

PANAMA IN THE NEW MILLENIUM: POLICY, TRADE & DEVELOPMENT ISSUES

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of Panama**

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I. INTRODUCTION

It is a pleasure and privilege to address the Nova Southeastern University, Shepard Broad Law Center Faculty and student body, thanks to the invitation of the Student Bar Association, International Law Student's Association,

* Second Vice-President Bazan graduated in 1961 from Westpoint with a Bachelor in Science. He continued his studies at Stanford University where he earned a Master of Science in Civil Engineering. Upon his return to Panama, he became a military aide to the President of Panama followed by Military Attaché for the Embassy of Panama and Panama Military Representative to the Interamerican Defense Board in Washington, DC. He continued on to many years of service in both the private and government sectors of Panama, including positions as Minister of Public Works, Executive Director of Highways, Airports and Ports Commission, Elected Legislator for Province of Colon, and Director of Social Security, the largest government agency in Panama. He founded a construction firm in 1964, Ingeneria Caribe, and in 1986, he headed to Washington D.C. to represent Panama as its Ambassador in the United States and Canada. Upon his return to Panama, he served as Minister of Foreign Affairs and he contributed to the improvement of higher education programs. He served as member of the Board of Trustees of Nova University in Panama from 1983-1994. He was also the founder of the Private Sector for Educational Assistance that provides scholarships to Panamanians through the private business sector. Finally, on September 1, 1999, he was sworn in as Second Vice President of Panama.

Hispanic Law Students Association, and the ILSA Journal of International and Comparative Law of this distinguished University.

Nova Southeastern University is a household word in Panama because of its branch extension in Panama, which was established about 23 years ago. This fact shows that Nova believes in Panama and identifies with its future.

II. THE RELATIONSHIP BETWEEN THE UNITED STATES AND PANAMA

Since its independence on November 3, 1903, the Republic of Panama has had a unique and very special relationship with the United States of America because of the construction of the Panama Canal; the use of the United States dollar, as its legal tender, established by a Monetary Agreement in 1904, one of the highest United States private investments to any Nation; and the personal and friendly relations established by the people of our two countries, among others.

The United States and Panama have had differences of opinion and even a confrontation, which produced tension and unfortunate incidents between our countries. However, we have been able to overcome these experiences and take positive steps toward the establishment of a constructive relationship between our nations.

On December 31, 2000, Panama assumed full control of the Panama Canal and its adjacent areas, including the former United States military base installations. This includes the five-mile stretch of land to either side of the canal, from the Pacific to the Atlantic, which was under United States sovereignty since 1903. This seamless and orderly transition represented the culmination of Panama's quest for sovereignty by having full control and administering the Canal, its installations, and territories.

It also represented an example that two nations, no matter how powerful one is compared to the other, can settle their differences through the art of dialogue and negotiation. The international community has recognized this watershed and congratulated our countries for settling our differences in an orderly and peaceful manner. I would like to make a special mention of President James Carter. He was instrumental in assisting Panama in achieving this goal. I asked him recently, when he was in Panama for the United States transfer of the Panama Canal to the Republic of Panama, why he had done this, since it affected the Democratic Party politically, and he answered me in a very humble manner, yet precisely: "it was the moral thing to do." I think this underlines the way President Carter is as a person and what he represents.

As of today, we still have one pending issue, the cleaning, by the United States Government, of those areas used for military practices, where explosive devices are still alive; we expect that this matter will be settled satisfactorily.

III. THE START OF THE NEW MILLENNIUM

Panama entered the new millennium with several objectives, which will have a significant impact in the first decade of this new century. The most important are as follows:

- 1) Full control and administration of the Panama Canal and its former adjacent areas, including installations of former United States military bases;
- 2) A new government administration. President Mireya Moscoso was sworn in as President of Panama on September 1st, 1999; the first woman elected in Panamanian history for this important position;
- 3) To become a Member of the World Trade Organization (WTO), which Panama achieved in 1999;
- 4) Firm commitment to further integrate the Panamanian economy into the international market, particularly in the Western Hemisphere, from North to South;
- 5) The completion on September, 2001 of improvements on the Canal and modernization at a cost of one billion United States dollars, which will permit faster transits and more ships crossing the Canal;
- 6) The expansion and capacity of the Panama Canal;
- 7) The continuation our open market economy;
- 8) Strengthening the level of political democracy; and
- 9) Gear economic development toward the reduction of poverty and increase the level of quality of life.

