the source of fast-track financing for the private sector and support for the US$13.6 billion investment plan for the next five years, of which US$9.6 billion will be allocated to the infrastructure, nearly twice the cost of the Canal expansion.

The International Banking Center may also expand, because it is of crucial importance to the region. As the Minister explains, it serves Latin America as the heart of the Latin Dollar movement. The relevance of this fact was demonstrated during the 2009 financial crisis. That year, the assets of banks in Panama increased. “Our banking center is stable. Our country is seen as a refuge of stability. That is an important asset,” he says.

The highest growth in the financial sector occurred during the seventies when Panama decided to establish an international banking sector. Nowadays growth may be slower, but it accounts for 8% of GDP, according to the Comptroller General’s Office, while in the rest of Latin America it is barely half that, at 4.4%.

With the ratification of the 12 agreements to prevent double taxation Panama has already signed, and a tax information exchange treaty with the United States, full certification of the Banking Center by the OECD is on the horizon.

MIGRATIONS: PEOPLE POWER

On any given Thursday night at 10:00 p.m. it is difficult to get a table at any of Panama City’s ten best restaurants. Such tables are always the scene of animated discussions and ever more sophisticated dishes. It also quickly becomes apparent that the language most often used is accented Spanish. There are English and European accents, and also Mexican, Venezuelan, and Colombian.

Like Canada, Panama is being built with waves of immigration, which are better handled each time. The first wave was rather spontaneous; Colombian immigrants in the seventies who in some cases brought investments, but mostly supplied cheap labor for some of the country’s needs. Then came another wave of Venezuelan investors which, according to Marco Fernández of INDESA, was one of the factors that prevented the country from entering a recession in 2009.

Now there is a new wave of employees of multinational corporations, as a result of Law 41 of 2007, which offered tax advantages to companies who established regional headquarters offices in the country. Now there are 44 such companies in the country, including Procter & Gamble, Mars, HP, SabMiller, BMW, and Roche.
The arrival of the new immigrants has had a profound effect on sectors such as real estate. In 2006, the growth in construction was driven by the expected arrival of a large group of US retirees who would spend part of the year in Panama and would require vacation homes and apartments in Panama City. As a result of the US economic disaster, this group failed to arrive and the sector’s development came to a halt. With the passage of Law 41 in 2007, demand returned and prices once again began to rise.

According to Osvaldo Marchena, president of the Panamanian Association of Real Estate Brokers and Promoters, the momentum provided by multinationals is even more solid than that of the retirees. The retirees only bought residences, whereas the transnationals also need commercial and office buildings.

He’s conservative in his projections for this year. He expects the sector to grow 7%, a growth rate similar to that of the GDP. However, he thinks that beginning in 2012 there will be a new construction boom ahead of the completion of the Canal expansion in 2014. “The inventory we are currently handling will supply the residential and commercial needs for two more years, but once the Canal expansion is finished, maritime trade is going to be completely reconfigured and a Panamanian Hub is going to become more attractive,” he says.

In fact, market experts are already starting to see something happening. Panama City is bristling with buildings with 70 or more floors. Construction is everywhere and the billboards advertising the projects bear the names of investors from Spain, the US, South America, France and Belgium, providing clear evidence of international capitalists’ interest in this city of 1.2 million inhabitants.

**SURPRISING COUNTRY**

But it’s not all about logistics, banking and construction. Panama’s mines are surprisingly rich, and opportunities abound in the agricultural sector as well. “Panama lies on a bed of copper and gold,” says Panamanian Minister of Trade and Industry Roberto Henríquez. “The Petaquilla gold mine’s export sales already exceed those of bananas, Panama’s star export a few years ago. But there is also another project on the way which, if begun, would require an initial investment of nearly US$5 billion and would be operated by a subsidiary of the Canadian Inmet Corporation”, says Trade and Industry Vice Minister, Ricardo Quitjano.

It could produce 255,000 tons per year, making it one of the largest deposits in the world. The largest underground mine in the world, “El Teniente,” located in Chile, produces 400,000 tons per year.

