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Leader of the Year: Martin Torrijos

As a result of strong economic growth and pro-business policies, President Martin Torrijos has been selected by Latin Business Chronicle as Leader of the Year.

BY JOACHIM BAMRUD

He has been in power for a little over two years, but his track record is impressive. Panamanian president Martin Torrijos has passed key fiscal reform, reached free trade agreements with the United States and Chile and started negotiations for an FTA with the European Union and — last, but not least — held a successful referendum over a \$5.2 billion expansion of the Panama Canal.

All this has attracted the interest of foreign investors, which have pumped billions of dollars into everything from real estate to finance. Total foreign direct investment (FDI) in Panama is expected to reach around \$3 billion this year — a new record, according to the Panamanian Economy Ministry.

Last year, FDI reached \$1 billion. As a result of a both high FDI and trade levels as a percent of GDP, Panama this year became the most globalized economy in Latin America for the second year in a row, according to the [Latin American Globalization Index](#) published by *Latin Business Chronicle*.

A clear majority of Panamanians — 61 percent — rate Torrijos' performance of their president as excellent or good, according to a recent poll by Dichter & Neira published in the daily newspaper *La Prensa*. While down somewhat compared to a September poll, it is still considerably higher than the 47.4 percent he got at the May 2004 elections as the presidential candidate of the centrist Revolutionary Democratic Party (PRD).

Torrijos, 43, studied political science and economics at the Texas A&M University. His career includes five years as deputy justice minister and as a consultant for international firms on everything from communications to the maritime industry. At one point, he even worked as a manager for a McDonald's in Chicago. Although he is the son of Omar Torrijos, the strongman who ruled Panama between 1968 and 1981, he has won respect for setting out his own political course.

In addition to all his economic achievements in 2006, Torrijos can also boast of getting the Latin American seat at the UN Security Council next year after a controversial election this year between Venezuela and Guatemala resulted in Panama as the compromise candidate. The seat will likely boost Panama's international image further.

ECONOMIC GROWTH

The Panamanian economy, the 7th-largest per capita in Latin America, is expected to grow by 7.2 percent this year, according to the latest estimate from the International Monetary Fund (IMF). The growth this year follows 2005 GDP growth of 6.4 percent. Much of the growth has been spurred by increased activity in trade, tourism, construction, banking, and agriculture.

Toll revenues from the Panama Canal were expected to reach \$1.1 billion, a 20.2 percent increase from 2005 despite modest growth in traffic, according to the Economy Ministry. Exports from the Colon Free Trade Zone, the second-largest in the world after Hong Kong, is expected to grow by 19 percent to \$8.2 billion this year, according to a government forecast.

Growing tourism has also helped. This year, Panama is set to see \$916.4 million in tourism expenditures, an increase of 17.5 percent from last year, according to government forecasts. Tourism Minister Ruben Blades, the famous salsa star and Hollywood actor, has been actively promoting Panama as a leisure destination, as has the successful local airline Copa (which boosted its Panama-related traffic by 29.5 percent from November 2005 to November this year).

Panama has also become one of the three real estate growth markets in Latin America, according to experts. (The other two are Mexico and Costa Rica). In addition to skyscrapers rising in Panama City, including a hotel and apartment project linked to Donald Trump and two of the largest buildings in Latin America (Ice Tower and Palacio de la Bahia), Panama is seeing major real estate projects in other parts of the country as well. (See [Latin Real Estate Boom](#)). As a result, construction increased by 22.7 percent in the first half of the year, according to the Economy Ministry, which estimates the total value of planned real estate investments at above \$3.2 billion for the period 2007-09.

Panama's international banking center, the largest in Latin America, is expected to end the year with an increase in its total assets. As of June, they stood \$34.6 billion assets, an increase of 15.3 percent from June last year, government data shows. The center will become even more important thanks to the \$1.8 billion acquisition of Banistmo by UK-based HSBC. Banistmo is Panama's largest bank and also has holdings in Central America and Colombia. The acquisition is the largest of its kind in Latin America for HSBC.

Agricultural revenue grew thanks to a 17.1 percent boost in exports of bananas (the top agricultural export) during the first half, while other items saw even greater increases: Pineapple exports increased by a whopping 82.9 percent.

The telecommunications sector is also growing, seeing 15.8 percent increase in the first half, mostly thanks to wireless phone sales. The sector is expected to grow even stronger after 2008 when the government will grant licenses to new wireless entrants.

Torrijos has been presiding over an economy that has grown considerably higher than under his predecessor, Mireya Moscoso (1999-04). The average GDP growth for the five-year period 2000-04 was only 3.5 percent, according to a *Latin Business Chronicle* analysis of IMF data. In fact, Torrijos inherited a mess from Moscoso, who left power amidst widespread corruption allegations and was widely criticized for mismanaging the economy.

Next year, the IMF forecasts growth of 6.7 percent, which will be the highest in Latin America. Local and foreign investors are expecting a massive wave of investments as a result of the canal expansion, a real estate boom, a planned refinery by U.S. oil giant Oxy and a new mega port near the Pacific entrance of the canal. Combined these will inject \$11.8 billion into the Panamanian economy over the next 5 to 10 years, predicts Robert Baker, the president of the American Chamber of Commerce in Panama.

"We believe that Panama is in the initial stages of a multi-year investment boom that should be positive for asset prices," U.S.-based consultancy Global Insight says in a report on Panama.

PANAMA CANAL EXPANSION

Torrijos used considerable energy and his credibility on getting the Panama Canal expansion plan approved in a October 22 referendum. In the end, 78 percent of voters said Yes to the ambitious, \$5.2 billion, seven-year plan to widen the waterway.

