Panama - one year on

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In the October 2003 issue of *Offshore Investment* I wrote about Panama's forthcoming 100th anniversary ("Gateway to South America"). In August of this year Panama celebrated the 90th anniversary of the opening of its world-famous canal, and if the country can be described as South America's gateway, then its canal can most certainly be called the continent's waterway. In my article last October I mentioned that although the future of the country's offshore industry (more later) can be affected by many unknown factors, the canal was destined to remain, in effect, the little republic's ace card.

Since control of the canal was handed over to Panama by the United States of America (with much trepidation in Washington circles at the time) vessel transit time has been reduced by 24.4% (7.4 hours), container net tonnage has increased by 74% and accidents have decreased by 57%. Up to 38 large ships pass through the canal each day and its operations contribute 10% of GDP. It is estimated, in fact, that about one-third of GDP is derived from canal-related revenues. The country's shipping registry is the world's largest (in number of ships). Panama has also continued to improve its democratic credentials. Gone are the days described in 1868 by Mark Twain when he travelled on the Panama railway and wrote about "the Isthmus people." Twain said that there was a revolution in Central America "every time the moon changes." "All you have to do is to get out in the street… and give a whoop, and the thing is done." Last month Martín Torrijos was appointed the new President of Panama after May elections which were seen by outside observers as having been free and fair. Voter turnout was about 80% and the elections passed without incident. Not even a whoop. The country's political climate, on the other hand, is in contrast to parts of South America. Over the last five years there have been as many elected leaders who have not completed their term in office, namely, Paraguay (1999), Ecuador and Peru (2000), Argentina (2001) and Bolivia (2003). There is no denying that Panama faces many challenges, despite good reasons for optimism, and, as a developing country, it must get to grips, for example, with two problems prevalent in Latin America: large bureaucracies and unemployment. There is, however, a middle ground between the Pollyannas and the pessimists and although the pace of Panama's progress will never please the prejudiced, unchecked optimism is also out of place. It should be recognised that much needs to be done and, at the same time, that much has already been done, especially during the past several years.

One thing that Panama shares with readers of this magazine is a keen interest in the offshore financial services landscape. Panama has had an offshore industry for several decades and today is Latin America's largest banking centre (in number of banks). The jurisdiction has not escaped scrutiny by the Organisation for Economic Co-operation and Development that has established the Global Forum on Taxation in order to achieve fair tax competition worldwide. Panama, along with 43 other OECD and non-OECD governments, attended the Forum's meeting in June in Berlin. Importantly, 16 jurisdictions that the OECD considers vital to the process, if the tax initiative is to succeed, did not attend. So there is still a divide to overcome and while there certainly was progress, it can't be said that a wall came down in Berlin. Dean William R. Inge once commented that "it is useless for the sheep to pass resolutions in favour of vegetarianism while the wolf remains of a different opinion". In this instance, the OECD has more than one wolf, I suspect, to deal with.

Panama, together with many other offshore financial services centres, has agreed with the OECD that, in principle, it will work towards an even-handed international tax system. But Panama has been lumped in with those jurisdictions that are, in my experience as both a regulator and practitioner offshore, little better than manufactured tax havens with designer tax advantages. By comparison, Panama's economic development in the field of international services is, as its government puts it, "a consequence of history and not of initiatives to help evade taxes in other parts of the world".

In Panama's opinion, the OECD's initiative started out badly with "the threat of economic sanctions disguised as defensive measures". So although Panama will continue in good faith as a member of the OECD's Global Forum on Taxation, its government has said that this willingness "should not be interpreted as Panama's resignation to (sic) its sovereign right to conduct its international economic agenda" and that if even-handedness is not applied then the conditions will not exist "in order to develop effective commitments between the OECD and Panama".

As the canal celebrates its 90th anniversary there are proposals to widen it to meet commercial demand. Whether the canal or the gap between the OECD and "the Isthmus people" will be widened remains to be seen, but what is beyond doubt is that the country is widening its international appeal, based on economic and other indicators.

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