All these elements are playing a decisive role in our country's future for the first decade of this millennium. We also are aware that the fulfillment of certain national aspirations will depend, to a great extent, on the international scenario, which is an exogenous factor.

IV. INTERNATIONAL SCENARIO

Today, Panama faces significant challenges in the international arena, some of which are beyond our control.

A. *Globalization*

One of the realities our country faces is the globalization process. There are many definitions and interpretations about globalization. Nevertheless, it is important to acknowledge the dominant role played by the WTO. The WTO is the primary rule-making entity of the globalization process and its central operating principle is that global commercial interests are of utmost importance. The powers vested to the WTO are greater than interest have ever been granted

to an international body, including the executive, legislative, and judicial authority.

There are already rulings made by the WTO which affect the environment, agriculture, public health, culture, human rights, and others. Several nations, including the United States of America, have already been affected and made adjustments in order to comply with the WTO rulings. Today, there is the possibility that Panama may have to adjust its national laws to take into consideration WTO rules and regulations, thus reducing its own legislative power to enact laws considered beneficial to our people. This element alone is an *important variable* affecting our forecasts and our policy decision-making process.

Furthermore, the New World economy needs to restructure its financial architecture not only to reduce disruptive market fluctuations - as recently evidenced by Asia and Mexico - but also to allow our countries to allocate a higher portion of our national income to solve social problems and upgrade our level of technology. This is evidenced by the high indebtedness of our countries.

In this respect, Panama calls for a joint effort for a better structure in the international financial system, to reduce political and financial instability.

B. Free Trade and Development

Never have we seen so many nations pursuing a free-trade policy to keep in time with the globalization process. However, the globalization process does not necessarily guarantee that a country will be able to achieve and sustain economic development, which is one of the most important objectives of any developing country.

In this respect, trade should not be an economic end in itself as governments must also consider the environment, job creating opportunities, health, education, low-income housing, agriculture, public services, and overall, social and political stability.

Globalization has exposed countries to the reality of large outflows of capital and it has increased pressures for more dynamic human resource development strategies, for improved social safety nets, and it has also placed urban and rural environment resources under growing strains.

Without doubt, the liberalization of trade has brought significant changes to the world. Today, the less developed countries are falling behind. Per capita income in rich countries is now an average 25 times those in developing countries, up from 16 times in 1968. Per capita income in the richest country in 1998, Luxembourg, was 410 times that of the poorest nation in the world. These realities highlight the need to be more effective in articulating effective economic strategies.

Today, the prevailing wisdom is that “export country” strategies of development are more successful, as shown by export-oriented countries, particularly in East Asia. However, there is consensus that perhaps the most important factor helps the East Asian economies achieve their goal: “The basis for the ‘export push’ was an incentive system not substantially different from the incentives for producing substitutes for imports.”

The lessons of the East Asian countries are worth taking into consideration. But, in order to obtain full benefits from exports, we need more than just incentives. We need competitive advantages, highly productive techniques, and harmony with the various sectors that make up our economic and social framework.

V. THE ROLE OF GOVERNMENT

The World Bank, in its 1997 report, recognized that an effective state is essential to sustainable economic and social development, but more as a partner and facilitator.

Consequently, it is a well-known fact that governments have been losing power and control on the economic, social and political aspects of society. Instead, private enterprise, non-governmental organizations, and the organized civil society have stepped in to lead and influence results more than ever. As of today, the philosophy of a welfare state has lost momentum, being replaced by a more individualistic and egalitarian social and political philosophy. The final outcome of this shift in political philosophy is not yet known, but we do not foresee any significant changes during this decade.

VI. PANAMA'S POSITION

Within the framework presented herein, I want to report how Panama is preparing to meet more effectively the challenges that we will face during the first decade of this new millennium.

A. *Political Principles*

First of all, our country is in full agreement with the position of the World Bank concerning the need to have an effective government fostering growth and development, and acting as a facilitator, together with civil society and private enterprise, in the promotion of economic and social development.