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Hewlett-Packard chose Panama as a strategic location for its investments, due to the tremendous advantages the country offers. Located in the heart of the Americas, it is the ideal hub for doing business in the region, because it has direct flights to many key destinations and access to a robust and reliable infrastructure that lets us always stay in touch,” said Greg Betz, CEO of Hewlett-Packard Panama. “There is a great sense of business opportunity in the country, with the Panamanian government constantly working with companies to facilitate our success. We are very proud of our history in Panama,” he adds.

Greg Betz  
CEO of Hewlett Packard Panama
The agricultural sector also offers interesting opportunities. Panama has 1.7 million head of cattle and produces 170 million liters of milk in over 40,000 farms, says Garardino Batista, president of the National Livestock Association (ANAGAN). Around 85% of such farms are small, with fewer than 100 head. The potential to consolidate this business is clear. A plan has just recently begun to improve pastureland and livestock genetics, for which purpose preferential loans are made available to cattle farmers for herd and cattle farm improvements.

The efforts to develop the rural sector make enormous strategic sense. Although agricultural activity represents only 5% of the GDP, that is not much less than the Latin American average of 5.2%. Moreover, the agricultural sector employs 14% of the Panamanian workforce.

In 2009 the government also implemented a tax incentive program known as the Certificates of Promotion of Agricultural Exports (CEFA), in full compliance with WTO standards, explains International Trade Negotiations Vice Minister, Francisco Alvarez De Soto, which are usually issued for 10% of the sale value of non-traditional export products. It also has special incentives for high-margin products such as melon, watermelon, pineapple and specialty coffees, the market for which is increasing abroad.

Panama is an interesting country in which to invest. In addition to a good market, it boasts legal, political and currency stability. The proof is that data shows that investments grew approximately 33% in 2010, the highest rate of increase in the Americas and even exceeding that of Asian economies.

Panama City has the typical problems of a developing city. There are problems with waste management, and traffic flow organization problems which generate monumental traffic jams. There are even customs that make life difficult for foreigners, such as the impossibility of locating places by their address. No one can get anywhere in Panama without directions, not even professional taxi drivers.

But many of these things, including the customs, may evolve, as has happened in other capitals around the world. Such a process will take place over time and has already begun.

Panama is even taking steps to eradicate such widespread “tropical diseases” as corruption, with the Transparency Act and corporate social responsibility and corporate ethics mechanisms.

The road seems well-paved. A good macroeconomy, the golden opportunity offered by its location at one of the best maritime crossroads in the world, a well-conceived and well-financed strategic plan, and the firm determination to become a developed country in a little under a generation. With all of this, it is no accident that in the worldwide economic firmament, Panama is destined to be the star of the Americas.
How are the tourism projects on the Panamanian coasts coming along?
Late last year the National Land Authority (ANATI) was established, in part to promote the titling of coastal land hotel projects included thereby encouraging investment in these areas. We are also pushing the new tourism act which, among other things, seeks to continue to encourage investment in tourism all over the country.

What kind of progress is being made in convention and conference tourism?
We have succeeded in positioning ourselves as one of the most important destinations in the region in the meeting, conference and convention segment. For 2011, the Tourism Authority and the private sector have attracted over 40 new conferences and conventions, and 2012 is shaping up to be even better.

What advantages are there for tourism investors? What about for visitors?
The country offers various tax advantages and incentives for investors. As of January this year, 30-day tourist insurance against accidents and illness is now offered to travelers arriving at the Tocumen International Airport. Panama is one of the few countries in the world that offer these advantages to visitors.

What strategy will the country use to take advantage of its biodiversity?
Over 40% of our territory is protected as national park land. Panama is aware of this national asset and has been backing a series of laws and regulations to preserve our flora and fauna, encouraging the creation of low-impact tourism products in these areas, to promote more sustainable tourism.

Come to Panama
What’s new in the Panamanian tourism industry? The General Administrator of the Panamanian Tourism Authority, Salomón Shamah, answers this question.
Something remarkable is happening in Latin America. In the five years to 2008 the region’s economies grew at an annual average rate of 5.5%, while inflation was in single digits. The financial crisis briefly interrupted this growth, but it was the first in living memory in which Latin America was an innocent bystander, not a protagonist. This year the region’s economy will again expand by more than 5%.

The Economist, September 2010