

# The promise of Panama

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**T**he United Kingdom's first offshore financial services centre, courtesy of a dependency, set up shop before 1964 but that was the year the UK had its first offshore radio station, Radio Caroline, and which some older readers may well remember. The radio station, which operated from Mi Amigo (My Friend), a boat flying the Panamanian flag and crewed by Dutch sailors, kept itself out of the control of the mainland by some fancy footwork (a skill certainly shared in those days by many offshore financial centres); Radio Caroline made sure that the boat anchored just outside UK territorial waters but, alas, it ran aground in 1980.

Mi Amigo was certainly a friend to Radio Caroline's listeners, just as its country of registration, Panama, has today become to a growing number of countries, companies and individual investors from around the world. This popularity, however, is not the result of cunning; quite the opposite: besides such things as an attractive commercial environment and the application of solid democratic and economic principles, it is the determined march towards greater transparency that is catching the attention of outsiders. To date more than 50 multinational companies have tapped the market and some of the names to be found include Caterpillar, 3M, Dell and Procter and Gamble.

If convenience of location and costs are high-ranking considerations, Panama is also an ideal platform for centralising a variety of financial services, essential to the estate planning of wealthy international individuals. The stability of the country's banking system is in marked contrast to what is found in both the United States of America and Europe. Equally important, since the dictator Manuel Noriega (more to follow) surrendered to a US invasion force in 1989, the country has cemented and strengthened its democratic credentials. Michael Shifter, president of the Washington-based Inter-American Dialogue, has rightly said that Panama's image has changed in a positive way beyond recognition.

The resulting economic benefits from the expansion of the Panama Canal (USD5.25 billion and fully funded) will serve to provide some shelter from this year's predicted hardening of external economic conditions. At the end of last year Frank de Lima, Panama's finance minister, commented that although there was recognition that the world today is interconnected, "We're much more observant about what's going on in Asia than in Europe..." This focus is clear because the Panamanian government has announced its decision to withdraw from a USD300 million funding arrangement with a French bank connected with the metro system being built in Panama's capital, following remarks made by France's minister for the budget and public accounts who branded Panama as a country unco-operative in tax matters, despite the Organisation for Economic Co-operation and Development having already put the country on its tax white list, recognising that it has "substantially implemented the internationally – agreed standard on tax information exchange". The French minister later apologised and at least the pending Double Tax Agreement between France and Panama remains on track (no pun intended).

Meanwhile, the 77-year old ex Panamanian dictator, Manuel Noriega, arrived back in Panama in a wheelchair at the end of last year, having already served time in jails in the US and France. He is expected to serve at least a portion of the three 20-year sentences he received in absentia for murder; and it has become very clear that he is indeed a spent force; many younger Panamanians do not even remember the dictatorship which ended more than 22 years ago and his return has been met with equanimity. The country is too busy turning itself into the region's logistics hub and strengthening its position as a banking centre (the economy is over five times larger than it was in the late 1980s) to concern itself with Manuel Noriega.

Despite the fine performance of its banks, however, Panama, like many offshore financial centres, has a long road ahead before it can be promoted to the first league of international financial centres. The World Economic Forum (WEF) named Hong Kong as the leading financial centre in 2011, ahead of both the US and UK; essential considerations included institutional environment, business environment, financial stability, both banking and non-banking financial services, financial markets and financial access. The criteria applied by the WEF is weighted towards financial systems and capital markets analysis which supports economic growth and although the hurdles are considerable, Panama already has a robust political and economic base which is key for any financial centre, be it onshore or offshore. Recognising this, the WEF has chosen Panama to host the forum's 2014 meeting which will feature Latin America. According to the WEF, Panama has been singled out as one of the region's strongest economies; 2014 could be the ideal year to choose as it is not only when the canal's expansion should be completed, it is also the year that the canal will celebrate its first century.

Both the Inter-American Development Bank and the Economic Commission for Latin America and the Caribbean point to 2011 as having been a good year for the region's economies. The average economic growth rate for Latin America and the Caribbean was 4.3% with capital inflows to the region's largest countries reaching a record USD354 billion. ECLAC, despite recognising the storms ahead because of the European debt crisis, the US fiscal deficit and a (possibly) continuing deceleration of the Chinese economy, still sees significant growth prospects in 2012 for Chile (6.3%), Peru (7%), Argentina (9%) and, top of the class, Panama (10.5%).

Brazil may only achieve growth of around 3% in 2012, according to ECLAC, and some of the issues affecting its economy were touched upon in the last Latin Letter (Into the Unknown - Issue 222). Faith, however, remains strong in Brazil's future as illustrated by its government recently raising USD825 million in the global debt markets with the yield offered being the lowest in the country's history. It sold USD750 million of its 2021 dollar-denominated bonds to European and US investors at a yield of 3.449% and the

remaining USD75 million in Asia. At the time of writing, government bonds of a similar maturity are yielding about 6.9% in Italy and 5.2% in Spain.

In the last column I also mentioned that China, the Kingdom of the Dragon, had employed soft power to spread its influence and this year is, in fact, the year of the Dragon, according to the Chinese calendar. Next year will be the year of the Snake, but I suspect strongly that the Dragon's shadow will be cast across the calendars of most countries for years to come, especially those in South America.

In next month's Comment I will be mentioning The Offshore Investment Conference in March, to be held for the first time in Panama and which bears witness to the wave of optimism that has swept across the region, with many economists and commentators seeing this as Latin America's decade. Deng Xiaoping, architect of the soft power doctrine and China's paramount leader from 1978 to 1992, once asserted that whilst he truly felt that the 21st century would belong to the East, he also said that it could be Latin America's century – let alone its decade.

The signs are encouraging: poverty is down from an estimated 50% of the region's population in 1990 to 30% today. The traditional left in politics is becoming marginalised as idealism comes face-to-face with realism. Even Cuba, without much advertisement, is approaching the World Bank and the International Monetary Fund for advice on an informal basis. As politics move into the centre and away from the extremes, the domestic markets of the large countries continue to grow, lessening the dependency on foreign trade; China's domestic market is not the only one to watch in this respect.

Deng Xiaoping's morning started, apparently, with an 8am breakfast followed by careful reading of ministerial reports, 15 domestic newspapers and a number of (translated) foreign articles. Other informed commentators feel the same way about Latin America as he did; but even if everyone's wrong, it will be in this century that much of the region, particularly Panama, will shine like never before; of that there is no doubt.

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