In this context, we also reaffirm our belief and defense of the principles of political democracy: respect for human rights and the attainment of a high level of transparency in the acts of government and any other agent affecting society.

On economic policy, Panama has achieved general consensus from government, civil society, entrepreneurs and labor to continue following the

path of a market economy, where private enterprise is the dynamic force leading economic activity while the government serves as a facilitator and developer of the required legislation, and both physical and human infrastructure to sustain infrastructure to sustain socioeconomic growth and development with a social component.

B. International Relations

During this decade, Panama will continue to be an active member of the international community, promoting and fostering democracy, human rights, and the respect of all sovereign states. We will continue to oppose war as a means for settling differences. Also, we will support the United Nations as the principal international body for solving differences and promoting peace, healthcare, education, and nutrition.

Panama will abide by the rule of law. It will promote that all nations support and abide by present international law, because it is present international law, because it is the only civilized manner to upgrade international relations.

Panama will also seek to maintain or improve its historic relationship with the people of the United States of America.

C. International Trade

The administration of President Moscoso has adopted a more export-oriented economy strategy. We will pursue unilateral and bilateral trade agreements, particularly with Central America, which are forthcoming, and Mexico, which is in the process, Chile, MERCOSUR, and the Andean Pact. We are also a strong supporter of the formalization of the Free Trade Area of the Americas (FTAA), which will culminate in 2005. We are pleased to report that Panama will host the pro tempore Secretariat of FTAA, starting next month for a period of two years, and we hope to win the confidence of the countries that comprise the FTAA to eventually host the permanent headquarters.

As a member of the WTO, we will respect the agreements of this organization, but our government will continue to exert its discretionary power to adopt those economic policies deemed necessary for the well being of our nation.

Within the next five years, we will expand very aggressively our maritime infrastructure to serve world trade effectively and efficiently.

Panama will continue to expand our ports' terminal facilities, both on the Atlantic and the Pacific side. We have become one of the largest and more efficient transshipment centers in Latin America and it is our objective to retain and consolidate this lead. We are also in the process of establishing international hub centers in the Pacific and Atlantic side, receiving air and

maritime cargo to be transported to various destinations. Hence, one could say that Panama would help complement our neighbors' efforts in engaging in globalized trade. All these projects require logistical support and we are currently in the process of updating our electronic customs declaration process using, for example, the latest software developments.

In this context, the Moscoso administration expects to build the most modern multimodal facility in Latin America and the Caribbean to take full advantage of our geographical position and the Panama Canal: combining the most efficient ports in Latin America (Panama Ports, Evergreen, Manzanillo International Terminal); the Panama Canal Railroad connecting Panama and Colon (which is now owned by Kansas City Railway); the new airport facility designed to handle 747 aircraft and the freeway between the cities of Panama and Colon.

Of course, the Colon Free Zone, which is the second biggest Free Zone Area of the world after Hong Kong, will continue playing a major role and its increasing levels of exports will depend, of course, in the health of the hemisphere's economies, particularly those of Venezuela, Colombia, Chile, and Ecuador.

Our country is currently considering the construction of the Third Set of Locks in the Panama Canal. The first stage of this project should take 10 years and would cost approximately four billion United States dollars, and the second and third stages would subsequently follow at an additional cost of about four billion dollars. This project will increase the Canal capacity to handle a large volume of transits allowing post-Panamax ships, 150,000-ton capacity, to transit the Canal. This is a huge investment and it would have a major impact in world trade and the shipping industry.

From our real economy, we will continue to encourage non-traditional exports, particularly from the agricultural sector which represents an important segment of our total exports of goods and services. Our government will continue facilitating credits and opening markets to our various producers via multilateral and bilateral trade agreements.

