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Introduction

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Panama

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INTRODUCTION

It is exciting when a country approaches the threshold that divides developing from developed nations. Just seventeen years after the restoration of its democracy, the Republic of Panama is near the cusp of entering the first world. How it handles pressing challenges, examined in this volume, will determine if it makes the transition to a better future.

“Panama at the Crossroads” would make a fine subtitle for this edition of *Perspectives*. The Isthmus of Panama sits literally at the world’s crossroads, located between North and South America and the eastern manufacturing nations, such as China, and western nations (especially the east coast of the United States) that demand imported goods. It has also become the crossroads for the movement of people, with direct flights from Panama to the capitals and major cities of every country in the Western Hemisphere. Much of world finance passes through its large banking sector. Today more than ever, Panama has maximized its natural advantages to position itself as one of the world’s preeminent logistics and services hubs.

Panama is figuratively at a crossroads as well. Its government and people must now decide which of two courses to take. The path forward builds on their impressive record of economic growth, strengthening democracy, and free trade. There is also a path leading backwards, however, to a past of entrenched elites, lack of opportunity, and a government and society that fail to provide the benefits of growth to all.

After two years in Panama as United States Ambassador, I am enthusiastic about the country’s future. Since the construction of the Panama Canal, the United States has had a shared interest with Panama in keeping the region safe and secure, both for our peoples and our commerce. Over the past decade and a half, Panamanians have worked to grow the institutions of democracy and to fortify political stability. They have become a strong partner of the United States and others in combating threats to global security such as narco-trafficking, money laundering, and organized crime. As a current member of the United Nations Security Council, Panama is playing an important, constructive role on the world stage.

With the benefit of eight years of hindsight, it is readily apparent that the transfer of the Panama Canal to Panama has clearly paid enormous dividends. Panama has proven to be an excellent steward. The Panamanians have run the Canal smartly and safely, turning it into a significant motor for economic development. In October 2006, Panamanians showed their readiness to embrace globalization and meet the challenges of the twenty-first century by voting overwhelmingly to proceed with a \$5.25 billion expansion project that promises to renew and significantly enhance the capabilities of the “world’s greatest shortcut” for a new era of commerce. That is good news for the world and, as the Canal’s largest user, for the United States.

Panama is also embracing global trade. A prevailing sensibility of “trade, not aid” has taken root in the country. Those countries that open their markets tend to have greater wealth, healthier citizens, better literacy, more solid labor and environmental standards, and superior investment climates. In July 2007, Panama’s National Assembly ratified the Trade Promotion Agreement (TPA) with the United States by a nearly unanimous vote. Panama has also concluded free trade agreements (FTAs) with Chile, El Salvador, Taiwan, and Singapore, as well as partial deals with Mexico, Colombia, and the Dominican Republic. Panama is also negotiating other FTAs with Costa Rica, Guatemala, Honduras, and Nicaragua. These agreements create win/win opportunities for all as long as countries make the effort to ensure that the benefits of trade reach all their citizens. I expect the U.S.-Panama TPA to spur further reforms of Panama’s domestic legal and business environment that are needed to encourage more investment, protect intellectual property rights, enhance regulatory transparency, and strengthen protections for workers and the environment.

Economically, Panama is booming. Foreign investment is pouring in at record levels: After growing by 8.1 percent in 2006, Panama’s economy has grown by more than 9 percent so far in 2007. Unemployment has dropped from double digit rates a few years ago to 7.3 percent. Thanks to Panama’s moderate cost of living, advanta-

geous location, beautiful countryside, warm climate, high-quality private healthcare for those who can afford it, and welcoming people, foreign companies and foreigners in general, especially retirees from the United States, are flocking to Panama in record numbers. Developments in retirement communities, international tourist destinations, and the housing market are starting up at astonishing rates. Planes arriving at Panama's international airport give passengers a breathtaking tour of Panama City's Miami-like skyline, passing directly by skyscrapers and high-rises both already existing or under construction.

