Hats off to Panama

Derek Sambrook, FIBSA, TEP,
Managing Director, Trust Services, S.A.,
Panama, Republic of Panama

The hat weavers of Ecuador who make sombreros de paja toquilla, and have done so since at least the Spanish conquest in the 16th century, are few in number and competition from China is increasing. It does not matter that the Chinese version is woven from paper and not straw; they appear to be the same and are much cheaper. You and I know this particular Ecuadorean hat as the Panama, woven from straw of the toquilla plant which grows in the swamps near the country's central coast and is so named because of its popularity with the workers who built the Panama Canal. The superfinos, considered the best Panama hats, can take six weeks to make and some have been sold, according to one United States retailer, for USD25,000. The perfectly straight rows of weaving are so tight they can appear to be made of off-white cotton.

Unlike a Panama, however, the election last year of Rafael Correa as president of Ecuador, who is a staunch ally of the Venezuelan president, Hugo Chávez, sits uncomfortably with the US president. The US has its only garrison in South America in Ecuador, a country only slightly bigger than New Zealand, and the lease for the military base at Manta is due to be renewed in 2009. Rafael Correa has repeatedly threatened not to renew it.

If the US will be pondering the fate of its South American military base in two years time, the Republic of Panama (where the US had military installations until 2000) will be focused in 2009 on its presidential elections, following five years under president Martín Torrijos. Putting to one side the "nattering nabobs of negativism" (a phrase coined by the late Spiro T. Agnew) Panama's purveyors of positiveness can point to their country's recent achievements. Economic growth has been healthy for several years and the Government's determination to maintain fiscal discipline has seen privatisation and de-regulation continue apace. Last year, both tax and social security reforms were implemented by a government willing to grasp the nettle; at the same time, Panama has been restructuring its sovereign debt profile. It has retired most of its short-dated debt in favour of long-term bonds and Standard & Poor's believes that the government has "demonstrated a firm commitment to reduce fiscal imbalances by advancing a politically aggressive tax reform to reduce loopholes in Panama's tax regime, while at the same time reducing government expenditure over the next few years."

In January, Panama replaced Argentina on the United Nations Security Council. The appointment is for two years and the little republic joins four other non-permanent members (Belgium, Indonesia, Italy and South Africa). Washington will be pleased over Panama's appointment and the 2006 US Congressional Research Service Report for Congress states that the appointment "bodes well for US interests at the United Nations". The report adds that close relations exist between the two countries which are "characterised by extensive cooperation on counter narcotics efforts".

This seat on the Security Council speaks volumes for the country's growing stature and, at the end of last year, Jane Armitage, World Bank director for Central America, said that "Panama's economy has grown at a rate of more than 6% during the past three years and the growth rate is expected to reach 7% this year. This excellent growth performance in part reflects the past efforts by the Government of Panama to restore greater fiscal discipline and thereby strengthen the overall foundation for sustaining broad-based economic growth." The World Bank's board of directors has approved a USD60m loan to support the government's public finance reforms.

Last October, and by a majority of almost 80%, the electorate approved a USD5.25 billion plan to expand the Panama Canal. President Martin Torrijos believes that it is the most important national vote in Panama's 103 years of independence. Some 5% of the world's seagoing traffic passed through the canal in 2005 which included over a third (by weight) of cargo going from north-east Asia to the east coast of the US.

With payments from the canal authority currently accounting for 17% of government revenues, the government has a vested interest in the canal's future. It is a future which looks very promising following an upsurge in shipbuilding due to strong growth in maritime trade. New ships delivered in 2005 have a capacity of 70.5m tonnes, the highest on record, and up from 49.4m tonnes in 2004. (There was a significant increase in dry-bulk carriers which carry commodities.) The net result is that the world merchant fleet grew by 7.2%.

Panama, however, is not just about shipping. Not only captains of ships, but captains of industry have also set sail for Panama because it has attractive offshore business laws and has displayed a healthy respect for privacy, refusing to be a push-over to pressure exerted by the Organisation for Economic Co-operation and Development whose international harmonising tax campaign is detrimental to offshore financial service centres such as Panama.

Perhaps not as many Panamas will be worn this time during the canal expansion project, which is expected to employ some 8,000 people and take about seven years, but the increasing international exposure and economic success that the country is enjoying means that, like the Panama, it is destined to flourish long after the skill needed to produce a superfino may have disappeared.

www.trustservices.net