Full of Central American promise

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Dino Sani and Margaret Guevara reflect on Panama's flourishing economy, the expansion of the Panama Canal, and how banks can support corporates with leveraging its significant trading opportunities

With strong levels of investment, an ambitious canal upgrade and efforts to further encourage trade diversification, Panama is a country full of possibilities.

Panama's economy continues to flourish and is once again tipped for strong growth in 2015. While growth rates have slowed somewhat since the double digit figures of 10.9% and 10.8% witnessed in 2011 and 2012 respectively, Panama's growth in 2014 reached a very respectable 6.5%, with growth in 2015 predicted to be 6.1%. Such levels mean that Panama is outshining the rest of the entire Latin America and the Caribbean (LAC) region; its nearest contender, the Dominican Republic is expected to hit a growth rate of 4.9% this year. Furthermore, the country is leading the pack in terms of growth rates in the whole of the western hemisphere. In short, Panama's economy is booming, and can claim to be among the fastest growing economies in the world.

One of the key drivers helping to fuel this growth surge, is of course, the ambitious US$5.25bn expansion of the Panama Canal. Due for completion in 2016, the undertaking will both widen and deepen the canal, doubling its current capacity and facilitating the passage of many of today's larger, wider vessels that are currently unable to navigate this key global trade portal and must find alternative, longer routes.[1]

This improvement will be significant. For example, with many post-Panamax ships - such as liquid natural gas (LNG) carriers, bulk ore vessels and supersize liquid petroleum and bulk chemical tankers - soon able to traverse the waters of the Panama Canal, it is likely that natural gas, propane and petroleum liquid shipments from the US to Asia will increase considerably.

The huge investment should help to secure Panama's sustainability on the world's global trading stage, with estimations that the country will continue to see growth rates of 6%-7% for at least the next five years as a result of the upgrade increasing trade traffic along the route. The canal is one of the most important trade assets in the world, and such development will continue to provide a source of great prosperity for Panama, despite its competition.

Driving diversification

While Panama owes a huge amount of its success to the canal, and has leveraged its auspicious geographical position as a trade gateway, it has been careful to avoid total reliance directly on the waterway. Instead, the country has sought opportunities elsewhere to buoy its strength, adopting an economic strategy aimed at diversifying its sources of revenue.

Indeed, with nearly 100 local and global banks currently registered in the country, Panama can be regarded as a regional financial hub. Attracted by the country's dollar-friendly economy, adherence to international regulatory standards and the recently announced partnership with Euroclear (a Belgium-based financial services company, which will help to facilitate access to Panama's capital markets by global investors), an influx of international businesses is resulting in asset growth of approximately 10% per annum in Panama's finance sector. Such international interest in establishing a presence in the country is being fuelled further by Panama's tax incentives, offered to companies setting up premises within its borders.

Panama's export and re-export sectors are also thriving. In 2013, Panama exported US$17.5bn worth of goods and US$9.8bn in services - the US$27.3bn total equating to nearly 65% of Panama's GDP. Furthermore, it is predicted that goods exports for 2014 and 2015 will grow to US$19.4bn (growth of 10.6%) and US$19.9bn respectively. Key exports include refined petroleum, passenger and cargo ships and medicines. The country is also renowned for its banana, coffee and sugar exports. Unlike much of Latin American and Caribbean countries, Panama doesn't have a particular reliance on commodities, meaning it is far less vulnerable to the falling commodity prices currently impacting a significant portion of the region.

Panama's Colón Free Zone is the world's second-largest re-export centre after Hong Kong, with a vast array of goods (such as luxury items and electronic products) arriving from across the globe before being repackaged and redistributed.[2] Approval of the establishment of a second free trade zone was also granted by Panama's government earlier this year, a project aimed at attracting and growing Panama's agribusiness industry.

Significant levels of trade are conducted with Ecuador, Venezuela, Guatemala and Costa Rica, while the US, unsurprisingly, is Panama's main inter-regional export destination. The continued recovery of the US from the financial crisis - in addition to the US-Panama Trade Promotion Agreement (TPA), which came into force in 2012 - will help to bolster trade between the countries and serve to boost Panama's already robust economy.

The TPA with the US is just one of many free trade agreements that Panama has signed, or is in the process of negotiating, to help promote trade and seek further economic integration with countries across the globe (including Taiwan, Singapore, Canada, Mexico and the EU). It has also expressed interest in becoming a member of the Pacific Alliance (alongside Chile, Colombia, Mexico and Peru), a trading bloc that aims to drive stronger economies ties with the Asia-Pacific region, the fastest growing region in the world and therefore a huge trade market.