This returns us to the issues Panama knows it must address in order to proceed from the crossroads onto the path to a brighter future. The challenge now is to convert these positive trends into a reduction in the poverty that afflicts close to 40 percent of Panama's population. Since Panama currently has one of the region's most unequal distributions of income, another key challenge is to attain more widely shared prosperity provided by trade. The best way to fight poverty is to create jobs, and the best way to create jobs is to level the playing field so that all who have the will, the skill, and the talent also have the opportunity. But trade by itself can only take a country so far. It requires commitment on a national level to adequately prepare people to reach their potential. Growing an awareness of enlightened self interest is hard work, but necessary in order to ensure that all enjoy the fruits of democracy and prosperity.

Currently, many workers lack the skills and training needed to fill the increasing number of good jobs that global companies are bringing to Panama. The transportation and public healthcare sectors are in need of serious reform. There is danger that a perceived culture of corruption and impunity will undermine public confidence in Panamanian institutions. Panamanians overwhelmingly do not want a form of government designed to protect the privileges of the well-connected, but rather a democracy that delivers real results.

The United States and other friends are committed to helping Panama attain the predictability, consistency of practice, and sound institutions that are ultimately needed to enable Panama's ascension into the ranks of developed nations. The present allure attracting foreign investment might easily fade in an environment

where the rule of law does not prevail. In order to realize its great potential, it behooves Panama to give foreign companies and individuals greater confidence that their investments are reasonably safe and that any potential disputes would be treated fairly, transparently, and expeditiously.

These and other challenges Panama faces are aptly explored in this volume. Rebecca Guzman addresses Panama's current political scene in her paper, "Panama in Transition: The Road to Democratic Legitimacy." Panama's educational and development needs are the focus of Sabrina Harris ("Panama's Great Challenge: Reforming the Educational System") and Jonathan Kamenear ("Rethinking External Financing in Panama: Potential Catalyst for Economic Growth and Poverty Reduction").

Panama's two paths collide in Rajan Khatiwada's study, "Colón: A Story of Its Own." A boom town in the first half of the twentieth century, with handsome Art Deco buildings lining wide avenues and a beautiful promenade along the Atlantic Ocean, today Colón lies in abject poverty, largely abandoned by business and desperately in need of rejuvenation. Jennifer Schappert explores promising advances among Panama's native peoples in her paper, "Poverty Reduction in Panama's Indigenous Communities," while Nayla Raad presents a positive way forward by emphasizing "Women in Panama: Navigating Upstream against the Current."

Several authors take on Panama's boom and the forces affecting its sustainability. Giancarlo Rivero-Pellegrini writes about "The U.S.-Panama Free Trade Agreement and Government Support for Agricultural Producers." Megan Brown brings us back to nature in her study, "Ecotourism in Panama." Allison Warshaw focuses on the fast-growing expatriate retiree population and the challenges they face in "Move Over, Florida: Retirement in Panama." Eugene Kiselev analyzes the real estate boom in "The Concrete Jungle: Panama's Construction Explosion." And Antonio Rothenbach rounds out a fine collection, bringing us back to where it all started, in his study of the Canal, intriguingly titled: "The Twenty-First Century Panama Canal: Post-Panamax or Post-Panama?"

Our motto at the U.S. Embassy in Panama is "*Estamos Unidos*," a play on the United States' name in Spanish — *Estados Unidos* — that translates as "We Are United!" Our motto cap-

tures the spirit of the many Americans and Panamanians, both public officials and private citizens, who have formed partnerships that change the lives of our citizens for the better. I see much of that spirit present in this volume of essays.

Thanks to the work of these emerging scholars, many other friends of Panama, and especially the dedication of the Panamanian people themselves, I am optimistic that Panama will

rise to the challenge. I am honored to provide the introduction to such fine work by the students of Lehigh University's Martindale Center. I hope you enjoy the essays contained in this volume as much as I have.

William A. Eaton
U.S. Ambassador to Panama