

Panama's economy

A Singapore for Central America?

Latin America's fastest-growing country has set its sights high. First it needs a government as impressive as its economy

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ON A humid stretch of Pacific coast in one of the poorest parts of the Americas, somebody seems to have misplaced a chunk of Manhattan. The 50-storey skyscrapers of Panama City jut out of the jungle like nowhere else in low-rise Central America. Panama's smart banks, open economy and long queues of boats at its ports have caused many to compare it to Singapore, another steamy success story. Panama's president, Ricardo Martinelli, made his country's first state visit there in 2010 and later said, "We copy a lot from Singapore and we need to copy more."

Panama is not even one-fifth as rich as its Asian model on a per-person basis. But Singapore would envy its growth: from 2005 to 2010 its economy expanded by more than 8% a year, the fastest rate in the Americas. The IMF expects it to grow by over 6% a year during the next five years. Panama will soon overtake Costa Rica and Venezuela in GDP per head. Accounting for purchasing power, it is one of the five richest countries in mainland Latin America.

An 80km (50-mile) channel of water has played a big part. In 2010 the Panama Canal's revenues were \$2 billion (7.5% of GDP). This year they are up by a quarter, thanks to more traffic and higher tolls. The canal and Panama's business-friendly regulations have spawned big insurance, finance and legal industries and endowed Panama with the world's biggest merchant navy, at least on paper. A free-trade zone in Colón, at the canal's Atlantic end, has lured the regional bases of firms like Procter & Gamble. Last year Colón and Balboa, Panama's Pacific gateway, became Latin America's two busiest ports.

Panama's import tariffs are among the lowest in Latin America, and the country has received foreign direct investment worth nearly 9% of GDP, the largest share on the continent. A \$5.3 billion expansion of the canal for bigger ships is due to be completed in 2014. Separately, the government has begun a five-year, \$13.6 billion investment plan, focusing on schools, hospitals, sewerage, roads and a metro for the congested capital. Pensions for the poor and a universal scholarship will help to reduce inequality, which is among the worst in the Americas. In indigenous areas, 85% of people cannot afford enough calories for an adequate diet—even as the champagne flows in the capital's casinos.

And the "Latin Singapore" remains deeply un-Singaporean in two more ways. One is education, where Panama's spending has not yielded good results. The PISA study, a test of 15-year-olds, places Panama 63rd out of 65 economies, behind the likes of Albania. Singapore comes fourth.

Bad schools are common in Latin America. But in a country of 3.5m the shortage of skilled workers is acute, discouraging foreign firms from investing and slowing their growth. Mario Cuevas, an economist at the Inter-American Development Bank, says that Panama's Singaporean plan is "a realistic goal, not just a hope". But he notes that whereas Singapore's success rests on

high productivity, Panama's growth has come from accumulating capital in the form of infrastructure.

More serious are weak institutions. Singapore is reckoned one of the world's least corrupt countries. Panama, in contrast, is not even the cleanest in Central America, according to Transparency International, a pressure group. The World Economic Forum, a business-minded think-tank, scolds Panama for its corruptible public officials and lack of judicial independence.

Mr Martinelli, a supermarket magnate, is not helping. Leaked cables from the United States embassy warned that he "may be willing to set aside the rule of law in order to achieve his political and developmental goals", and said he had asked for American help in bugging his opponents. The popular president is accused of meddling with the Supreme Court and of conspiring to oust the attorney-general. He now wants to introduce a presidential run-off and reduce the time before being eligible to stand for re-election, which would suit his own political interests.

Doubts about the rule of law have already hurt the country. Some foreign construction firms did not bid for the Panama City metro contract, fearing the tender was rigged. (A free-trade deal with the United States, expected to be approved soon by America's Congress, will make procurement more transparent.) In June a posh part of Panama City, where Donald Trump is building a 70-storey hotel and residential complex, was flooded with sewage because planning laws had been ignored.

The biggest long-term worry is that the Panama Canal Authority, an autonomous state agency admired for its efficient operation, could be captured by the government and run as a short-term cash-cow. Pemex, Mexico's creaking state-owned oil monopoly, is sometimes cited as a cautionary tale. Unless Panama cleans up its government, it runs the risk of becoming the next Mexico rather than the next Singapore.