

## COMMENTARY - August 2017

We say that 2016 was a "bad year" for Panama. It was the year of the Panama Papers. We received truly intense global attention in what appeared to be a very negative way. Many Panamanians and expatriates were convinced this would be a disaster for economic development in Panama, especially for foreign investment. I reminded my friends that sometimes negative publicity is better than no publicity at all, but that did not satisfy most of them! I understood.

We can also say that 2016 was a "good year" for our neighbors in Colombia. It was the year that the Colombian government and the FARC (*Fuerzas Armadas Revolucionarias de Colombia* - Revolutionary Armed Forces of Colombia), a famous criminal cartel with a far-Left ideological orientation signed a peace accord. Their President received the Nobel Peace Prize as a result.

Now, we know the situation in Colombia is a lot more complicated than foreigners may understand and that we will not know the results for some time, but those are details and the global media does not care about details. It was the same with the Panama Papers, the over-simplification of a complex situation. But in these two cases, Colombia ended up with positive press and Panama ended up with negative press.

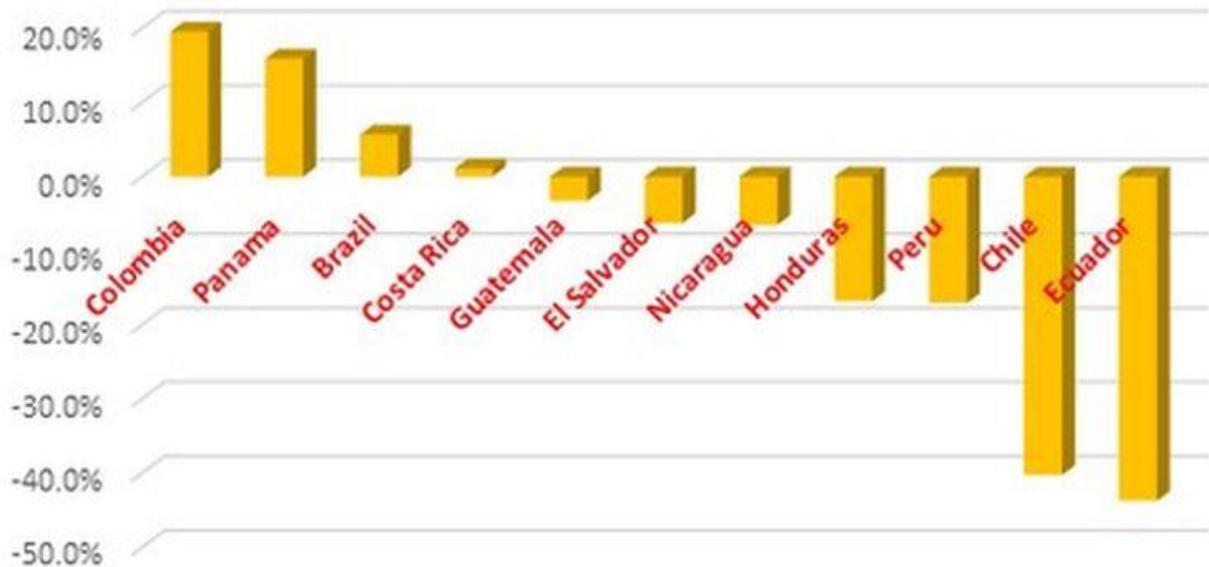
So, what were the results in terms of foreign investment?

CEPAL (*Comisión Económica para América Latina y el Caribe* - Economic Commission for Latin America and the Caribbean) has now come out with the results of Foreign Direct Investment (*Inversión Extranjera Directa*) in both nations and others in Latin America for 2016. Without going into all the detail of how FDI is determined, all we need to know is that it is a measure of how interested foreigners are in making major investments in a nation. From what I wrote above, we might expect Colombia's to have grown and Panama's to have taken a hit.

First, we can take a look at the rate at which FDI grew in each nation and some others between 2015 and 2016.

