

Americas regional report

Panama: staying ahead

Author: | Published: 24 Apr 2015

Panama has been a shining star in Central America. As the country gets set to complete the expansion of the canal, hopes are high for increased trade and development



Panama has experienced considerable growth over the last several decades, despite not being the favourite of Chinese investors. Growth has centred on infrastructure and benefited from the country's geographical position in Latin America and the Caribbean.

The expansion of the Panama Canal, which has garnered attention from across the world, will include two new locks on the Atlantic and Pacific ends with three chambers. The locks will double the canal's capacity and create a new lane of traffic.

The project is expected to cost well over the budgeted \$5.2 billion and will be completed in 2016. The expanded canal promises to be more efficient for the transshipment of goods. However, as Ricardo Arango, a partner at Arias Fabrega & Fabrega explains, Panama still has some hurdles to overcome.

What is the biggest impact of the expansion to the Panama Canal?

I think the biggest impact will be made by the development of Panama's logistics centre. Panama is an incredible hub for air connectivity. You can fly non-stop from Panama to 75 cities in Latin and North America. The expansion of the Panama Canal will have a similar impact on the development of the transshipment of goods and will increase the capacity for handling the movement of cargo. It will

also increase the number of containers. Because of the expansion, all the ports will increase their capacity and a new port is expected to be built. Ports in Colombia and the US, for example, are expanding ahead of the opening of the canal.

I'm sure you're aware of your neighbours in Nicaragua and their aspirations to develop the Nicaraguan Canal. What are your thoughts on that?

There seems to be some doubt about the economic feasibility of that project because of its huge cost. Whether they can make it commercially feasible and a competitive operation, I don't know. I don't know enough and not much information is public about it, but the Chinese government and Chinese companies have the money to build it if it's something that is strategic to them. There's a big question mark out there about it.

You mentioned Chinese investors. These investors have a strong interest in the region, in Panama particularly. What kind of interest have you seen from Chinese businessmen?

I think the Chinese investors have a lot of interest in commodities and that's why they are investing so heavily in Latin America, primarily in natural resources. The Chinese's interest in Panama is related to ports. The direction in investments other than ports in Panama is relatively small because Panama is not a commodity export country. Our economy is based on trade, banking, and international services. Except, perhaps for copper, we do not have natural gas or petroleum or other minerals and natural resources that the Chinese are interested in.

Describe Panama's M&A market.

The M&A market is very active. There has been a lot of consolidation in Latin America and the phenomenon of the multi-Latinas, which are the multinational companies with Latin American origin. Those companies have now reached a size that allows them to venture outside of their own countries and truly become regional companies. We have seen this trend over the last five years, and Panama has been used as a base for that M&A activity. For example, two Colombian banks have expanded dramatically in Central America in recent years and all that M&A activity has been carried out through Panama. They have used Panama as their base to develop their headquarters. Something very similar is also happening with Chilean, Brazilian, Peruvian and even some Mexican companies. They are all following this trend and seem to be using Panama as a centre of operations for the centralisation of their expansion.

"What makes Panama very attractive is the country's positioning in the region"

It is believed that Panama is a very attractive place for investors. Do you agree? Why?

We have experienced incredible growth in the economy. This growth has been consistent over the last seven years, with very good fundamentals. Panama has become a centre of business and trade for Latin America. Several components have contributed to a large increase in the GDP: the expansion of the canal and the new ports; the consolidation of the Panamanian banking sector, which has become a solid regional centre; the use of Panama by international and regional companies as a place to establish their headquarters; and, the development and growth of our tourism. The growth has come from different sectors and industries and it has been sustained over the years. Of course, the government has played an important role in developing our infrastructure by improving and expanding roads, airports, hospitals, and schools, and building the first subway system in Panama. What also makes Panama very attractive is the country's positioning in the region. We are very

central and it's very easy to get to the rest of the region from Panama. Our telecommunications capacity and bandwidth capability is superior to that of the other countries in the region. Our economy is very open to the world and there are no foreign exchange controls here. Our society in general is very open to foreigners.

What are some of the challenges investors face when they come to do business in Panama?

Panama is a very competitive market in all sectors and industries. However, I think we are facing two issues – one long-term and the other short-term. The short-term issue relates to our growth. We have had incredible growth in recent years with Panamanian companies growing and regional and multinational companies taking advantage of our special laws to establish Latin American headquarters here. Because of this, it has become increasingly difficult to get the human resources that businesses need to operate efficiently. After all, Panama is a country of only 3.5 million people. Panama has low unemployment, and it is a challenge to find high quality personnel. Panama's laws are very flexible and allow multinationals to bring their staff, but there is a limit on the number of people that can be brought in. We are addressing this challenge as a country through training and making the laws more flexible to allow the multinationals to bring workers to Panama. The long-term challenge is ensuring that we put more emphasis on education, as the economy expands and Panama grows. We need to continue to develop the education of the workforce so that we are able to maintain quality and keep in step with that expansion.

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Ricardo M. Arango joined Arias Fabrega & Fabrega in 1987 and became a partner in 1995. He is head of the firm's capital markets and banking practice group, and the M&A practice group. In the area of capital markets and banking, Ricardo regularly advises clients in connection with EMTN (Euro Medium Term Note) programmes, commercial paper programmes, syndicated term and revolving loan agreements, 144-A Reg-S notes, securitisations and initial public offerings. He has been instrumental in the creation of many financial structures that are commonplace in Panama today and has acted as lead counsel in connection with the largest M&A transactions in the country. He has a Master of Laws from Yale Law School, a Master of Laws from Harvard Law School and a Bachelor of Laws from the University of Panama.