As well as seeking diversity in terms of trading corridors, Panama has also encouraged a number of significant new greenfield mining developments which will help to diversify (and increase) its exports. It has been estimated that Panamanian subsoil could contain US$200bn worth of metal - primarily copper, but also considerable gold reserves. To capitalise on this, investment into Panama's mining sector between 2009 and 2018 is expected to hit US$10bn, with the value of Panama's export metals predicted to reach US$2.5bn per annum by 2019 - equating to 10% of Panama's GDP (the current figure is 2.5%). The Cobre Panama copper mine project, for example (which is owned by Canadian company First Quantum Minerals Ltd), is expected to cost US$6.4bn and is set to position Panama as one of the leading copper producers in the world, yielding 320,000 tonnes per annum.[3] Due to begin production in 2017, the mine is predicted to generate up to US$100m annually in royalties, with annual exports in excess of US$2bn.

Panama's ambitious development projects do not stop there. Indeed, its unprecedented growth (which saw its economy double in size between 2007 and 2013), combined with strong levels of foreign direct investment (FDI), have enabled a number of sizeable infrastructure projects to come to fruition. These include the construction of the first ever metro rail system in Central America - the first line of which became operational in 2014 - and upgrades to Tocumen International Airport and the Port of Colón. Indeed, Panama is the leading recipient of FDI in Central America, receiving US$17bn since 2010. And investment interest shows no sign of abating, with inflows in 2013 reaching US$4bn - the highest in Panama's history - and recent figures revealing that Panama was the recipient of more than US$2.5bn in the first half of 2014 alone.

Cobre Panama copper mine project

Tools of the trade

All in all, Panama is a hive of economic activity and very much a country being transformed. With efforts to further diversify its exports and trading partners, an abundance of infrastructure improvements underway, and the reinvigoration of the country's primary asset (the canal), Panama's position as a global trade facilitator looks very solid.

For corporates, this creates a growing number of both intra- and inter-regional trade opportunities across the country. This in turn means that now - more than ever - they are seeking effective trade processing solutions that offer all the elements needed to grasp the opportunities presented in today's increasingly global, high-volume trading landscape. Indeed, modern technology and heightened expectations around speed and convenience are driving a growing preference - on a global scale - for sophisticated solutions that offer efficiency, transparency and ease.

Panama is no exception. Indeed, there has been a significant rise in the amount of trade being conducted on open account - a trend further encouraged by the re-emerging confidence in the global economy in the wake of the financial crisis. Certainly, a growing number of Panama-US trade flows have evolved from using letters of credit (LCs) to being conducted on open account. In fact, use of letters of credit in Panama fell by 12% in 2014.

That said, the LC remains a key (albeit no longer growing) trade processing method in Panama. This is due to its strong risk mitigation properties as compared to trade conducted via open account. While exporters may be prepared to use open account with counterparties with whom they have established a relationship of trust, new trading partnerships with unfamiliar counterparties in far-off locations are understandably approached with caution due to the increased element of uncertainty and risk they can present. And as the emerging markets become ever-more prominent on the global trading stage, this is an increasingly frequent occurrence. Indeed, while the effects of the economic crisis are beginning to wane, its lasting legacy will be the importance of security.

While LCs have long been appreciated for the level of risk mitigation they provide, however, it is beginning to be accepted that, as a form of processing in the modern world, paper-based LCs may not always be the optimal solution. Indeed, technology is exposing paper-based trade as somewhat cumbersome and inefficient - particularly if documents need to be re-submitted in the event of any changes, which can result in costly delays. For example, the late arrival of a bill of lading can potentially impact both the delivery of the goods as well as the overall costs of transit. The manual processing element - which involves multiple parties - also makes these paper-based instruments particularly susceptible to keying errors. Furthermore, storing the reams of documentation that result from each manual trade transaction is a challenge
in itself.

This sets banks with the task of providing corporates with effective trade processing methods that satisfy the range of demands of today: multifaceted solutions that not only address modern requirements for efficiency and ease, but also offer all-important security in this evolving trading landscape. And given the flourishing and fast-changing economy of Panama, it could be expected that the need for such an "efficiency versus security" balance in trade processing will persist.

Addressing evolving needs

As local banks look to support the developing demands of their clients, providing such capabilities - which can often demand significant product investment - can prove a challenge, particularly while also having to navigate today's regulatory compliance requirements and associated
cost pressures.

Collaboration between local banks and specialist global trade services providers is usually an effective solution. Certainly, non-compete partnerships can combine the best of both worlds - sophisticated technological capabilities able

to cater to changing processing needs, with the invaluable specialist expertise of local banks. Adopting such an approach does give corporate
more choices.

The benefits of collaboration can also include the outsourcing of processing functions to specialist partners. LC documentation examination, for instance, is a demanding task - requiring a considerable amount of resources in order to undertake extensive, detailed checks and reliable, efficient uploading of data. Outsourcing this function to an experienced, adept global provider can allow Panama's local banks to dedicate even greater focus to client relationship building and adding real value to their client service without losing their ability to provide essential processing support.

It is through this amalgamation of knowledge and guidance, provided by local-global partnerships that businesses can feel confident they are strongly positioned with the efficient and reliable tools they need to capture the array of opportunities that Panama's thriving economy has to offer.

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