South America's Gateway

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Next month the Republic of Panama will be 100 years old and Panamanians are already in a celebratory mood. Panama unilaterally declared its independence from Colombia in 1903 with encouragement from the United States. Prior to that date, Panama had been part of both Gran Colombia following the end of Spanish rule (1821) and then Colombia (1830). The country in 1821 made the choice not to join the union of Central American provinces, even then illustrating its perception of being a unique independent isthmus and gateway to South America. Democracy is firmly rooted and significant progress was made in the 1990s to modernise the country's economy. The energy and telecommunications sector has been largely privatised and domestic markets opened up to foreign products. The Presidents of Panama and Taiwan have signed, subject to parliamentary approval, a Free Trade Agreement that will abolish tariffs on a large number of goods from 2004. Panama is a market economy with property rights guaranteed in the constitution. Its service sector (trade, finance and transport services) is highly developed and represents nearly 80% of GDP and total exports. The Panama Canal employs some 9,000 people and its revenues have increased immensely since Richard Halliburton, in 1928, paid 36 cents in tolls to swim the length of it. Today the average vessel transiting the Canal pays over USD45,000 in tolls and total revenues earned in 2002 were USD589 million (a record) as a result of 11,800 transits.

Economically, despite the Canal, Panama has suffered the effects - along with other Latin American countries - of slow growth in the United States, the poor performance of European countries and the stagnation in Japan. Some surveys estimate that the economy of Latin America and the Caribbean will grow no more than 1.5% in 2003 but that there will be better prospects for employment and healthier financial conditions. Inflation forecasts suggest a figure of around 8.5% for Latin America in 2003, which is in marked contrast to last year's 12% figure. Argentina is expected to see the most growth (5.5%) with Venezuela at the other extreme (-13%). The most promising Andean economy is Colombia (2.5%) and in Central America, Costa Rica should post 4.5% growth. There are three key factors which point towards a better economic policy in 2003 in much of the region: fiscal reforms (becoming more structured), monetary policy (less restricted) and reduced foreign exchange turbulence. Panama has been insulated to a large extent from the foreign exchange and inflationary issues common in Latin America because it has always used the US dollar as its currency.

Besides its shipping prominence, Panama is also the continent's largest offshore financial services centre (it employs 12,000 in its banking sector) and as the benefits of many similar centres diminish due to external pressures, the jurisdiction is becoming increasingly attractive. In fact, with some offshore doors being shut as firmly as the Canal's 25-metre high, 730-ton Pacific gates, more international interest can be expected.

The government has recognised the importance of international banking standards and in 1999 a new banking law was introduced. Trust companies are also licensed under the law and are supervised by the banking authorities. The minimum capital requirement for banks is USD10 million and although the law attempts to be flexible, it will not permit brass plate banks (which have been a feature of some offshore centres) and have been described in a United Nations report as nothing more than "closets with computers".

The law permits a foreign regulator to make inspection visits to branches of banks under his supervision, and establishes that the Panamanian government cannot impose any restrictions, including attachments or withholding measures, in respect of either funds deposited in Panama by central banks or similar deposits which represent the reserves of sovereign states. Despite the fact that confidentiality is enshrined in the law, a prima facie case showing funds are from illicit sources will lift the cloak of confidentiality and the strict money laundering controls put in place prompted these comments in a 2001 International Monetary Fund report:

"The authorities and the banking industry are very aware of the prudential risks associated with money laundering and have in place adequate safeguards to deter improper use of the banking system for illegal purposes. While no system is infallible, the mission team concludes that the legal, regulatory and supervisory systems in place in the banking sector compare favourably with internationally accepted prudential supervision practices... The legal and regulatory requirements are strict and many requirements exceed those in place in industrial countries."

Panama believes that its offshore industry has a bright future but realises that many factors remain unknown. The ancient Romans engaged the services of special priests, known as haruspices, when they wished to know what the future held. Today, priests would not serve as a panacea for either Panama or any other offshore centre wondering where the industry is headed, say, in the next ten years. One thing, however, is certain: the flow, literally, of business through the Canal, which will soon reach its own centenary, is assured.

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