Lessons from Panama

The controversy generated this year by the Panama Papers may have left many Americans with a negative impression of Panama. The real story of fugitive capital is found not in Panama, but in Iceland, Russia, or any of dozens of other nations.

The Papers data covered four decades, and recent years already showed a dramatic decline in shadowy legal business as Panama strengthened its laws and regulations. Some foreign critics predicted there would be a run on Panama’s banks, as panicked ne’er-do-wells pulled their money, and bank liquidity took a dive. Nothing of the sort occurred. Bank liquidity actually improved slightly.

At the last moment, foreign critics lambasted the Panama Canal expansion, one of the largest and most complex infrastructure projects on the planet. The expanded Canal was launched successfully, adjustments were made in its opening days as the first ships arrived, and they are moving through the new locks, helping Panama reach its target of 6% growth in gross domestic product for 2016, a slow growth rate by Panamanian standards.

Most annoying, the worst criticisms came from advanced economies whose banking systems and critical infrastructure are in far worse shape than Panama’s and who have yet to address their own problems.

The real story of Panama in the 21st century is a story of a rapidly developing economy that has nothing to do with offshore anything. For more than a decade, Panama’s GDP has averaged annual growth nearing 8%, with a few double-digit years. Even at the depth of the financial crisis in 2009, it booked a respectable 4% GDP growth, while nearly everyone else in the hemisphere booked red ink.

Foreign direct investment last year rose 17% from the record set in 2014, which was more than 9% above the record set in 2013. In 2000, per-capita GDP was similar to that in neighboring Costa Rica and Colombia, though well behind the two big Latin American emerging markets, Brazil and Mexico. As of the end of 2015, Panama’s per-capita GDP was 24% higher than Mexico’s, 39% higher than Brazil’s, 41% higher than Costa Rica’s, and 57% higher than Colombia’s.

Additionally, the massive improvement in transportation, logistics, and communications infrastructure has made Panama a leader in Latin America in those sectors.

Why Panama? What changed? Can we learn something from this? The nation and its canal have been there for more than a century. Consider three lessons.

Panama’s economy is based on free enterprise. The government and the people of Panama have a commitment to free enterprise that is rare in Latin America. In the 2014 presidential elections, two candidates with a socialist perspective took part in the televised debates and ran campaigns, but barely collected 1% of the vote between them. Due to the emphasis on private enterprise, the government has the income to provide benefits to the poor that can exceed those of Latin American nations that claim to be socialist. You are not likely to meet a Panamanian who would prefer to live in Venezuela.

The immigration issue has been dealt with intelligently in Panama. When Panama’s dramatic economic growth began a decade ago, Panama’s small population and inadequate public-education system left the nation in a bad spot. The challenge was to handle growth while improving the skills of their people.

A big part of Panama’s answer was to use relocation instead of immigration. Relocators can be residents and workers, but not citizens. Panamanian relocators include American retirees, but also other Latin Americans, especially from Colombia and Venezuela.

Recently, they have been joined by a growing number of Europeans. Last year, Italians and the Spanish receiving residency visas and work permits both outnumbered Americans.

By taking citizenship out of the equation, Panama was able to absorb large numbers of relocators without the tension and rioting seen in Europe or the hate language too common in the U.S. today.

Panama’s political leadership has a common goal. I have been a relocator in Panama through two five-year presidential terms and I am in the middle of a third presidential term. Each president has had his own particular style, issues, and policies. Each represents a different political party and they are not the best of friends.

Debate among the leaders can be very partisan, but they have one important thing in common: When it comes to economic growth, they pass the ball, they don’t drop it.

All the major projects supporting economic development have continued under each president. Each makes some changes here and there, and they may agree on little else, but they have proven their dedication to continuing economic growth to Panamanians and the international investment community.

The current President’s party is only the third-largest in the National Assembly, but that hasn’t prevented them from getting important things done. Read that, U.S. Congress.

Free enterprise, a common-sense approach to foreigners, and a commitment to growth through cooperation have been critical to Panama’s growth.

In five decades of working in more than 40 developing nations as a consultant focused on socio-economic development, nothing makes me happier than to reside full-time in a nation whose people pulled themselves together in the midst of dramatic and unexpected growth and dealt with it successfully.

I am proud to call Panama my home.

There is one thing that both saddens and amuses me. I spent decades as an American preaching the value of such lessons in politics and economics to what was once called the Third World. Now I sit on the other side of the table and do the same thing, but in reverse. They are preaching to me and to us. We need to listen.