Tourism being one of the most dynamic sectors of the world economy, we have recently developed port facilities for cruise ships in the Atlantic as well as in the Pacific, and soon we will become a home port of call for cruises in both the Atlantic and the Pacific. Charter planes are also coming to Panama to service resorts on the Pacific side. Our government feels very optimistic about our ability to develop this type of tourism. Furthermore, we will continue promoting ecological and business tourism, and together with the world-renowned Smithsonian Institute, we will develop the TCI concept (Tourism, Conservation, Investigation). Additionally, we are planning to build in the near future a major International Sea Aquarium in the Pacific side at Fort Amador, in the entrance of the Canal. The design will be by the world famous architect

Frank Gehry, who designed the Bilbao Guggenheim Museum. Once built, we expect thousands of visitors, particularly from Central and South America.

We will consolidate our geographical advantage by linking fiber optics and expanding telecommunications as evidenced by the five submarine cable networks—some of which now cross the Isthmus of Panama and connect the world through and in Panama—called Pan American, Global Crossing, Maya, Arcos, and Oxygen Networks. Thus, we will be able to develop a telecommunications hub site in Panama for the whole world more efficiently and in a less costly manner than in other countries in the world. This is happening right now.

VII. LOCAL ECONOMY

President Moscoso has also established clear guidelines that will mark a path in our country's economic policy during the first decade of this century.

Panama is aware that today's world is divided not by ideology but by technology and that a small part of the globe, accounting for some 15% of the earth's population, provides nearly all technological innovations. We know that our country needs to promote further technological education and advancement.

We are also aware that our educational system needs major reforms if we want to increase the level of our standard of living. The Interamerican Development Bank is working with us based on positive results from countries like El Salvador.

To promote education and technology, we have established the City of Knowledge, in the Canal Reverted Areas, which will host universities and institutes from all over the world, as well as a technological research center particularly for high tech industries. Six months ago, we inaugurated our first Technological Incubator Park with fourteen companies hoping to be successful. Panama expects to become the University Center of the hemisphere, lodging students from Latin American wishing to obtain a United States or European college education, including post-graduate degrees.

Of course, the upgrading of our citizens' educational and technical level is constrained mainly by our national budget, which allocates a significant percentage of our resources to serve foreign debt (21% GNP for 2001 equals 1.4 billion dollars a year that is taken out of our budget to service our debt both in capital and interest).

We are also aware that trade in itself is not an end and that we need to promote and expand the other sectors of the economy.

President Moscoso's administration has established a well-thought-out program for developing small sustainable farms to help integrate the basic needs of the rural sector as well as healthcare services. Also, she has approved an aggressive popular housing program, with the support of the banking sector,

with a set goal of 3,500 farms that will be concluded in December 2004. The basic goal of this program is to try to stem the flow of the people from the poor sectors of the country into the urban areas exacerbating our capacity of give them employment. Thus, we are organizing these farms that will have about 40 to 60 people living there, and with process of agriculture with health and education components. We visited the first one inaugurated about a year ago. The families there were thriving and with their agricultural sales, they were able to save \$1500, which might not seem as much in the United States, but for those poor sections of Panama it is a lot. With this money, these families will later be able to buy seeds or products to provide for their income.

We are also promoting foreign investments into Panama to upgrade our level of development because we are a small country of 2.8 million people, where local capital investment is insufficient to materialize our economic potential. This is why for us is important to work with the Central America countries which represent a market of 38 million people, to go into Mexico that has a market of 60 million people. This will increase our capacity and help us take advantage of our industry and geographical location, allowing us to expand to a market of a 100 million which will make costs and things much more efficient and less costly.

On the financial side, we have strengthened our international banking system and reinsurance center, becoming the leaders in Latin America. We have also introduced stricter laws against money laundering but we regret that some developed nations mistakenly regard Panama as a tax heaven country, which is not at all true. Our laws in Panama are modeled after those of the State of Delaware.

VIII. CONCLUSION

In conclusion, we are aware that Panama will face significant challenges during this decade and that our population will be concerned throughout this period with the stability of their social benefits and safety net. All of you must be aware that people are having second thoughts about the Globalization process. People feel threatened.

The only viable alternative that countries like ours have today is to increase the level of education and technology; attract more foreign investment because without investment, we cannot increase our quality of life; increase our tourism; and increase revenues from exports of goods and services, while providing the security, healthcare, education, and economic and social stability to our citizens. Panama is prepared to fulfill this responsibility.

Thank you for this wonderful opportunity and continued best wishes to Nova Southeastern University.