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By Tim Rogers

## Panamá Sets Sights on Reaching 'First World' Status

First in a three-part series on Panamá's first-world aspirations



PANAMA CITY, Panamá – Apparently someone forgot to tell Panamá about the world economic crisis.

While other governments in the region are cutting costs and curbing development as their economies contract, Panamá continues to spend, grow and build faster than a Lego town.

Panamá's economy managed to grow around 3 percent last year while other Central American countries dipped into the red. And this curiously shaped country with a canal is already forecasting 5 percent growth this year, representing the brightest economic outlook in Latin America.

Last November, while the rest of Central America was struggling to make ends meet, the new Panamanian government of Ricardo Martinelli announced a \$12 billion investment plan to improve Panamá's key industries, while creating 500,000 new jobs and doubling the Gross Domestic Product (GDP) within 10 years. (Panamá's GDP per capital is currently around \$7,000, or roughly seven times that of Nicaragua, Central America's poorest nation).

The Panamanian government is already creating thousands of new jobs this year, thanks to a \$5.2 billion canal-expansion project that recently broke ground, and a \$1 billion metro project that is scheduled to begin in July 2010.

Panama's banking sector has also received a significant boost after surviving last year's financial crisis unscathed. And politically, the country has continued to benefit from the worsening governability crises in neighboring countries such as Venezuela, whose increased capital flight has found a welcoming and safe harbor in Panamá.

Now, as Panamá gets closer to ratification of a free-trade agreement with the United States and teeters on the brink of becoming the first Central American country to achieve an investment-grade credit rating, the country is feeling more confident than ever about its prospects of attaining the elusive status of "first-world" country.

Francisco Alvarez De Soto, Panama's vice-minister of commerce and head trade negotiator, says the goal of President Martinelli is to "move Panamá up the ladder and get closer to the first-world" by the end of his five-year term in 2014.

"Panamá wants to wear long pants," De Soto told The Nica Times in a recent interview.

But, in order to look comfortable in pants, Panamá first needs to shed its image as a tropical money-laundering hub – an image that was popularly branded by John Le Carre's description of the "cocaine towers" in his 1997 novel, "The Tailor of Panamá."

"You may be rolling in money, but if you have a lousy reputation you are never going to get people to take you seriously," said David Hunt, executive director of the Panamanian-U.S. Chamber of Commerce (AMCHAM Panamá). "Panamá is moving in the right direction, and a free-trade agreement with the United States may be something that pushes it over the top."

## **Free-Trade Legitimacy**

When U.S. President Barack Obama told U.S. lawmakers during last month's State of the Union address that he wants to forge closer trade ties with South Korea, Colombia and Panamá, countries he referred to as "key partners," Panamanian business leaders, financiers and politicians traded high-fives.

"The entire government received (the news) with great optimism," Vice Minister De Soto said. "The mention of Panamá as a strategic partner in such an important address is a very good sign."

Panamá represents the smallest economy of the three listed on Obama's free-trade wish list and is considered the most likely to be ratified first by the U.S. Congress.

"Panama's economy is small, but not insignificant," the deputy trade minister said. Still, he admitted, Panamá is unlikely to steal any jobs from the United States, or threaten U.S. markets with its cheap exports. "Panamá is a threat to no one," De Soto stressed.

Unlike other Central American economies, Panama's is built on a service industry rather than a traditional export platform. In fact, the service industry represents 75 percent of Panama's economy and continues to grow, while agricultural and fishery exports have dipped.

Panama's trade balance with the U.S. already leans heavily in Uncle Sam's favor, and a free-trade agreement would most likely widen that gap. According to AMCHAM, Panamá exports around \$450 million to the United States each year, and imports close to \$2.6 billion in goods.

“The commercial deficit is large. We are not export-oriented,” AMCHAM’s Hunt told The Nica Times during an interview in his 17<sup>th</sup> floor office, overlooking the shimmering buildings of Panamá City’s financial district.

But for Panamá, free-trade agreements are not only about finding new markets for its melons and bananas, but rather getting international stamps of approval to attract foreign investment.

“This is key for Panamá – free-trade agreements stabilize the perception of rule of law and a level playing field,” Hunt said. “It provides foreign investors with a sense that they are going to be treated fairly here.”

Perhaps the clearest example of Panamá using free-trade agreements as an instrument to attract foreign investment is the Free-Trade Agreement signed by Panamá and Singapore in 2006.

De Soto Admits that Panama’s exports to Singapore under the agreement are “very poor,” and that the “balance of trade is definitely in their favor.” Yet he insists the trade accord has been very beneficial to Panama’s economy.

“Since we started the trade agreement, we have received very significant investment from Singapore,” he said. “We are benefiting by getting investment from trade partners who feel more confident and more secure because they have this extra judicial and legal protection for business transactions.”

De Soto says Panama’s promotion of free-trade agreements with partners such as Singapore and the United States is a means of “looking at a broader way to trade in the world.”

And he insists, it’s working.

“If you look at the numbers, we have continued growing even in the most difficult time over the past two years. And that is where free-trade agreements have come into effect,” he said.

Plus, he said, finalizing a free-trade agreement with the U.S. would show the world that Panamá is a big-league player that’s “capable of engaging with the first power of the world.”

## **Central America-EU Integration**

Panamá also hopes to use trade as a tool for integration with Central America and the European Union as part of the ongoing Central American-EU Association Agreement Talks.

Though Panamá has not shown much interest in Central American political integration (President Martinelli has already moved to withdraw Panamá from the Central American Parliament), De Soto insists that the Martinelli government is very serious about achieving economic integration with the rest of the region.

“Very soon we will be proposing a several stage approach to create an economic integration agenda that we can advance for the first time,” the trade negotiator said. “We want to move forward on this, and make sure it’s not like an Easter Week procession, where people take two steps forward and one step back.”

A key part of Panama's economic-integration strategy is to join the Central American-EU Association Agreement Talks, which are scheduled to conclude with the signing of the accord next May in Madrid, Spain.

So far, Panamá has participated in the talks only as an observer. But when Martinelli became president last July, the country started making moves to join the process as an equal partner.

De Soto said the idea is not to try to renegotiate any of the terms that have already been agreed on in the first two years of talks, but rather join the process where it stands as a sweetener to the deal.

Panamá calls their proposal "SIECA plus one" for the five members of the Central American Secretariat of Economic Integration (SIECA), plus Panamá.

"To be clear, we don't pretend to be an additional party to the negotiations; Panamá just wants to add itself to the Central American proposal," De Soto said.

He added, "We are just basically improving Central America's offer of goods and services. If you look at the Central American market through the eyes of the EU, having Panamá in the pie makes it definitely more attractive."

De Soto said his country's participation in the Central American-EU Association Agreement will "take Panamá closer to economic integration process" in practical terms, without preconditioning the process on a number of political considerations that the country might not be ready for.

The vice minister of commerce said the EU commission is in the process of "amending its mandate" to include Panamá in the Central American Association Agreement.

He expects the other Central American countries to formally accept Panamá's request to join during an upcoming meeting of ministers in Guatemala.

"We are very confident the signals are there," De Soto said. "Everybody wants Panamá on board."