The expansion will enable ships that currently are too large to pass, so called post-Panamax ships, and help alliviate the growing delays as a result of the booming U.S.-China trade. (See [Panama Canal Expansion Overdue](#)). While the 50-mile canal linking the Atlantic and Pacific Oceans is key to global commerce in general, its main users are the United States and China.

The expansion, which has been widely supported among shipping lines and local business groups, is expected to generate as many as 40,000 jobs, five times more than the canal currently employs. It is also expected to indirectly boost the economy, especially the real estate sector.

FISCAL REFORM

Unlike Moscoso, Torrijos has made fiscal responsibility a key cornerstone of his administration. The government has reduced the fiscal and current account deficits by reducing costs (and gaining from growing revenues). The number of state employees has fallen from 160,537 in 2004 to 150,042 this year, while debt as a percent of GDP has declined from 70 percent in 2004 to 63 percent this year, according to government figures.

"The fact that tax revenues (thanks to the 2005 tax reform) have been growing at around 20 percent helps to alleviate this heavy burden and allows the government to project a fiscal balance of below 2 percent of GDP for 2007," Bear Stearns said on Friday. "Another plus has been a healthy growth of exports (double digits for the first half of 2006) and a constraint on expenditures."

Key to getting state costs under control has been reforming the social security system (CSS). The Panamanian congress approved a new law in December 2005 that will gradually increase the amount Panamanians have to pay each month from \$180 to \$240 by 2015. Torrijos had originally wanted to raise the age of retirement and raise monthly payments to \$300, but after violent protests he submitted the new reform.

The CSS has been weakened following a major tragedy this year. 48 Panamanians have died after consuming a CSS-produced medicine given to hypertension and diabetes patients. The government says it was sold a defective ingredient from a private supplier, Medicom. But the tragedy has only highlighted general weaknesses at CSS, experts say. "According to a number of observers, greater involvement by respected private firms would support plans to reform Panama's socialised healthcare system," Global Insight said in a commentary Friday. "The quality of medicines supplied under the system has long been questioned."

Torrijos has also worked to reduce corruption. A new public contract law, approved by Panamanian lawmakers in June, will make all information on public bids available online in an effort to boost transparency.

FREE TRADE AGREEMENTS

Torrijos has also been able to finalize negotiations with the United States for a free trade agreement. The new agreement, announced today, should help boost trade between the two nations, especially Panamanian exports which have been relatively low. Last year Panama exported goods and services for only \$327.0 million to the United States, a 3.5 percent increase from 2004, according to the US Census Bureau. By comparison, it imported goods and services from the United States valued at \$2.2 billion.

"This historic agreement between two good friends and close partners will promote economic growth and development in both of our countries," U.S. Trade Representative Susan C. Schwab said in a statement. "This comprehensive agreement significantly cuts trade barriers and expands opportunities for American workers, consumers, farmers and ranchers, manufacturers, and service providers."

She added that the agreement is subject to additional discussions on labor and the Bush Administration will try to get support from Democrats before submitting it to Congress.

Panama will also start negotiations with the European Union early next year along

with Central America. (See [CAFTA 2007: Good Outlook](#)). Meanwhile, the national assembly just ratified a FTA with Chile, which was reached in June after 10 years of negotiations. And in April, Panama reached an FTA with Singapore. Panama is also negotiating FTAs with Guatemala, Costa Rica and Honduras and already has an FTA with Taiwan.

BENEFITS

To be sure, Torrijos did inherit a few good things from past presidents (if not Moscoso). One of the most important is the dollarized economy. Since Panama's independence from Colombia in 1903, it has only used the U.S. dollar as its currency.

"Panama remains attractive to investors because of its generally stable political environment and dollarized economy, which effectively removes exchange-rate risk and also provides for a traditionally low-inflation environment," Global Insight says.

Panama's inflation is expected to reach 2.6 percent in 2006, slightly less than the 2.9 percent registered in 2005. In 2007, inflation will likely end at 1.9 percent, according to IMF forecasts. That will be the lowest in Latin America (along with Peru).

Torrijos also benefited from massive private investments that took place under his former boss, President Ernesto Perez Balladares (1994-99). Perez Balladares, who privatized several key state companies and made the labor regulations more flexible, won widespread praise from local and foreign investors.

CHALLENGES

Torrijos faces several key challenges. Corruption is still widespread despite his efforts to reduce it. Panama received a score of 3.1 points in the 2006 Transparency International global ranking. That was slightly worse than last year. By comparison, Chile (the least corrupt country in Latin America, has a score of 7.3). The survey shows that Panama is more corrupt than its neighbors Costa Rica and Colombia.

Another key challenge is the still-high levels of red tape. It takes 22 procedures to build a warehouse, for example. That compares with a Latin America average of 15.4 procedures, according to the 2006 Doing business report from the World Bank.

"An area of concern is the complex bureaucracy, which is blamed for long delays and increased costs for everything from starting a new business to fixing your roof," Baker, from the American Chamber, wrote in a recent commentary. (See [Panama: The Shining City](#)).

Panama is also heavily dependent on external markets, which means that any slowdown would affect its economy. "Current external markets' conditions call for caution, as risks of a faster-than-expected slowdown in the world economy would

affect the main drivers of Panama's economy, the Panama Canal and the Colon FTZ," Global Insight warns.

Despite these challenges, Panama is on a steady course for solid economic growth. For all his achievements this year, Martin Torrijos has been selected by *Latin Business Chronicle* as Leader of the Year.