### FDI Growth from 2015 to 2016

*"It is not just how fast you are moving.  
It is in what direction you are moving."*

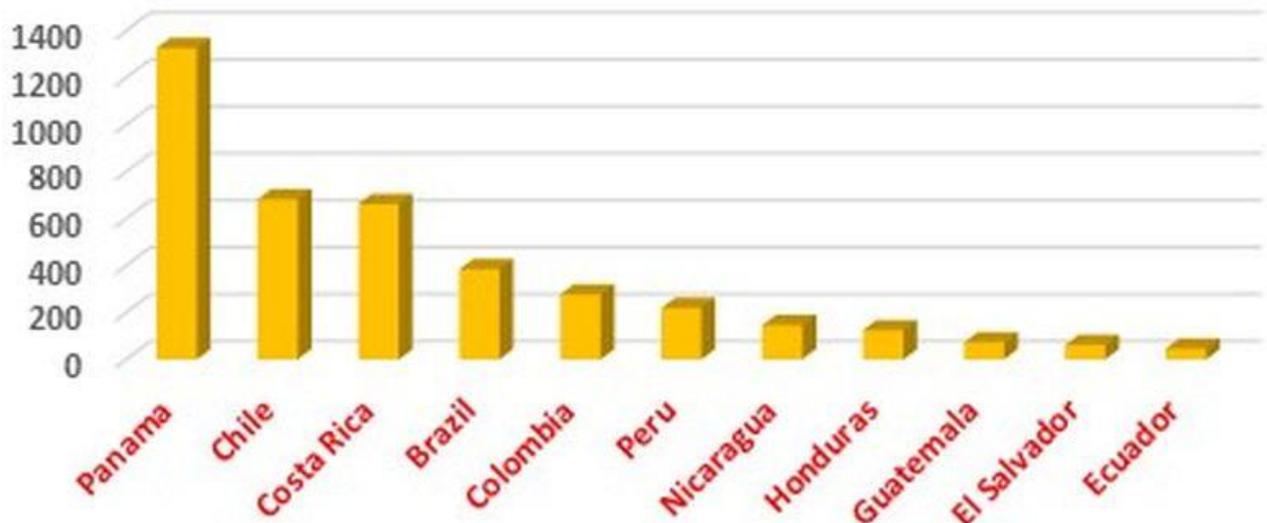


Colombia had its best year in a very long time, growing 19.5% in one year. Obviously, the "good news" was noticed. However, Panama's 15.9% was not far behind and also excellent, so our "bad news" did not have a major impact on us at all. It was another good year, the fifth year in a row that our growth rate reached a new high.

But that is not the most important story, in my view. The quotation I used in the chart above is one I have written many times. The one in the chart below is one I use even more frequently when discussing a nation's economic development.

## Foreign Direct Investment - 2016 (Per-capita in US dollars)

*"It's not just how much money you make,  
It's how many mouths you have to feed."*



As you can see immediately, Colombia may have had a good year in 2016, but Panama has had at least 15 good years as a foundation. That foundation makes a difference.

A final way of looking at 2015 is to realize that Colombia's FDI rose by \$45 "per-Colombian" that year. But Panama's FDI grew by \$182 at the same time, despite our slower growth rate.

When comparing nations where one has a much higher population than the other, I always look at per-capita (per-person) statistics. This "levels the playing field". With a population more than 12 times greater than Panama, Colombia has more mouths to feed, so they need a lot more money than we need to provide for their people.

This is **not** meant as an insult to Colombia. If any nation outside Colombia wants Colombia to successfully deal with its cartel problem, it is Panama! No, it is not an insult to Colombia. In their case, what is good for them is also good for Panama.

Instead, it is a way of saying that our "bad year" with its "Panama Papers" was not such a bad year at all. Foreign investors hate risk. We would have seen a sharp drop in FDI if they felt we were high-risk. Not at all.

That does not mean we can sit on our success and ignore the lessons of the past, but when someone tells you that the "Papers" frightened foreign investors away from Panama last year, keep these charts in mind.

If you want a copy of CEPAL's report on Latin American FDI, you can download it [here in English](#) or [here in Spanish](#).